28. 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 2017 and until the Annual General Meeting in 2018.

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.

Basic 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. In connection with changes in the law on defined contribution pension schemes and the national insurance scheme, KONGSBERG's collective defined contribution pension scheme was adapted to a new breakpoint at 7.1G (formerly 6G), applicable from 1 January 2017. The defined contribution rates will be reassessed in 2017 in light of market developments for defined contribution pensions.

In line with guidelines from the Ministry of Trade, Industry and Fisheries (NFD), in 2015 the Group ended the previous arrangements regarding pensions for salaries above 12G, although still taking into account the stipulation that "agreements entered into before the effective date of these guidelines can still be maintained". For senior executives, in the years from 2008 to 2015, an 18 per cent pension contribution at a fixed salary over 12G was given.

KONGSBERG will not enter into early retirement agreements for senior executives; however, 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 four 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.

The corporate executive management has two members who, in the course of 2016, have secured new positions at the same organisational level. For both of them, their arrangements in terms of earned pension benefits as well as the company's collective service pension, are continued. In the assessment, the Board has considered the mobility and that these already were members of the corporate executive management before 2015 and had entered into such agreements. The assessment of the Board is thus that these individuals were not subject to the new NFD guidelines.

One member of the corporate executive management took office in 2016, from an external position. Similarly, another member of the corporate executive management took office in January 2017 and was previously employed by the Group, but not in the corporate executive management. For both parties, a maximum pensionable income at 12G applies, and they do not have an agreement on early retirement. Both have received a slightly higher base salary as compensation.

The company has adapted to new rules within the Working Environment Act regarding age limits by implementing an internal age limit of 70 years, which is effect from 1 January 2017. The implementation of a new age limit combined with flexible rule regarding pensions from the age of 62, means that the company no longer refers to the term "of pension age" in Norway.

Long-term incentive (LTI)
From 2012, the Board introduced an LTI scheme for the Chief Executive Officer and other corporate executive management. The rationale for this scheme is to be competitive with comparable companies. In 2015 the Ministry of Trade, Industry and Fisheries (NFD) changed LTI programmes from being part of a fixed salary to being a variable contribution. In this regard, NFD expressed an expectation that the companies also introduced criteria for achievement. Therefore, in 2016 the LTI programme for the corporate executive management was raised by 5 percentage points, so that the maximum limit is 30 per cent of the base salary for the Chief Executive Officer, 25 per cent for the business managers and 20 per cent for staff leaders. Furthermore, new criteria were introduced for obtaining LTI, in that an EBIT greater than 0 gives 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 2017.

Performance-based 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 revised in 2016 and will be continued in 2017. 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 basic salary.

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

1. Change in EBITA (progress component):
   The progress component is calculated based on the change in the current year's EBITA, 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-based salary bank for the individual participant. The progress component will be positive when there is progress in adjusted EBITA, while it can be negative if there is regress in the adjusted EBITA, and can be debited against previous accumulation of the performance-based salary bank.
2. Achieved EBITA margin (margin component):
   The margin component is achieved through an EBITA margin greater than 10 per cent or through maintaining or improving a margin that is above 5 per cent. 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 may be of both 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 (60 per cent for senior employees before 13 February 2015).

Performance-based salaries for individuals consist of 40 per cent of the balance in the performance-based salary bank plus the margin component and the current year's individual component. 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 arrangement for performance-related pay would not be applicable and would be replaced by a separate agreement capped at 35 per cent.

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 2017. Before 2011, the scheme allowed for up to 12 months of severance pay. 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 MNOK 4.9, 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 (pt G-0.75 per cent). In its assessment of this, the Board has emphasised a reasonable level of fixed salary that the new Chief Executive Officer was member of corporate executive management before 2015 and that the new 2015 guidelines from NFD should not be applied retroactively. Even though this is a somewhat unclear subject area, the Board considers the new agreement in line with the guidelines.

Report for the 2016 financial year

The executive management salary policy has for the 2016 financial year, been conducted in accordance with the guidelines that were adopted by KONGSBERG's annual general meeting in 2016.

For the Chief Executive Officer and the corporate executive management, there was no regulation of the base salary in connection with the ordinary wage settlement.

The consolidated financial statements for 2016 have calculated performance-based salaries for leading employees at MNOK 19, excluding social security tax, corresponding to 14 per cent of the total payroll for participants in the scheme (MNOK 10 in 2015, corresponding to 7 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.