



Remuneration Report 2018

Remuneration Report

Remuneration is a key factor in motivating, aligning and retaining our senior leadership to achieve our operational goals and create value for shareholders.

The Remuneration Committee is responsible for establishing the remuneration policy for the Board of Directors and the Executive Management for NKT A/S, for making proposals on changes to the remuneration policy, and for obtaining the approval of the Board of Directors prior to seeking shareholders' approval at the annual general meeting. The remuneration policy contains guidelines for setting and approving the remuneration for the Board of Directors and the Executive Management.

Remuneration at NKT A/S is based on a set of core principles as set out by the Remuneration Committee and approved by the Board of Directors:

- Retaining executives key to value creation;
- Aligning with best practices;
- Creating close ties between remuneration and our strategy through long-term financial and non-financial performance to remuneration outcomes;
- Remaining aware of sensitivity on executive pay issues in the Danish market and therefore, includes an ex poste cap on the value that can be realized through long-term incentives.

The policy is reviewed at least annually by the Remuneration Committee. The principles outlined in the policy also apply to all members of the Group Leadership Team. The current remuneration policy was approved by shareholders at the Annual General Meeting in March 2018 and is available on our website investors.nkt.com as well as summarised here. The Remuneration Committee does not intend to make any changes to the policy in 2019.

Extract of the NKT Remuneration Policy

Executive Management remuneration components and opportunity

Component	Operation	Maximum award level
Fixed salary	Set in relation to comparable Danish and European companies. Salary is set in the context of the total remuneration package to ensure an appropriate balance between fixed and variable remuneration.	Salary levels take into account market remuneration as well as the executives' skills and experience.
Pension and benefits	Where appropriate, NKT provides competitive pension and benefit arrangements.	Benefits include company car, phone and other benefits in line with market practice. Individual members of Executive Management may also be covered by pension schemes, with details provided in the annual report.
Annual bonus plan	The annual bonus plan aligns executive reward with achievement of NKT's short-term objectives, as determined by the corporate strategy. This may consist of financial and or non-financial targets such as revenue, EBITDA and operating margin and or other key strategic performance indicators. Details of measures used in a given year will be outlined in the annual report as will actual bonus outcomes.	70% of fixed annual salary.
Long-term incentives	Long-term incentives will consist of performance share awards. In any given year, Executive Management may be awarded performance shares. Performance shares represent a conditional right to receive shares after a three-year performance period at nil payment. At this point, the performance shares vest, subject to continuous service and the achievement of performance targets over a period of three financial years. The decision to make awards under a long-term incentive plan is made by the Board of Directors each year after recommendation from the Remuneration Committee. The Board of Directors may at their discretion decide to make cash awards in a given year instead of making awards of performance shares. The performance measures applying to performance shares will represent key measures of long-term growth and will be disclosed in the annual report. These measures will ensure alignment of vesting outcomes with the long-term performance of the Company. Vesting will be subject to customary good leaver/bad leaver provisions. No performance share award will normally vest before the end of the three-year performance period. However, the Board may decide that awards may be subject to early vesting and exercise in various situations including (but not limited to) for certain corporate events such as a change of control. The Board of Directors has a discretionary right to decide to make cash settlement at vesting instead of delivering shares. NKT may, on an ongoing basis, cover any performance share rights granted through the issue of new shares and/or a buyback of own shares and/or the use of own shares in accordance with the Articles of Association of the Company as adopted from time to time or resolutions by NKT's shareholders.	The maximum value of performance share awards that can be made in any financial year, based on face value, is 100% of the participant's fixed annual salary as of the date of award. The value at vesting will depend on the share price at the time of vesting and the number of performance shares vesting based on achievement against performance targets. However, the value at vesting in respect of each individual in respect of each award, cannot exceed three times the participant's fixed annual salary as of the time of award. In such cases where this cap is applied the number of shares vesting will be reduced accordingly.

Other key remuneration policy components

Reclaiming variable pay	In the event of misconduct, or if an annual bonus or long-term incentive award is made on the basis of accounts that prove to be materially misstated, the Company may reclaim, in full or in part, any overpayment from the annual bonus, or cancel or withdraw unvested and or vested long-term incentive awards made to Executive Management.
Notice period and severance pay	The total value of the remuneration during the period of notice for Executive Management, including severance pay, may not exceed 24 months' remuneration, including all components of remuneration.
Award of extraordinary incentive remuneration	<p>The Board of Directors is authorized, in individual cases, to grant extraordinary bonus or other extraordinary incentive remuneration in respect of recruitment to the Executive Management.</p> <p>The value of such extraordinary incentive remuneration may not exceed an amount equal to 100% of the individual's base salary for the full calendar year. This amount is exclusive of any remuneration the Board deems appropriate in order to compensate an individual for loss of incentive remuneration from a former employer.</p> <p>Any extraordinary incentive remuneration may consist of cash and or share-based remuneration with any associated performance targets or vesting determined by the Board of Directors.</p>

Remuneration of the Board of Directors

The fees approved at the Annual General Meeting in 2018 with effect from that point are shown in the tables below. Fees are set relative to competitive benchmarks with companies of comparable size and scope. Members of the Board of Directors

are not eligible to participate in any short- or long-term incentive plan. Expenses such as travel and accommodation in relation to board meetings as well as relevant expenses are reimbursed.

Remuneration to Board members – election period 2018/2019

Amounts in EURt	Base remuneration	Committees			Total remuneration
		Audit	Nomination	Remuneration	
Jens Due Olsen, Chairman	120				120
René Svendsen-Tune, Deputy Chairman	80				80
Jens Maaløe	40	13		7	80
Jutta af Rosenborg	40	27		13	80
Lars Sandahl Sørensen	40		13		53
Andreas Nauen	40				40
Peter Wennevold*	40				40
Stig Nissen Knudsen*	40				40
Jack Ejlersen*	40				40
Total remuneration 2018/2019	480	40	13	20	573

* Elected by employees.

Remuneration to Board members – last three years

Amounts in EURt	2018					Total 2018	Total 2017	Total 2016
	Base remuneration	Audit Com.	Nomination Com.	Remuneration Com.	NKT Photonics Com.			
Jens Due Olsen	120					120	178	188
René Svendsen-Tune	80					80	90	70
Jens Maaløe	40	13		7	20	80	80	78
Andreas Nauen	40					40	9	0
Kurt Bligaard Pedersen						0	0	13
Jutta af Rosenborg	40	27		13		80	80	80
Anders Runevad						0	31	30
Kristian Siem						0	0	24
Lars Sandahl Sørensen	40		13			53	64	67
Niels-Henrik Dreesen*	10					10	40	40
Jack Ejlersen*	30					30	0	0
Stig Nissen Knudsen*	30					30	0	0
René Engel Kristiansen*						0	32	40
Gitte Toft Nielsen*						0	30	40
Peter Wennevold*	30					30	0	0

* Elected by employees.

Note: In 2016 and 2017, Nilfisk was part of NKT A/S and had a working committee.

Board of Directors – Shares

At end-2018, the members of the Board of Directors held a total of 8,510 NKT A/S shares, corresponding to a total market value of EUR 0.1m.

Number of shares held by Board of Directors*

Name	Number of shares
Jens Due Olsen	2,500
René Svendsen-Tune	4,000
Jens Maaløe	515
Andreas Nauen	0
Jutta af Rosenborg	0
Lars Sandahl Sørensen	1,495
Total	8,510

* Excluding employee elected board members.

Remuneration of Executive Management

The remuneration of Executive Management and the Group Leadership team is reviewed every 12 months. The components which form part of the remuneration packages, and all material adjustments thereof, are approved by the Board of Directors based on discussions and recommendations by the Remuneration Committee. Based on the parameters set in the remuneration policy, the Board of Directors also approves the basis for calculating and granting any share-based incentive plans.

Composition of remuneration

Executive Management's remuneration for 2018 consists of a fixed base salary and other customary benefits such as pension and a company car. The remuneration further includes short-term and long-term incentive programmes.

Salary and benefits

Salary and benefits for the Executive Management and the NKT Group Leadership Team are considered in context of the total remuneration of the package and determined by benchmarking to comparable Danish and European companies. Base salary levels take into account market remuneration as well as the executives' skills and experience.

Individual members of the Executive Management and Group Leadership Team are covered by pension schemes which conform with local country practices.

Short-term incentives

The annual bonus scheme for the Executive Management and NKT Group Leadership Team comprises two elements. The first element is weighted with 70% and consists of 4 financial KPI's relevant to NKT:

- Sales Revenue
- New project orders
- Group EBITDA
- Group Working Capital

The second element has a weight of 30% and is made up by 3–4 KPIs reflecting the area of responsibility of each management member, e.g. business line specific sales targets, productivity KPIs or concrete business achievements.

All bonus scheme elements are derived from the strategy and reflect the objectives set forth in the business plan for the year 2018.

Short-term incentive programme

2018	Short-term incentive	
	Max. percentage	Type
NKT A/S Executive management:		
Michael Hedegaard Lyng	40%	Cash bonus
Roland M. Andersen	50%	Cash bonus
NKT Group Leadership Team	50%	Cash bonus
NKT Photonics CEO	40%	Cash bonus

* Figures refer to a percentage of base salary.

For 2018, expected bonus payments will amount to 20–40% of the potential maximum bonus for Executive Management and Group Leadership Team. As for NKT, the target was missed on most of the financial KPI's (weight 70%). Sales revenue for the non-project business segments was under target and so was Group EBITDA and Working Capital targets. However, the targets regarding new orders for the Solutions offshore & onshore business was overachieved reflecting the order intake obtained in the second half of 2018. Most of the specific target (weight 30%) was achieved.

Long-term incentives

2018 long-term incentive programme – Performance Shares

Awards under the Performance Share plan were made for the first time in 2018. These awards represent a conditional right to receive shares after a three-year performance period at nil payment. For 2018, the performance share awards were made to select individuals in line with the maximum award level permitted under the policy. Awards will vest subject to continuous service and the achievement of performance targets as described below.

Long-term incentive programme

Measure	Weight	Target
Earnings before interest, tax, depreciation and amortisation (EBITDA)	40%	EBITDA reported at the end of our three-year performance period, 31 December 2020
Return on Capital Employed (ROCE)	20%	ROCE performance at year-end 31 December 2020
Absolute Total Shareholder Return (TSR)	40%	TSR performance in the three years to 31 December 2020

The performance targets in the programme reflect the targets set forth in the strategy plan. In total eight employees have received 50,722 performance share units (PSU), equal to 0.2% of the total number of shares in NKT A/S. For each performance share unit the employee will receive one share. The number of PSU's vesting after three years depends on the performance achieved against the targets.

As 2018 was the first year that performance shares were awarded, no performance shares are vesting in 2018. Awards made to the Executive Management under the Performance Share Plan in 2018 are as follows.

Performance Share Plan Awards for the Executive Management in Performance Share Units (PSU)

	Roland M. Andersen	Michael Hedegaard Lyng
Outstanding at 1 January 2018	0	0
Awarded	8,496	20,183
Vested	0	0
Cancelled	0	0
Outstanding as at 31 December 2018	8,496	20,183

Previous long-terms incentives – Warrant Programme

Up until 2015, a warrant plan was in place for NKT A/S employees granting an entitlement to subscribe for NKT A/S shares at a price based on the market price at the grant date, plus interest calculated from grant date to exercise date.

In all cases the condition of exercise is three years' employment. In 2018, no warrants were awarded, exercised or forfeited, therefore this is unchanged from 2017.

A majority of the below warrants are held by former employees of NKT A/S who are no longer in active employment.

		Exercise price DKK	Total
Granted in January 2015*	1 January		154,552
(Exercise 2019/2020)	31 December	91.3	154,552
Total:	Warrants, 1 January 2018		155,202
	Forfeited		-650
	31 December 2018		154,552
Outstanding warrants 2017:	Warrants, 1 January 2017		446,844
	Exercised		-291,142
	Forfeited		-500
	31 December 2017		155,202

* The exercise periods are determined as two weeks after publication of the company's annual financial report and two weeks after publication of the interim reports. Each warrant grants entitlement to subscribe for one share of a nominal value of DKK 20 at the exercise price. Dividend payments after 1 January 2019 and until the date when the shares are received are deducted from the exercise price.

The value of the outstanding warrants was EUR 0.1m at year-end 2018 (2017: EUR 4.0m).

Total Remuneration of Executive Management

A summary of total remuneration for the Executive Management, the NKT Group Leadership Team and the NKT Photonics CEO is shown in the first table below. In addition three years' data for Executive Management is provided in the ensuing table, as recommended by the Danish Recommendations on Corporate Governance.

Yearly remuneration to Executive Management (max remuneration per year-end 2018)

Amounts in EURt	Members	Salary and pension	Bonus max.	Long-term incentive	Other benefits	Total
NKT A/S Executive management	2	1,431	525	406 **	69	2,431
Michael Hedegaard Lyng		819	285	286	40	1,430
Roland M. Andersen*		612	240	120	29	1,001
NKT Group Leadership Team	6	1,648	723	362 **	143	2,876
NKT Photonics CEO	1	382	52	611 ***	17	1,062
Total		3,461	1,300	1,379	229	6,369

* The remuneration for Roland M. Andersen includes a supplement of payment for the interim CEO position as of 16 November 2018.

** Long-term incentives for NKT represents the award value of the performance shares.

*** Maximum Long-term cash incentive. Long-term cash incentive is calculated per year-end 2019. If the equity value of the business is increased with at least 100% a cash incentive of EUR 1.3m will be paid. If the equity value is increased with 200% a maximum cash incentive of EUR 2.0m will be paid.

Remuneration to Executive Management – last three years

Amounts in EURt	Roland M. Andersen			Michael Hedegaard Lyng		
	2018	2017	2016	2018	2017	2016
Salary and pension	612	–	–	819	803	726
Bonus max	240	–	–	285	279	252
Long-term incentive	120	–	–	286	281	254
Other benefits	29	–	–	40	40	40
Total	1,001	–	–	1,430	1,403	1,272

* LTI is included as expensed value.

Additional details related to Remuneration of Management in NKT Photonics

The NKT remuneration policy and related remuneration principles also apply to the Group Leadership Team which includes NKT as well as NKT Photonics. In respect of bonus plans, NKT Photonics' practices are slightly different than NKT in that the maximum annual bonus opportunity for NKT Photonics Executive Management is 30%.

The NKT Photonics long-term incentive programme is a cash incentive programme. The long-term cash incentive is calculated per year-end 2019. Under the plan, if the equity value of the business is increased with at least 100%, a cash incentive of EUR 1.3m will be paid to the CEO of NKT Photonics. If the equity value is increased with 200% a maximum cash incentive of EUR 2.0m will be paid.

Executive Management – Current holding of shares

The Executive Management team did not own shares at 31 December 2018. On 16 November 2018, when Michael Hedegaard Lyng left the Executive Management, he owned 100,000 shares. As part of the long-term incentive programme,

interim CEO Roland M. Andersen and previous CEO Michael Hedegaard Lyng have been awarded performance shares, which will vest starting from 2021 at the earliest.

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