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Remuneration policies

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In October 2006 important amendments were made to the Icelandic Act on Limited Liability Companies in the field of corporate governance. The amendment requires Icelandic companies that meet certain minimum size standards to adopt a remuneration policy. Following the amendment, the listed Icelandic companies have in 2007 adopted remuneration policies.

The amended Act requires the board of directors of all limited liability companies that are required to elect an auditor under the Act to approve a remuneration policy concerning wages and other payments to chief executive officers and other supreme officers of the company as well as its directors. The remuneration policy shall contain the basic items concerning the remuneration of officers and directors and a company's policy concerning agreements with the same.

It shall also reveal whether, and under which circumstances, and within which framework, it is permissible to pay or compensate officers and directors in addition to basic wages. Such payments may include delivery of shares, performance-linked payments, put and call options, loan agreements, pension agreements and retirement agreements. The policy is binding as regards payments linked to shares or the development of the price of shares in the company. In other respects the policy serves as guidance, unless otherwise approved in the company's Articles of Association.

Before the amendment the Icelandic stock exchanges had, like other stock exchanges, adopted rules for listed companies stipulating that wages and other kinds of remuneration of directors and executives

should be revealed in the company's annual accounts.

Better results

The Icelandic market has in recent years, like other European and American markets, been subject to discussions on executive remuneration.

The purpose of the amendment was, among other things, to clarify the provisions of Icelandic law relating to the responsibilities and role of the board of directors and decisions on remuneration for directors and officers. The amendment further aims to reinforce the Icelandic market, as companies complying with such rules and subject to good corporate governance were in general considered to give better results.

The amendments also originate from the European Commission, which adopted Recommendation no 2004/213 in December 2004. The Recommendation aimed to encourage appropriate arrangements regarding remuneration of directors in listed companies. It proposed that member states of the EU and the European Economic Area adopt appropriate measures to ensure that companies comply with the Recommendation.

The scope of the Icelandic amendments is wider than those proposed in the Recommendation. Instead of applying only to listed companies the Icelandic Act also applies to limited liability companies that are of the size that makes them bound to elect an auditor.

According to the Act, the board of directors must approve the company's remuneration policy. The policy must then be approved at the company's annual general meeting. At the annual general meeting the board of directors shall also give an account of the estimated costs relating to the right of share purchase options and explain the implementation of the previously approved policy.

As the amendments apply as of October 1 2006 most of the Icelandic listed companies approved their remuneration policies at their annual general meetings in spring 2007. In

2008 the listed companies will for the first time have to explain the implementation of the policies approved in 2007.

Although the amended Act does not provide for a strict framework as it does not set any limits on amounts, it serves as a guide for good corporate governance as it requires companies to adopt rules, decide on a policy and explain the implementation of the policy to their shareholders.

Financial and corporate

Recommended firms

Tier 1

BBA Legal
Logos Legal Services

Tier 2

Fulltingi Legal Services
Jonsson & Hall
Landslog Law Offices
Lex Law Offices

Tier 3

AM Praxis
LM Attorneys
Reykjavik Law Firm

Iceland's recent rapid economic growth has been based on aggressive acquisition strategies by its three biggest banks - Kaupthing, Glitnir and Landsbanki - and investment groups such as Baugur. When the credit crunch began to bite, global confidence in such strategies plummeted, taking faith in the Icelandic economy with it.

Icelandic bankers and officials, including the country's prime minister, Geir Haarde, blame subsequent rumours about the vulnerability of its banks on international hedge funds. They allege the funds have taken up short positions on all aspects of the country's economy and are systematically manipulating

markets to drive the economy down and reap massive profits.

Credit rating agencies have lowered their ratings for the banks and the country as a whole, the stock market has lost a third of its value, and the currency has reached record lows against the euro. In a nation dependent on imports, this led inflation to hit 12.7% in June 2008 - five times greater than the government's target - despite interest rates being the highest in Europe at 15.5%.

Lawyers may just be the only people happy in the whole economy, as the renegotiation of agreements and restructurings creates plenty of work.

The clipping of the banks' wings might also benefit firms. "Any lawyer who has shown the slightest talent, the banks have sent the donkeys loaded with gold to take them in-house," says one partner. "That will be a different story now the banks are downsizing."

BBA Legal

"BBA have been one of our premier sources of legal advice," says one client of the firm. "If you have urgent projects they take them on and deliver them on time. The quality of their work in a short space of time is very impressive."

This year Iceland's growing energy sector has kept the firm busy. Managing partner Katrín Helga Hallgrímsdóttir and Ásgeir Ragnarsson acted for investment company Atorka Group on its €195 million sale of its interest in the geothermal drilling company Jarðboranir to Geysir Green Energy in July 2007. Geysir Green must have been impressed with what it saw across the table, because it turned to Ragnarsson for advice on a share offering and its investment in a US energy company in May 2008.

Meanwhile, Baldvin Björn Haraldsson assisted geothermal energy company Reykjavík Energy Invest with a \$300 million joint venture in the Philippines, the \$250 million construction of a power plant in Djibouti, and its \$1 billion bid in the privatisation of Philippine national oil company EDC. "He's responsive and a good business lawyer," says one client of Haraldsson. "He shows good leadership and drives the team on."

The firm maintains excellent relations with leading banks in Iceland, with clients including Glitnir and Straumur Burdaras. This year it assisted Kaupthing Bank on the €280 million IPO of investment company Skipti, the \$260 million secondary offering by financial services group Exista, and a €290 million term loan facility provided to an Icelandic investment company.

Leading lawyers

Einar Baldvin Árnason
Katrín Helga Hallgrímsdóttir
Baldvin Björn Haraldsson
Ásgeir Ragnarsson

Logos Legal Services

"They're in a completely different league to other law firms," says one client of Logos Legal Services. "We try to work with them as much as possible."

This year the firm has advised on several groundbreaking deals. In June 2007 Olafur Arinbjörn Sigurdsson assisted US aluminium company Century with its listing on First North - the first time a US company has listed in Iceland.

Meanwhile, Guðmundur Oddsson acted for Icelandic investment group Novator on its €5.6 billion acquisition of pharmaceutical company Actavis Group - the largest-ever transaction in Iceland. "He's probably the best lawyer we've ever worked with," says one client of Oddsson. "What many lawyers are lacking is a sense for the commercial aspects of business, but he's very commercial. When he's reviewing agreements he will not only give us advice on legal matters, but financial matters as well. He's very valuable to us."

This year Oddsson also advised on investment group Baugur's £406 million buyout of UK fashion chain Mosaic. In another notable deal, Helga Óttarsdóttir assisted financial services group Exista with its acquisition of a 19% stake in Sampo, a Finnish insurance company.

The firm has a strong relationship with Icelandic investment group Kjalar. Last year Bjarnfredur Ólafsson advised Kjalar on a €576 million bond issue, while Sigurdsson acted for the company on a €287 million loan provided by Kaupthing Bank.

Clients repeatedly praise managing partner Gunnar Sturluson. "He's a Spartan lawyer - a no-nonsense guy," says one client. "He's well-read and quick to assess all kinds of situations."

Leading lawyers

Pétur Guðmundarson
Guðmundur Oddsson
Helga Óttarsdóttir
Gunnar Sturluson

Fulltingi Legal Services

Fulltingi Legal Services is expanding, and now comprises more than 20 lawyers, but clients are hoping that as the firm grows it will retain the qualities that make it special.

"We have known them for a long period and they have been working with us on local

issues," says one client. "They stand closer to you on a personal basis than some of the bigger firms."

Clients single out Kristinn Hallgrímsson: "We look at him as our friend, not just our lawyer."

Jonsson & Hall

This year Jonsson & Hall lost leading lawyer Hörður Felix Hardarson, but it continues to be seen as a good competitor in the market, despite its relatively small size.

Geir Gestsson was promoted to the partnership in 2008, bringing the firm to six partners and four associates. Partner Gunnar Jónsson is particularly well-regarded by competitors and clients.

The firm is a member of the State Capital Global Law Firm Group - an association of 130 independent law firms across the world which work with each other to provide multi-jurisdictional legal services.

Landslog Law Offices

The four-partner team at Landslog Law Offices is impressing peers in the market. "They're very capable and we trust them," says one rival.

The firm's clients include Kaupthing Bank, Icelandic retail chain Samkaup, national power company Landsvirkjun, and the Ministry of Industry and Commerce.

Competitors highlight the contributions of partners Jóhannes Karl Sveinsson and Vidar Lúdvíksson. One lawyer says of Lúdvíksson: "He's very thorough and detailed and has a good reputation."

Lex Law Offices

Lex Law Offices moves down a tier this year after both peers and clients noted the firm was not as visible in the financial and corporate market as it was in the past.

Despite this, the firm's large team of 29 lawyers certainly means it has the manpower to regain top-tier status in the future.

Managing partner Helgi Jóhannesson and Ólafur Haraldsson are well-respected in the market.