

28 STATEMENT ON REMUNERATION OF THE GROUP CEO AND EXECUTIVE MANAGEMENT

Statement on remuneration of the Group CEO and 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 profit-related 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 market leading, 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 base salary as well as fixed benefits in kind and pension agreements. Variable benefits consist of the profit-related pay 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 base 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 special limitations with regards to the 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. The work to assess the contribution rate given market developments for defined contribution pension schemes began in 2018 and continued in 2019. With effect from 1 January 2020, it has been decided to amend the contribution rate from 0 to 5 per cent of pensionable salary between 0G and 1G.

KONGSBERG will not enter into early retirement agreements for executive management, but executive management 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 schemes, depending on when they were entered into. Some agreements include the opportunity for retirement from the age of 65, but with the reciprocal right for KONGSBERG and employees in the 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 years of accrual. 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 executive management in 2013 and now apply to two members of the executive management, including the Chief Executive Officer. One of the executive management members has an older agreement, applicable from the age of 60. Assuming at least a 10-year accrual period, the benefit is 90 per cent of pensionable salary from the age of 60, with a 10 per cent reduction per year to 60 per cent of pensionable 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 accrual period, the benefit is 65 per cent of pensionable salary up to the age of 67. These older schemes were discontinued in 2006 and 2008, respectively.

Six of the members of executive management are covered by a defined contribution pension scheme for salaries above 12G. Saved funds, including returns, are paid to the employee at retirement or on termination of employment. Three of the members of executive management have a defined contribution pension scheme of 18 per cent for the portion of the salary exceeding 12G. One of the members

of executive management has a similar scheme of 30 per cent. The CEO's scheme is limited to the salary he had in the previous position (see detailed description below). For two of the members of executive management, no additional contributions are earned in the scheme, but returns are still added to the previously earned balance.

Long-term incentive (LTI)

From 2012, the Board introduced an LTI scheme for the Chief Executive Officer and other executive management. From 2018 onwards, the LTI scheme was expanded to cover the management groups in the business areas, as well as key positions. The scheme was introduced in order to be competitive with comparable companies and to create long-term incentives for managers within KONGSBERG. The LTI programme amounts to a maximum of 30 per cent of the base 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 criteria for achieving LTI is that an EBIT greater than 0 will result in qualification for one third of the maximum allocation, a ROACE equal to or greater than 8 per cent will result in qualification for an additional one third of the maximum allocation, while a ROACE of between 8 per cent and 12 per cent gives entitlement to pro rata earnings for the final one third of the payment. The scheme participants will be committed to invest the net amount after tax in KONGSBERG shares that are purchased in the market and are owned with a vesting period of three years. Participants who leave the company of their own volition will, for shares that do not meet the three-year requirement, will, have to pay back an amount equal to the share value after tax at the time of resignation, for the shares which do not meet the three year vesting period. The scheme does not provide basis for pension accrual. The scheme will be continued in 2020.

Profit-related pay scheme

KONGSBERG's executive management and most important decision makers should have their own economic interests directly related to the development and improvement of KONGSBERG. For this purpose, the Board adopted a profit-related pay scheme in 2006 which includes approximately 150 managers. The objective of the scheme is for managers who perform well over time to achieve an average profit-related pay of 20-30 per cent of base salary. For 2019, the scheme was adjusted with regards to which components we measure, and the profit-related pay reserve was wound up.

The profit-related pay scheme for 2019 is based on four components:

1. Improvement in EBIT

The improvement element is calculated by comparing the change in EBIT for the year with the previous year's EBIT. The improvement in EBIT is based on the overall Group improvement in addition to the improvement at the individual's organisation level. This means that as the main rule the improvement is based on the individual's organisation level and higher organisation levels up to Group level. The individual's organisation level has the highest weighting. A typical distribution key would be 50 per cent individual level (division), 25 per cent business area level and 25 per cent Group level (50/25/25). Qualifying employees in the divisional management teams with individual business responsibility are measured based on the division's aggregate result. If EBIT decreases, the "improvement" for the relevant level will be set as zero. However, other levels could still achieve improvements. The improvement in the EBIT element can amount to a maximum of 20 per cent.

2. ROACE

For the Group to be able to create added value for our owners the

participants are measured on the development of ROACE. Minimum requirements must be met to qualify for a ROACE bonus. The minimum level and intervals are updated and determined annually. For 2019 there are special conditions with large acquisitions (RRCM) that are considered. The ROACE element can amount to a maximum of 15 per cent.

3. Growth in operating revenue

Growth in operating revenue is calculated based on the Group's total operating revenue, where growth of 2 per cent triggers a 1 per cent bonus. Due to the special conditions for 2019 a discretionary assessment of growth in operating revenues could be made, as these must be seen in context. The growth in operating revenue element can amount to a maximum of 5 per cent.

4. Individual target achievement

The individual component is achieved by individual managers satisfying individual targets for KPIs, which can be either financial or non-financial. The individual target achievement element can amount to a maximum of 10 per cent.

For those who have a balance in the profit-related pay reserve as of 31 December 2018, the profit-related pay reserve from the previous scheme will be paid out over a period of four years, in the amount of one quarter per year. The final year of payments from the profit-related pay reserve will be 2023.

The total of the current year's bonus payment and disbursement from the profit-related-pay reserve may not exceed 50% of salary. If this total exceeds 50% of salary, the excess amount will be lost.

If the EBIT of a manager's own organisation unit falls, no payments will be made from the profit-related-pay reserve for the year in question, and a quarter of the profit-related-pay reserve will be written off.

If an employee with a balance in the profit-related-pay reserve transfers to another position within the Group, this balance will be paid out over four years, and a separate agreement will be drawn up stipulating which organisation unit the individual will be measured against.

If an employee with a balance in the profit-related-pay reserve voluntarily leaves their employment with KONGSBERG, the residual balance in the profit-related-pay reserve is written off in its entirety.

On disablement or retirement, the residual balance in the profit-related-pay reserve is paid out in its entirety to the extent this does not exceed 50 per cent of base salary. Any residual balance will be paid out the following year.

In the event of death, the residual balance in the profit-related-pay reserve will be paid out in its entirety.

The profit-related pay scheme does not provide a basis for pension. The profit-related pay 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 profit-related pay would be removed and replaced by a separate agreement capped at 40 per cent of base salary.

Remuneration connected to shares or share price development

Executive management 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 2020. Such agreements have been entered into for directors in executive management within the framework of the Working Environment Act.

Remuneration for the Chief Executive Officer

The Chief Executive Officer's remuneration consists of a base salary of NOK 5,317,772, fixed benefits in kind in 2019 that amounted to NOK 315,216, a profit-related pay scheme of the base salary of a maximum of 50 per cent and an LTI of up to 30 per cent of the base salary. In a previous position, the Chief Executive Officer had a defined contribution plan which gave 18 per cent contribution of his pensionable salary which exceeded 12G and early retirement at 65 per cent of the base salary from the age of 63–65 years until the standard retirement age of 67. The scheme has been continued with a maximum pensionable income / basis for early retirement equal to pay from the previous position, at NOK 2,424,200. This pension is adjusted annually with the same percentage as the last increase in pensions paid from the National Insurance (the basic amount in the national insurance minus 0.75 per cent).

Report for the 2019 financial year

The executive management salary policy has for the 2019 financial year, been conducted in accordance with the guidelines that were adopted by KONGSBERG's annual general meeting in 2019.

After the ordinary wage settlement on 1 July 2019, the CEO's base salary has been adjusted by 3.5 per cent to NOK 5,317,772 per year (2.8 per cent in 2018). For the other members of executive management, the base salary has been adjusted by an average of 3.2 per cent as of 1 July 2019 (2.8 per cent in 2018). In addition, there is the profit-related pay scheme, as described above and as shown in Note 29.

The consolidated financial statements for 2019 have calculated profit-related pay for leading employees at MNOK 57.4, excluding social security tax, corresponding to 26 per cent of the total for the participants in the scheme (MNOK 38.8 in 2018, corresponding to 31 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.