Guidelines for remuneration of senior executives in companies with state ownership

(Adopted by the Ministry of Trade, Industry and Fisheries with effect from 13 February 2015, replacing the previous guidelines of 31 March 2011.)

Purpose
The purpose of the Guidelines is to describe what the State as an owner will emphasise when voting on the board of directors' declaration concerning the fixing of salary and other remuneration for senior executives at the annual general meeting of the shareholders or similar body. The Guidelines also reflect the State's view on executive remuneration in companies where this is not a separate item on the agenda of the annual general meeting. The Guidelines do not alter the corporate legislation's regulation of the responsibility of the board of directors, or of the division of responsibility between the general meeting and the board of directors or of the board of directors and the chief executive officer. If industry specific regulations impose stricter or more detailed requirements for the companies than these Guidelines, such regulations shall prevail.

Scope of the Guidelines
The Guidelines apply to senior executives, cf. definition below, in companies[1] where the State has direct ownership. The State expects companies, where the State has a shareholding in excess of 90 per cent, to ensure that the State's Guidelines also apply to wholly owned subsidiaries.

Definitions
— *Senior executives* comprise the chief executive officer and other senior executives, cf. Proposition no. 55 (2005-2006) to the Norwegian Odelsting, which refers to the interpretation of the term in Section 4-12 of the Public Limited Companies Act and Sections 7-26 and 7-31 of the Accounting Act.
— *Remuneration scheme* means one or more of the following elements: fixed salary, variable salary (bonus, share programmes, stock options and similar schemes), other benefits (payments in kind, etc.), pension and severance pay.
— *Stock options* means the right to buy shares at a pre-agreed price. The Guidelines treat option agreements, where any increase in value is paid out directly without prior physical transactions (synthetic options), in line with ordinary options, cf. the reporting rules in the Accounting Act.
— *Share programme* means arrangements with direct share ownership without prior options. This may involve the employee receiving the share as payment, a price reduction on purchase of shares or a bonus payment contingent upon purchase of shares. So-called Long-term Incentive Schemes (LTI) are considered to be a share programme. The Guidelines do not apply to share acquisition schemes established for all employees.
— *Severance pay* means compensation in connection with resignation and may include salary after termination of employment, work-free periods, other financial benefits and benefits in kind.

The board of directors' declaration concerning the fixing of salary and other remuneration
— It follows from the provisions in Section 5-6 (3) and Section 6-16a of the Public Limited Companies Act that the board of directors of public limited companies shall prepare a declaration concerning the fixing of salary and other remuneration for the chief executive officer and other senior executives. The declaration shall be considered at the annual general meeting and shall include the board of directors' guidelines for fixing of salary and other remuneration for the chief executive officer and other senior executives for the coming financial year. The provisions in the Public Limited Companies Act relating to the declaration concerning the fixing of salaries and other remuneration are made applicable

[1] State-owned enterprises, regional health authorities, special law companies, public limited companies and limited companies.

to all companies in which the State has a shareholding, except those defined as "small enterprises" under the Accounting Act, through the companies' articles of association[2].
— The board of directors' declaration concerning the fixing of salary and other remuneration shall also include an account of the executive salary policy that has been followed in the preceding financial year, including how the board of directors' guidelines for fixing of salary and other remuneration have been implemented. If the board of directors deviate from their own guidelines in an agreement, it should be disclosed in the account.
— In companies where the State has a direct ownership in excess of 90 per cent, the articles of association shall include a provision that the board of directors' declaration on executive remuneration shall also include an account of how the State's Guidelines have been addressed in wholly owned subsidiaries.

The "comply or explain" principle
— The State will apply a "comply or explain" principle for enforcement of the State's Guidelines. This entails that in the declaration concerning the fixing of salary and other remuneration, the boards of directors should clarify to what extent the board of directors' guidelines for fixing of salary and other remuneration for the senior executives for the coming financial year are in accordance with the State's Guidelines. The grounds for any deviations should be explained.
— In companies where the State has direct ownership in excess of 90 per cent, it is assumed that the State's Guidelines for senior executive salaries are followed. This means that the board of directors cannot deviate from the State's Guidelines when preparing its own guidelines.

[2] In partly-owned companies, the State must either on its own or together with other shareholders have a 2/3 majority in order to make the necessary amendments to the articles of association.

Main principles for determination of remuneration schemes
— It is the responsibility of the board of directors to set guidelines for executive remuneration. The board of directors determines the remuneration of the chief executive officer.
— Executive salaries shall be competitive, but not wage leading compared with similar companies.
— The board of directors shall contribute to moderation in executive remuneration.
— The main element in executive remuneration should be the fixed salary.
— The remuneration schemes shall be designed in such a way that they do not lead to unreasonable compensation due to external factors which the management cannot influence.
— The board of directors shall maintain a record of the total value of each executive's agreed remuneration and report on this in an easily accessible way in the company's annual accounts.
— The total compensation shall be viewed as a whole when the board of directors evaluates it in relation to the State's Guidelines.
— The board of directors shall ensure that the remuneration schemes do not have adverse effects on the company or undermine its reputation.
— Senior executives shall not receive additional remuneration for serving as a member of the board of other companies within the same group.
— Agreements entered into before these Guidelines came into force, may remain in place.

Variable salary
Any variable salary shall be based on the following principles:
— There shall be a clear connection between the variable salary and the performance of the company.
— The variable salary shall be based on objective, definable and measurable criteria that the executive is able to influence. Several relevant criteria should be used.
— A variable salary scheme shall be transparent and comprehensible. When

explaining the scheme it is important to highlight the anticipated and potential maximum outcome for each executive participating in the scheme.
— The scheme shall have a time limit.
— The total attainable variable salary, i.e., the maximum that may be earned in a year, should not exceed 50 per cent of the fixed salary, unless exceptional circumstances require otherwise.
— Share programmes, such as LTI, may be used by listed companies if they are particularly suited to achieving the companies' long-term goals. Share-based compensation shall be designed to encourage long-term contribution to the company and should include a lock-in period for the shares of at least three years. For listed companies, the State may support an additional limit earmarked for such share programmes, where the value of the allocated amount shall not exceed 30 per cent of the fixed salary.
— Stock options or similar arrangements shall not be used.

Pensions – occupational pension
— The terms and conditions for executive pensions shall be in line with those applicable to other employees in the company.
— The pension-qualifying income shall not exceed the maximum limit in the tax-favoured joint pension schemes in Norway (currently 12 G), cf. the Defined-Contribution Pensions Act, the Company Pensions Act and the Occupational Pensions Act.
— For occupational pension agreements, any defined benefit pensions earned from other employment shall be taken into consideration. The total pension payment should not exceed 66 per cent of salary up to 12 G.
— When a senior executive is no longer employed by the company, there shall not be pension payments due from the company other than those that follow from tax-favoured defined benefit schemes.

Severance pay
— Severance pay in agreement with Section 15-16 (2) of the Working Environment Act may be agreed upon in a prior agreement where the enterprise's chief executive waives his or her right to protection against dismissal. Severance pay should not be used for voluntary resignation.
— Severance pay and salary during the period of notice should in total not exceed 12 months' fixed salary.
— In the event that the executive is employed in another position or receives income from business in which the executive is an active owner, the severance pay should be reduced in proportion to the new annual income. The reduction may not be effected until the normal period of notice has expired.
— Severance pay may be withheld if the conditions for dismissal are fulfilled or if irregularities or negligence that may lead to liability are discovered or the person is being charged with breach of the law during the payment period for severance pay.
— A prior agreement on severance pay where compensation in the event of resignation has been finally determined, cannot be entered into with other executives. Instead a prior agreement may be entered into regarding a reasonable severance payment, which will take effect if the employee does not dispute the termination of employment. In such cases, the relevant provisions of these guidelines will apply.

In case of discrepancy between the original text in Norwegian and the English translation, the Norwegian text shall prevail.