EY 2019 Executive and Board Remuneration Report
Norway

ey.com/no
Contents

01 Foreword 4
02 Fixed remuneration 6
03 Variable remuneration 10
04 Total compensation 14
05 Board remuneration 16
06 Diversity 18
07 Changes to the Norwegian Public Companies Act 22
08 Appendix 24
09 EY team 26
Foreword
In this report, we present and discuss our analyses of remuneration for executives in companies listed on the Oslo Stock Exchange Benchmark Index (OSEBX). The report is based on the data gathered from the annual reports of the companies.

Compared with 2017, all executive categories had an increase in total remuneration in 2018. CEOs experienced a total compensation increase of 10%, while CFOs and other executives (OEs) experienced an increase of 16% and 11%, respectively. Executive compensation levels continue to outpace the salary increase in the Norwegian private sector in general, where the total average compensation increase was 2.9% in 2018\(^1\).

In January 2019, the Norwegian Government published a public consultation with their proposed changes to the Norwegian Public Companies Act (“Allmennaksjeloven”) in accordance with the Shareholder Rights Directive (SRD). The main emphasis of the proposed legislation was to increase the transparency between pay and performance through enhancing the reporting requirements in relation to executive remuneration. We will provide our thoughts on the proposed legislation and the implications the SRD may have on Norwegian companies.

EY can assist your company with remuneration design and taxation consequences, general meeting preparations and all types of remuneration committee advice. Contact us if you have any inquiries about the information provided in this report or regarding executive remuneration in general.

Best regards,

Trond Olsen
Partner
EY People Advisory Services, Reward

Fixed remuneration
Base salary
A general increase in base salaries for executives in companies in the OSEBX was found in 2018, compared to 2017. The aggregated increase in all companies for CEOs was 7%, while the increase for CFOs and OEs was 14% and 7%, respectively. In the 10 companies with the lowest market capitalization in the OSEBX (bottom 10 companies), we observed a decrease of 12% in base salaries for CEOs and 1% for OEs. The observed decrease is most likely due to new companies entering the OSEBX, rather than an actual decrease of executives’ salaries. Consequently, the bottom 10 companies this year are not necessarily the same as last year.

The CFOs experienced the highest increase in base pay in 2018.
Pension

A comparison of median pension contributions for CEOs, CFOs and OEs in 2017 and 2018 is illustrated in figure 4. The most common pension scheme is defined contribution, where the company sets aside a fixed portion of an employee’s base salary to be invested at the employee’s own risk.

Figure 4: Median pension contributions

28 200
26 180
24 160
22 140
20 120
18 100
16 80
14 60
12 40
10 20
8 0

Pension in government-owned companies

According to the Norwegian Government’s guidelines from 2015 on executive remuneration, government-owned companies cannot offer company pension schemes which provide pension contributions in excess of 12G (National Insurance Scheme basic amount) to executives.2 However, the executives who were included in such company pension schemes prior to the introduction of the guidelines have been allowed to continue their membership in the schemes.

New members in executive management must comply with the guidelines and are included in the companies’ general pension schemes – as illustrated in the graph above. This has caused inequalities in the total compensation among “old” and “new” members of executive management within the same company.

Our research indicates that the “loss” of membership in company pension schemes in excess of 12G for new executives in government-owned companies have not been (fully) compensated, either through an increase of base pay or in any other way.

Figure 5: Median base salary and pension contributions to CEOs in government-owned companies in the OSEBX

2 “Guidelines for salaries and other remuneration to senior executives in enterprises and companies with state ownership,” Ministry of Trade and Industry, www.regjeringen.no/contentassets/1be46247e4e741c59d98bb54e1b1d21/retningslinjer-for-lonn-og-annen-godtgjorelse.pdf, 13 February 2015.
Short-term incentives

In 2018, 90% of the companies included in this report had a short-term incentive (STI) program in place for executive management.

The table below illustrates the use of STI key performance indicators (KPIs), classified into financial and non-financial KPIs. Please note that most companies use a combination of KPIs, causing the percentages to overlap.

Table 1: STI key performance indicators

<table>
<thead>
<tr>
<th>Financial measures</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>21%</td>
</tr>
<tr>
<td>Return</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>71%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-financial measures</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal targets</td>
<td>73%</td>
</tr>
<tr>
<td>HSE</td>
<td>4%</td>
</tr>
<tr>
<td>Business strategy</td>
<td>23%</td>
</tr>
</tbody>
</table>

Long-term incentives

In 2018, 76% of the companies listed on the OSEBX offered a long-term incentive (LTI) program to executive management – a slight increase from 75% in 2017. Such programs enable executive management to take part in the company’s value creation and ensure alignment with the companies’ shareholders.

The share option plan continues to be the most popular LTI program among the companies listed on the OSEBX, which differentiate the Norwegian companies from other markets. A similar analysis conducted among companies listed on the Finnish and Swedish stock exchange found performance share plans as the most popular incentive vehicle, with a weight of 50% and 29%, respectively. With the proposed changes to Norwegian Public Companies Act, which requires companies to describe the link between pay and performance in greater detail, we expect to see an increase in the use of performance share plans in Norway.

A comparison of the companies with the highest market capitalization and the lowest market capitalization on the OSEBX shows that there are clear differences in the preferred LTI programs. While 90% of the bottom 10 companies ranked by market capitalization use share option plans, only 14%
of the top 10 companies offer share options as part of their LTI program.

The most popular program design found among the top 10 companies is the restricted share purchase plan, where the executive management must invest their LTI cash amount in company shares with a three- to four-year lock-in period. It should be noted that the top 10 companies include several of the government-owned companies listed on the OSEBX, which are regulated by the Norwegian Government’s guidelines on executive remuneration.

It is interesting to note that these guidelines are not in line with proxy advisor guidelines, and most notably, with the Norges Bank Investment Management’s (NBIM) position on CEO remuneration. While the government’s guidelines accept that the shares purchased under the LTI plans have a lock-in period only, proxy advisors demand that the LTI plans should be subject to performance-vesting conditions prior to the shares being settled.

NBIM, on the other hand, has suggested to reduce complexity in LTI plan setups. NBIM prefers that the remuneration given to CEOs is partly provided in cash and partly in shares that are settled on a yearly basis and subject to predefined ceilings (caps). Shares awarded should be subject to lock-in periods, regardless of continued employment. NBIM argues that the removal of complex LTI plans will increase transparency and enable investors to better compare remuneration guidelines and vote appropriately.

No “one-size-fits-all” solution exists in LTI design. We believe that it is critical to consider how value is created in your company, and how variable remuneration links to value creation (performance). Defining this link is key, as it allows you to make an informed decision on the most suitable incentive design for your company.

EY can assist with designing your LTI program, and finding appropriate KPIs that meet your business value drivers while considering the interests of the shareholders.

---

We believe that it is critical to consider how value is created in your company, and how variable remuneration can be linked to value creation.
We have taken a closer look at the companies’ total compensation to illustrate the relative proportions of each compensation element. LTI has been excluded as the current reporting of grant values is inconsistent and insufficient for a comprehensive analysis.

Our analysis shows that all compensation elements increased from last year as illustrated in the table below.

<table>
<thead>
<tr>
<th></th>
<th>Base salary</th>
<th>STI</th>
<th>Pension</th>
<th>Other</th>
<th>Aggregate</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO</td>
<td>7%</td>
<td>18%</td>
<td>18%</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>CFO</td>
<td>14%</td>
<td>25%</td>
<td>11%</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td>OE</td>
<td>7%</td>
<td>41%</td>
<td>7%</td>
<td>2%</td>
<td>11%</td>
</tr>
</tbody>
</table>

The remuneration mix illustrates the relative proportion of different remuneration elements. The remuneration mix reveals that the base salary is relatively high among Norwegian companies, compared with other markets (such as the US and UK) – making up almost three quarters of the total compensation package.
Board remuneration
There has been an increase in board fees across all positions, compared with 2017. The increase is 9%, 3% and 4% for board chairs, deputy chairs and board members, respectively.

The Norwegian Corporate Governance Code (NUES) encourages board members to own shares in the companies where they are elected. Our analysis shows that 58% of board members own shares in the company they represent, which is a decline from 61% in 2017.

Active ownership could be an effective tool to align the interest between the board and the investors. To increase the number of board members owning shares, we believe that board members should use a portion of their board fees to purchase shares in the company they represent.
Diversity
Women in executive management

Figure 14: Women in executive management positions

Our analysis of women in executive management illustrate that the percentage of female CEOs and CFOs is low. The percentage of women in executive management is highest in the corporate functions category, which includes HR, legal and communication positions.

Gender inequality in both executive management and remuneration is often debated in Norwegian media. While there are international trends regarding increased disclosure of listed companies’ gender equality strategy, gender ratio and gender pay gaps, such reporting is currently not required in Norway. Based on EY’s experience, many companies do, however, choose to report on gender pay and equality.

There has been an increasing trend toward more comprehensive gender ratio and pay gap reporting internationally.
Women in board of directors

The highest percentage of female board members in the companies listed on the OSEBX is found in the following sectors:

Figure 15: Highest percentage of female board members

- Real estate: 50%
- Financials: 47%
- Energy: 43%

The lowest percentage of female board members in the companies listed on the OSEBX is found in the following sectors:

Figure 16: Lowest percentage of female board members

- Consumer staples: 29%
- Utilities: 33%
- Industry: 34%
Norwegians significantly outnumber non-Norwegians in executive management and as board members in the companies listed on the OSEBX. The number of non-Norwegians in executive management decreased from 35% in 2017 to 32% in 2018, while non-Norwegian board members decreased from 25% in 2017 to 18% in 2018.

The identified lack of non-Norwegians in executive management and board of directors may be partially caused by the relatively modest remuneration levels in Norway. We believe that companies seeking to attract non-Norwegian executives will have to provide more competitive terms through increasing overall remuneration levels. However, the effect of the Norwegian net wealth tax and exit tax rules for tax residents at departure will likely be considered by the international executives and directors before electing to move to Norway.
Changes to the Norwegian Public Companies Act
In January 2019, the Norwegian Government published a public consultation with their suggested amendments to bring the Norwegian legislation in line with the revised SRD (2017/828/EU). While the rules will come into effect in EU in June 2019, it is not clear when the SRD will be effective in Norway. We expect that the new rules will come into effect latest by 1 January 2020.

The public consultation proposes a new chapter 6a in the Public Companies Act, governing salary and other remuneration to senior management and board of directors. The new chapter will build on sections 5–6(3) and 6–16a that governs companies’ remuneration policy. The proposed chapter stipulates additional requirements, both with regards to remuneration policy and reporting.

Remuneration policy
According to the proposed rules, the remuneration policy shall include explanations about:
- How the current remuneration policy contributes to the business strategy, the long-term interests and sustainability of the company
- How the remuneration and employment conditions of employees were considered when establishing the policy for remuneration to senior management
- The criteria used to determine variable pay along with the methods to determine whether they have been fulfilled and how they contribute to the company’s long-term strategy
- The details about deferral and claw-back mechanisms of variable pay programs

Remuneration report
The legal basis for remuneration reporting is currently in the Accounting Act (“Regnskapsloven”), section 7–31b. The public consultation proposes that the remuneration reporting requirements must also be included in the Public Companies Act.

The proposed reporting requirements are similar to the requirements in the Accounting Act; however, the proposal suggests a higher level of reporting detail:
- The report should explain, on an individual basis, how the remuneration received is consistent with the remuneration policy, how it contributes to the long-term strategy of the company, and how the criteria to determine variable remuneration have been used
- Any annual changes in remuneration should be included and shown alongside company performance and the average remuneration for employees not falling within the scope of senior management
- If the company uses share-based remuneration, the report must include the relevant details concerning the number of shares or options received. This includes the main conditions of the share/option plan (performance period, relevant dates, strike price, etc.) and details relevant to the financial year in question (such as the number of shares vested and awarded). This information should be provided per person for executive management.

EY’s point of view
It is believed that the new reporting requirements will better enable investors to compare executive remuneration to corporate results across the European Economic Area (EEA), where the SRD is implemented. We recommend that companies review their current remuneration policies and reporting procedures in 2019 to ensure their alignment to the proposed changes by 2020.

The proposed changes in the public consultation are more detailed than before; however, they do not contain elaborate explanations of how the reporting should be conducted in practice. Therefore, unless further guidelines are issued, it will be up to each company to interpret and implement the changes.

EY has extensive experience in assisting companies with remuneration policy reporting. Please contact us for a discussion on practical consequences of the proposed changes.
<table>
<thead>
<tr>
<th>Company</th>
<th>Industry/Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>AF Gruppen</td>
<td>NEL</td>
</tr>
<tr>
<td>Aker BP</td>
<td>Nordic Nanovector</td>
</tr>
<tr>
<td>Aker Group</td>
<td>Nordic Semiconductor</td>
</tr>
<tr>
<td>Aker Solutions</td>
<td>Norsk Hydro</td>
</tr>
<tr>
<td>Atea</td>
<td>Norwegian Air Shuttle</td>
</tr>
<tr>
<td>Austevoll Seafood</td>
<td>Norwegian Finans Holding</td>
</tr>
<tr>
<td>Axactor</td>
<td>Olav Thon Eiendomsselskap</td>
</tr>
<tr>
<td>B2Holding</td>
<td>Orkla</td>
</tr>
<tr>
<td>Bakkafrost</td>
<td>PCI Biotech Holding</td>
</tr>
<tr>
<td>BerGenBio</td>
<td>Petroleum Geo-Services</td>
</tr>
<tr>
<td>DNB</td>
<td>Photocure</td>
</tr>
<tr>
<td>DNO</td>
<td>REC Silicon</td>
</tr>
<tr>
<td>Entra</td>
<td>SalMar</td>
</tr>
<tr>
<td>Equinor</td>
<td>Scatec Solar</td>
</tr>
<tr>
<td>Europris</td>
<td>Schibsted</td>
</tr>
<tr>
<td>Fjord1</td>
<td>SpareBank 1 SR-Bank</td>
</tr>
<tr>
<td>Gaming Innovation Group</td>
<td>Storebrand</td>
</tr>
<tr>
<td>Gjensidige Forsikring</td>
<td>Telenor</td>
</tr>
<tr>
<td>Grieg Seafood</td>
<td>TGS-NOPEC</td>
</tr>
<tr>
<td>Idex</td>
<td>Veidekke</td>
</tr>
<tr>
<td>Kitron</td>
<td>Wallenius Wilhelmsen</td>
</tr>
<tr>
<td>Kongsberg Automotive</td>
<td>Wilhelm Wilhelmsen</td>
</tr>
<tr>
<td>Kongsberg Gruppen</td>
<td>XXL</td>
</tr>
<tr>
<td>Lerøy Seafood Group</td>
<td>Yara</td>
</tr>
<tr>
<td>Mowi</td>
<td></td>
</tr>
</tbody>
</table>
Trond Olsen  
Partner and Attorney  
People Advisory Services  
EY Norway  
trond.olsen@no.ey.com  
+47 908 23 452

Cecilie Skeisvoll Jakobsen  
Consultant  
People Advisory Services  
EY Norway  
cecilie.s.jakobsen@no.ey.com  
+47 902 01 649

Silje Johansen  
Manager  
People Advisory Services  
EY Norway  
silje.johansen@no.ey.com  
+47 901 25 818

Andreas Hillervik  
Consultant  
People Advisory Services  
EY Norway  
andreas.hillervik@no.ey.com  
+47 926 50 534
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com privacy. For more information about our organization, please visit ey.com.

© 2019 EYGM Limited. All Rights Reserved.

EYG no. 003367-19Gbl
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com/no