THE 2018 BDO 600 CEO AND CFO COMPENSATION TRENDS IN THE ENERGY (OIL & GAS) INDUSTRY

The oil and gas industry is continuously adapting to external and internal conditions. For example, sudden market shifts including M&A activity, volatility, and tax changes are luring some mid-size master limited partnerships to pursue C-corporation status. Another trend shaping the industry is pressure to attract and retain top-tier talent.

This has created an environment that challenges compensation committees and corporate leadership and threatens long-term stability. However, despite these significant headwinds, the oil and gas sector manages to sustain long-term growth and value creation.

Within the energy industry, there have been several CEO and CFO changes at the mid-size level, with activist investors buying into struggling companies and installing new leaders. With uncertainty prevailing, tailored executive compensation structures in the C-suite is paramount.

Oil and gas producers tend to include more equity in executive compensation compared to other industries reviewed in this year's BDO 600 Compensation study. Additionally, the volatility of a barrel of oil directly impacts the share price of any given company, and therefore has a significant impact on CEO and CFO long-term incentive compensation (LTI).

The BDO 600 Study illustrates the need for tailored compensation philosophies, strategic alignment, and long-range objectives. Compensation committees are giving greater consideration to the proper mix of short- and long-term incentives. While we are seeing more full-value performance shares and higher target awards for short-term incentive plans in the C-suite, it is particularly noticeable at the CEO and CFO positions.

For example, CEO pay increased 17 percent over the 2016 and 2017 pay cycles, driven by increases in equity grants, including options at 23 percent and full-value stock awards at 21 percent, plus other forms of LTI at roughly 3 percent. The pay mix is 47 percent equity and 54 percent cash, including base salary and short-term incentive opportunities.

On the other hand, CFO pay increased modestly at only 4.7 percent with increases coming from performance equity, options, and full-value stock awards, plus stronger annual cash incentives.

Key takeaways and trends to watch

Given the need for greater CFO talent retention and attraction and the uneven pay landscape, we could see larger performance equity grants over the 2018 and 2019 pay cycles, closing the delta with peers and maintaining a sustainable compensation philosophy.

Planning for the future

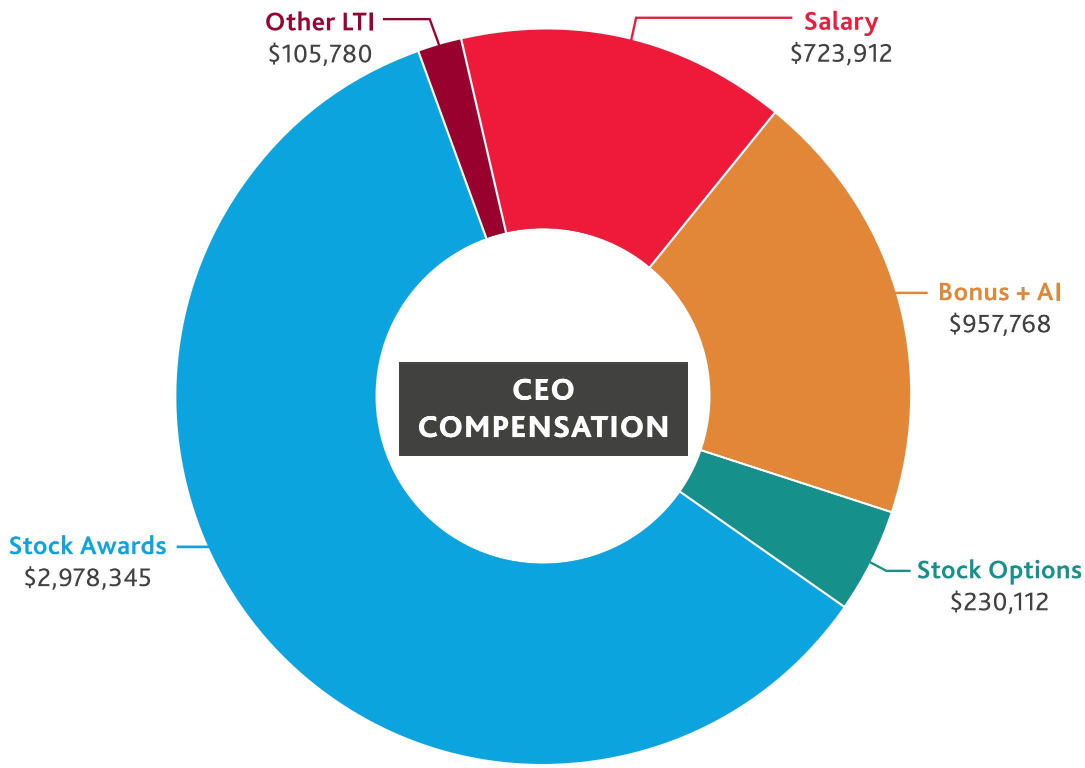
To stay ahead of these issues, energy organizations and boards should consider strategic compensation issues, including:

- Shareholder engagement and activism: Spend more time engaging stakeholders and prepare to face heavier scrutiny and more attention from investors and proxy advisors related to executive pay.
- Peer group comparisons and selections: Calibrate on a regular basis and consider multiple peer groups using a regression analysis. Consider more specific financial filters related to one- and two-year business plan and be prepared to adjust.
- Short and long-term cash and equity plans: Review on an annual basis and adjust for market volatility.

ABOUT THE BDO 600 STUDY

The BDO 600 Study examines CEO and CFO compensation plans of 600 middle market public companies, reviewing the key components of pay packages and providing comparisons by title, company size and industry. Companies in the six non-financial services industries have annual revenues between $100 million and $3 billion. Companies in the two financial services industries have assets between $100 million and $6 billion. Data in our 2018 study were extracted from proxy statements that were filed between April 2017 and March 2018. Consolidated proxy data were provided by Salary.com.

BDO 600 Study Results in the Energy Industry - CEO



The average total direct compensation paid to energy industry CEOs for fiscal years 2017 and 2016 is listed below. Historically, energy industry CFOs reported the highest average compensation among all industries included in this study. In recent years, energy industry CEO compensation levels have fallen behind real estate and technology. Nonetheless, the average increase in pay was the highest of our industry groupings at 17%.

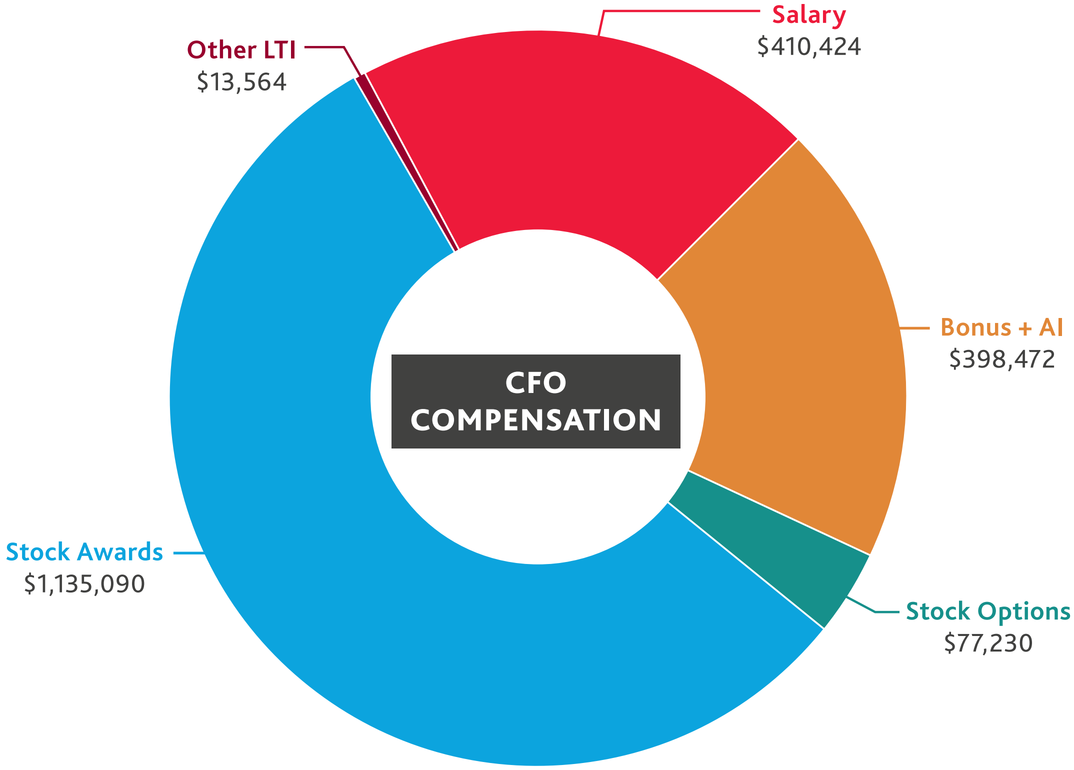
Positions	Average Salary	Bonus and Annual Incentives	Stock Options	Full -Value Stock Awards	Other LTI	TDC
CEO 2017	**$723,912**	**$957,768**	**$230,112**	**$2,978,345**	**$105,780**	**$4,995,917**
CEO 2016	$701,515	$875,551	$186,644	$2,472,990	$34,356	$4,271,056
Change Over Prior Year	3.2%	9.4%	23.3%	20.4%	N/A*	17.0%

(*Because not all CEOs received annual LTI payments, year-over-year comparisons may not accurately indicate market trends.)

The resulting 2017 compensation mix is listed below.

Position	Year	Annual Cash	LTI	Total
CEO	**2017**	**34%**	**66%**	**100%**
	2016	37%	63%	100%

BDO 600 Study Results in the Energy Industry - CFO



The average total direct compensation paid to energy industry CFOs for fiscal years 2017 and 2016 is listed below.

Positions	Average Salary	Bonus and Annual Incentives	Stock Options	Full -Value Stock Awards	Other LTI	TDC
CFO 2017	**$410,424**	**$398,472**	**$77,230**	**$1,135,090**	**$13,564**	**$2,034,780**
CFO 2016	$394,335	$322,131	$75,161	$1,129,569	$22,866	$1,944,062
Change Over Prior Year	4.1%	23.7%	2.8%	0.5%	N/A*	4.7%

(*Because not all CFOs received annual LTI payments, year-over-year comparisons may not accurately indicate market trends.)

The resulting 2017 compensation mix is listed below.

Position	Year	Annual Cash	LTI	Total
CFO	**2017**	**40%**	**60%**	**100%**
	2016	37%	63%	100%

Read the full BDO 600 CEO/CFO study: www.bdo.com/2018-bdo-600-ceo-cfo