

27 STATEMENT ON REMUNERATION OF THE GROUP CEO AND EXECUTIVE MANAGEMENT

Statement on the setting of salaries and other remuneration of the Executive Management

The Board proposes that the guidelines described below are applied for 2019 and until the Annual General Meeting in 2020.

Main principles for the company's executive salary policy

The principles and systems for remuneration of executive management are determined by the Board. The Board performs an annual evaluation of the CEO's salary and conditions, as well as the Group's performance-based pay scheme for management. The Board's compensation committee prepares the cases for the Board. The CEO sets remuneration for other members of executive management after consultation with the chairman of the Board.

Management salaries at Kongsberg Gruppen ASA and Group companies ("KONGSBERG") are determined by the following principles:

- Executive management's salaries should be competitive, but not salary leaders, and within this framework support general moderation in executive management salary developments – the company should attract and retain talented management.
- Executive management salaries should be motivating – the salary should be such that it motivates extra effort for the continual improvement of the business and the company's results.
- The salary system should be understandable, meaningful and acceptable both internally at KONGSBERG and externally.
- The salary system should be flexible, so that changes can be made when necessary.
- The salary system should promote cooperation.

Remuneration to Group executive management should reflect their responsibility for administration, results and sustainable development of KONGSBERG, and take into account the size of the organisation and its complexity. The schemes should otherwise be transparent and in line with principles that promote good corporate governance.

Other companies in the Group must follow the main executive management salary policy principles. The company's objective is to coordinate salary policy within the Group as well as variable benefit schemes.

Elements of executive management salaries – fixed salaries and variable benefits

The starting point for determination of salary is the total level of fixed salary and variable benefits. Fixed salary consists of the basic salary as well as fixed benefits in kind and pension agreements. Variable benefits consist of the performance-based salary and share programmes (LTI). Regular measurement is made against relevant markets to ensure that the total compensation is competitive, but not leading.

Base salary

The basic salary should normally be the main element of the executive managements' payroll. It is assessed once per year.

Fixed benefits in kind

Leading employees will normally be assigned benefits in kind that are common for comparable positions, such as free communication, newspapers, and car arrangements. There are no particular restrictions on the kind of benefits in kind that can be agreed.

Pension schemes

Executive management should normally have pension schemes that ensure a pension payout that is in line with salaries. This is mainly covered by membership of KONGSBERG's collective main pension scheme for salaries up to 12G.

The Group's collective main pension scheme is a defined contribution scheme. The contributions are 0 per cent of salary between 0G and 1G, 5 per cent of salary from 1G to 7.1G and 11 per cent of salary from 7.1G to 12G. The funds can be distributed optionally between three savings profiles, respectively with 30, 50 and 80 per cent shares. The Group introduced a defined contribution pension scheme on 1 January 2008. Employees who were 52 years of age or older at the time of the conversion remained in a locked benefit scheme. Work on assessing the contribution rates in light of market developments for defined contribution pensions started in 2018 and will continue in 2019.

KONGSBERG will not enter into early retirement agreements for senior executives, but senior executives who had such arrangements prior to 1 October 2015 will have them continued.

The company has previously entered into early retirement agreements for some of its executives. The agreements have always been entered into in accordance with the current ownership reports from the state. There are currently various different schemes, depending on when they were signed. Some agreements include the opportunity for retirement from the age of 65, but with the reciprocal right for KONGSBERG and employees in the corporate executive management to request early retirement from the age of 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 contribution years. If the employee retires between the ages of 63 and 65, however, this will lead to reduced pension earnings in the defined contribution pension scheme, that will apply from the age of 67 years. These agreements were terminated for new senior executives in 2013 and now apply to two members of the corporate executive management, including the Chief Executive Officer. One of the corporate executive management members has an older agreement, active from the age of 60. Assuming at least a 10-year earning period, the benefit is 90 per cent of salary from the age of 60, reducing in 10 per cent steps per year to 60 per cent of salary from the ages of 63 to 67. Similarly, a group executive vice president has an agreement to retire at the age of 62. Assuming at least a 15-years earning period, the benefit is 65 per cent of salary up to the age of 67. These older schemes were discontinued in 2006 and 2008, respectively. One of the corporate executive management members has, for the part of their salary that exceeds 12G, an extra contribution of 12 per cent of their salary. This scheme was discontinued for new senior executives in 2015.

A member of the corporate executive management took office in March 2018 who was previously employed by the Group. The appointee has a maximum pensionable income of 12G and has no agreement on early retirement and is compensated by a higher fixed salary.

Long-term incentive (LTI)

From 2012, the Board introduced an LTI scheme for the Chief Executive Officer and other corporate executive management. From 2018, the LTI scheme was further expanded to include management groups in the business areas, as well as key positions. The rationale for this scheme is to be competitive with comparable companies and also to create long-term incentives for KONGSBERG managers. The LTI program amounts to a maximum of 30 per cent of the fixed salary for the CEO and 25 per cent for other members of the executive management, 15 per cent for management groups in the business areas and 10 per cent for key positions. The new criteria for obtaining LTI specify that an EBIT greater than 0 qualifies for 1/3 of the maximum allocation, ROACE equal to WACC (8 per cent) provides an additional 1/3 of the maximum allocation and ROACE between 8 per cent and 12 per cent provides a pro rata contribution to the last 1/3 of the total allocation. The associated company Patria Oyj is included with earnings before taxes and amortisation. The participants in the scheme will be committed to invest the net amount after tax in KONGSBERG shares that are purchased in the market and are owned with a binding time of three years. Participants who leave the company of their own volition will, for shares that do not meet the three-year requirement, have to pay back an amount equal to the share value after tax at the time of resignation. The scheme does not earn pension points. The scheme will be continued in 2019.

Performance-based part of salary

KONGSBERG's senior management and most important decision makers must have their own economic interests directly related to the development and improvement of KONGSBERG. To this end, in 2006, the Board adopted a performance-based salary scheme that includes approximately 90 managers. The scheme was adjusted somewhat in 2018 so that EBIT is now measured against the previous EBITA. The objective of the scheme is for managers who perform well over time to achieve an average performance-based salary of 20-30 per cent of base salary.

The performance-based salary scheme is based on three components:

1. Change in EBIT (progress component):
The progress component is calculated based on the change in the current year's EBIT, adjusted for 10 per cent calculated interest rate on the change in employed capital. The measurement is weighted on the individual's area of responsibility and general levels. The progress component is credited to a performance-related pay account for each participant. The progress component will be positive when there is progress in adjusted EBIT, while it can be negative if there is regress in the adjusted EBIT, and can be debited against previous accumulation of the performance-based salary bank.
2. Achieved EBIT margin (margin component):
The margin component is achieved through an EBIT margin greater than 10 per cent or through maintaining or improving margin. The margin component can, at most, make up 20 per cent.
3. Personal objectives (individual component):
The individual component is achieved through fulfilment of personal objectives related to important KPIs for the individual manager, which are of financial and non-financial nature. The individual component can, at most, make up 15 per cent.

The margin and progress components can, at most, make up 35 per cent (45 per cent for senior employees before 13 February 2015). The margin component will reduce the progress component when the sum of these two is higher than the maximum amount. The combined contribution from the three components can, at most, make up 50 per

cent of the base salary (60 per cent for senior employees who joined before 13 February 2015).

The performance-related pay disbursed to the individual consists of 40 per cent of the balance in the performance-related pay account plus the margin component and individual component for the year. Performance-based salaries must not exceed 50 per cent of the basic salary.

The balance in the performance-based salary bank will not be paid out if the individual leaves before pensionable age. The performance-based salary bank will level out over time, act as a long-term incentive and ensure that there will be both positives and negatives for individuals.

Pension points cannot be earned on the performance-based salary scheme. The performance-based salary scheme is assessed annually by the Compensation Committee and the Board to ensure that it works as intended and ensure that necessary adjustments are made.

Upon completion of special major projects, demanding turnaround operations and acquisitions that require a short-term decline in profits as well as larger strategic investments, individual agreements can be entered into with the Chief Executive Officer. In such cases the ordinary scheme for performance-related pay would be removed and replaced by a separate agreement capped at 35 per cent of the base salary.

Remuneration connected to shares or share price development

Senior executives have the opportunity to participate fully in KONGSBERG's discounted share saving scheme on the same terms as all Group employees. KONGSBERG has no scheme for allocation of share options or other instruments connected to the company's shares. There are no plans to introduce such schemes.

Severance arrangements

In order to safeguard KONGSBERG's requirement for ensuring at any time that the composition of its managers is in accordance with its business needs, agreements for severance arrangements can be, and have been entered into. Severance arrangements are designed to be acceptable both internally and externally, and agreements signed from 2011 are not entitled to severance payments whose value exceeds the equivalent of salary and benefits for more than six months. This scheme will continue in 2019. Such agreements have been entered into for directors in corporate executive management within the framework of the Working Environment Act.

Remuneration for the new Chief Executive Officer

The current Chief Executive Officer took over the position on 6 June 2016. The Chief Executive Officer's remuneration consists of a fixed salary of NOK 5,137,944, a performance-based component of the salary of a maximum of 50 per cent of the fixed salary and an LTI of up to 30 per cent of the fixed salary. In a previous position, the Chief Executive Officer had an agreement on pension-earned benefits of 18 per cent for salary exceeding 12G and early retirement at 65 per cent of the fixed salary from the age of 63-65 years until the standard retirement age of 67. The schemes have been continued with a maximum pensionable income / basis for early retirement equal to pay from the previous position, at NOK 2,424,200. The pension base is adjusted annually with the same percentage increase as the last increase in benefits paid out by the national insurance service (basic amount from the national insurance service minus 0.75 per cent).

Report for the 2018 financial year

The executive management salary policy has for the 2018 financial year, been conducted in accordance with the guidelines that were adopted by KONGSBERG's annual general meeting in 2018.

After the ordinary wage settlement on 1 July 2018, the CEO's base salary has been adjusted by 2.8 per cent to NOK 5,137,944 per year (2 per cent in 2017). For the other members of corporate executive management, the basic salary was adjusted upwards by an average of 2.8 per cent on 1 July 2018 (1.6 per cent in 2017). In addition, there is the performance-based part of the salary, as described above and as shown in note 28.

The consolidated financial statements for 2018 have calculated performance-based salaries for leading employees at MNOK 38.8, excluding social security tax, corresponding to 31 per cent of the total payroll for participants in the scheme (MNOK 37 in 2017, corresponding to 24 per cent). No agreements regarding remuneration were entered into or changed that would have any significant effects for KONGSBERG or its shareholders in the previous accounting year.