27 Statement on remuneration of the Group CEO and Executive Management

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The Board proposes that the guidelines described below are applied for 2016 and until the Annual General Meeting in 2017.

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 main principles:

- Executive management's salaries should be competitive, but not salary 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 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.

As of 13 February 2015, the Ministry of Trade, Industry and Fisheries (NFD) set new guidelines for salary and other remuneration of leading employees in enterprises and companies that are partly state-owned. These discuss important points from previous corresponding guidelines, including the long-term incentive (LTI) scheme, with particular emphasis on pensions, where the state does not wish to see pension earnings exceed a salary level of 12 National Insurance base points, 12G (currently approx. MNOK 1.1). The new guidelines were not, however, designed to be retroactive, i.e. agreements entered into before 13 February 2015 could be continued. Throughout 2015, the Board has implemented the government's new guidelines for leading employees.

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 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 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 telephone, free broadband connection, newspapers, company car/company car scheme and parking. 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 6G and 8 per cent of salary from 6G to 12G. The funds can be distributed optionally between three savings profiles, respectively with 30, 50 and 80 per cent shares. The scheme was introduced 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. Adjustment of the collective pension scheme will be considered in 2016 to better adapt to changes in the Norwegian National Insurance scheme.

Managers with a base salary exceeding 12G also earn pensions for that part of the salary that exceeds 12G through an operations-based contribution scheme. The contribution is 18 per cent of the part of the base salary that exceeds 12G, and the investment options are the same as those for the main scheme. This scheme was closed for new executive management in 2015 because of the aforementioned NFD guidelines.

A ceiling on pension-earning salary (maximum pension basis) of NOK 3,129,234 has been introduced (this excludes the CEO). The amount is adjusted for inflation in accordance with the consumer price index on 1 January each year. All members of executive management are members of the company's defined benefit scheme. The CEO has a separate agreement regarding retirement at the age 67, including the National Insurance pension (assuming full earning) and KONGSBERG's service pension that gives an overall payment of NOK 1,540,117, from the ages of 67 to 77 and NOK 1,283,431 from age 77 and the remaining lifetime. The pension is adjusted annually in line with pensions paid by the National Insurance scheme, i.e. currently in line with national wage growth minus 0.75 per cent.

KONGSBERG's scheme with early retirement agreements for executive management will not apply to managers who take up their positions after 1 October 2015.

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. The newest agreements entail the opportunity for early retirement from the age of 65, but with reciprocal rights for employees in corporate management to request 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 apply to four members of corporate executive management. 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. Correspondingly, two executive vice presidents have agreements entitling them to retire from 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, a contribution of 12 per cent of their salary. The CEO has an agreement about early retirement of NOK 1,796,803 per year from the ages of 65 to 67. The CEO and KONGSBERG can mutually require resignation with early retirement from the age of 63 or 64 years, and then with NOK 1,668,460 or NOK 1,732,632 per year, respectively, up to the age of 65. Early retirement pensions are regulated annually in line with pensions paid out from National Insurance. All figures apply as at 31 December 2015.

Long-term incentives (LTI)
From 2012 the Board introduced an LTI scheme in the form of remuneration of 25 per cent and 15-20 per cent of the annual base salary for the CEO and the remaining corporate executive management, respectively. The rationale for this scheme is to be competitive with comparable companies. In order for payment to be paid, KONGSBERG must have had positive operating results (EBIT) in the previous year. 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 held in periode 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 2016. The Board will make an evaluation and adjust the scheme, if necessary, within the NFD framework.

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 will continue in 2016, in a slightly adjusted form. 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 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 capital employed. 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 fulfillment 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 employed 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 base 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.

Remuneration connected to shares or share price trends
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 2016. 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. The CEO has an agreement that satisfies KONGSBERG's need to be able to ask the CEO to resign immediately if this is considered to be in KONGSBERG's interest. In addition to the mutual period of notice of six months, the CEO can maintain full salary until any taking up any new position, limited up to 12 months, and assuming that KONGSBERG has asked for the resignation.

Report for the 2015 financial year
The executive management salary policy has for the 2015 financial year, been conducted in accordance with the guidelines that were adopted by KONGSBERG's annual general meeting in 2015.

After the ordinary wage settlement on 1 July 2015 base salary of the CEO has been adjusted by 2.2 per cent to NOK 4,053,300 per year (3.0 per cent in 2014). For the other members of corporate executive management, the base salary has been adjusted upwards by an average of 2.1 per cent in 2015 (3 per cent in 2014). In addition, there is the performance-based part of the salary, as described above and as shown in note 28.