

## **GUIDELINES FOR DETERMINATION OF SALARY AND OTHER REMUNERATION TO EXECUTIVE PERSONNEL IN SMARTCRAFT ASA**

### **1 BACKGROUND AND STRATEGY**

#### **1.1 Introduction**

In accordance with Section 6-16a of the Public Limited Companies Act and the Regulation on guidelines and report on remuneration payable to executive personnel, the Board of Directors (the "**Board**") has prepared the following guidelines that govern the determination of salary and other remuneration to the senior executives (the "**Senior Executives**") in Smartcraft ASA ("**SmartCraft**").

The guidelines were resolved by the Board on April 25<sup>th</sup>, 2022 and will be submitted to the Annual General Meeting of SmartCraft on May 20<sup>th</sup> 2022 for final approval.

The decision-making process for implementing or changing remuneration policies and concepts for the Senior Executives is in accordance with the Norwegian Public Limited Liability Companies Act §§ 5-6 and 6-16a and the guidelines must be approved by the Annual General Meeting upon any material change and at minimum every four years.

#### **1.2 Business strategy, long-term interests and financial sustainability**

The purpose of the guidelines is to strengthen the SmartCraft group's ability to create long-term value by supporting business strategy and to ensure that the Group is run in a sustainable manner. The Group's development is closely linked to its ability to recruit and retain Senior Executives. The remuneration for the Senior Executives is settled to stimulate a strong and lasting performance-oriented culture and enable SmartCraft to deliver on its strategy. Remuneration varies over time both in level and methodology in accordance with market terms.

#### **1.3 Senior Executives**

Senior Executives includes:

- The CEO and other members of the chief officer group

### **2 PRINCIPLES FOR THE STIPULATION OF REMUNERATION TO SENIOR EXECUTIVES**

#### **2.1 Main principles for the stipulation of remuneration to Senior Executives**

Remuneration includes all the instruments SmartCraft and its managers have at hand and utilize to encourage and reward performance.

In addition to salary, the group uses performance-related and personal bonuses up to 50% of annual salary. The group has collective pensions schemes (defined contribution plans) and intends to implement an equity-based long term investment program for Senior Executives.

Remuneration to other members of the leadership team, not Senior Executives, is evaluated and settled by the CEO and reviewed by the remuneration committee. Remuneration is reviewed annually but is assessed over several years to maintain continuity.

The remuneration elements are:

- Base salary (fixed remuneration)
- Bonus (variable remuneration)
- Long term investment program
- Severance scheme
- Other benefits
- Pension

## 2.2 Fixed remuneration

The Senior Executives may receive the following fixed remuneration elements from SmartCraft:

**Base salary:** Senior Executive's salaries shall be competitive and fair, reflecting local market conditions as SmartCraft wants to attract and retain attractive leaders. The basic salary shall normally be the main element of Senior Executives' salaries and thus differentiate based on the scope of work, responsibility, and performance. A limitation of the total salary level to Senior Executives has not been defined. However, significant and structural changes shall be approved by the remuneration committee. Senior Executive positions are not paid overtime as compensation for overtime is included in the fixed salary.

**Other benefits:** Senior Executives will receive benefits that are common for similar positions. Normal benefits include mobile phone, internet access, insurance and subsidized training subscriptions. SmartCraft works actively to avoid benefits that have a residual cost in the event an employee leaves – such as company cars.

There are no limitations on the type of benefits that can be agreed. However, SmartCraft seek to limit the number of benefits to simplify our internal processes and rather visualize total compensation through fixed salary.

### **Pension scheme:**

Pension for Senior Executives employed in the Norwegian entities: The Group is required to have an occupational pension scheme in accordance with the Norwegian law on mandatory occupational pension. The Group's pension scheme satisfies the requirements of the law and represents a defined contribution plan with disability coverage.

Pension for Senior Executives employed in entities outside Norway: Pension level and arrangements for Senior Executives outside Norway must be seen in the context of the individual's total wage and employment conditions. Local rules related to pensions legislation, social security rights, tax, etc. is considered when deciding the individual pension scheme.

## 2.3 Variable remuneration

In order to implement the Group's business strategy, long-term interests and financial sustainability, the Senior Executives may receive the following variable remuneration:

**Bonus:** The bonus program in SmartCraft has been designed to motivate Senior Executives to strive for continuous improvement of the business and its results and to align with the interest of shareholders. The bonus scheme for Senior Executive positions is generally based on three main categories of targets:

1 – Revenue achievement. The company and the owners benefit from a strong revenue growth. Hence, bonus is linked to revenue growth on a sliding scale, based on a minimum level of growth.

2 – EBITDA achievement. The company and the owners benefit from a high EBITDA level. Hence, bonus is linked to EBITDA margin on a sliding scale, based on a minimum EBITDA margin level.

3 – Discretionary targets. These targets may vary from year to year and will be based on focus areas like M&A, new development projects, growth in new markets, etc. The bonus target achievement is like the above targets on a sliding scale depending on the level of success and with a minimum level.

The bonus will be finally determined when the accounts for the previous year are finalized, and the bonus payment will normally be paid out on the first commencing payroll date.

Repayment of variable remuneration:

The company cannot demand repayment of any variable remunerations, except in the case of the employee's gross negligence or fraud.

## **2.4 Long term investment program**

In order to align the interest of the Senior Executives and other key employees of the SmartCraft group with those of the shareholders of SmartCraft, SmartCraft intends to establish an equity-based investment program for Senior Executives and other key employees (the **MIP**).

The participants in the MIP will invest in the group by acquiring ordinary shares in a newly incorporated investment company (SmartCraft Management Invest AS ("**SCMI**")). SCMI will hold shares in SmartCraft Holding AS, a subsidiary of SmartCraft holding the shares in all operational companies of the group. SmartCraft shall hold preference shares in SCMI equal to 85% of the shares in issue, with a preferred right to distributions equal to a preferred return of 8.0% p.a. Distributions in excess of the preferred return shall be allocated pro rata on the ordinary shares. The preference shares shall at all times control the majority of the votes in SCMI.

The shares in SCMI will be offered at fair market value, based on a calculated market price for SmartCraft Holding AS. The calculated market price for the shares in SmartCraft Holding AS will be based on the volume weighted average SmartCraft share price in the market (the "**SmartCraft VWAP**") during the 10 trading days prior to the acceptance of the offer (unless SmartCraft in such period announces price sensitive information and this, in the opinion of the Board, requires that the SmartCraft VWAP should be determined by applying a shorter period in order to give a fair expression of the market price for the SmartCraft shares post such announcement) and adjusted for assets and liabilities of SmartCraft other than the shares in SmartCraft Holding AS.

The ordinary shares in SCMI will be subject to a lock-up period of three years (the "**Lock-up**"). Following the expiration of the Lock-up, participants in the MIP representing a majority of the ordinary shares in SCMI may for a period of 24 months require that SmartCraft acquires the SCMI ordinary shares in exchange for shares in SmartCraft (put option). For a period of 12 months thereafter, SmartCraft will be entitled to exchange all of the SCMI ordinary shares for shares in SmartCraft (call option). SmartCraft may elect to settle the purchase price under the call option in cash. The market price for the SCMI shares shall be based on the SmartCraft VWAP during the 10 trading days prior to determination of the market price, SmartCraft's and SCMI's respective ownership interest in SmartCraft Holding AS, as well as their assets and liabilities other than the shares in SmartCraft Holding AS, while the market price for the SmartCraft shares shall be equal to the SmartCraft VWAP during the same 10 trading days.

At the introduction of the program, no more than 1 per cent of the issued share capital in SmartCraft Holding AS should be allocated to the MIP.

The terms and conditions for the MIP, including with regard to dividend distribution and changes in the share capital, termination of employment, takeover situations and more, shall be regulated by a shareholders' agreement entered into between SmartCraft, SmartCraft Holding AS, SCMI and the participants in the MIP.

## **2.5 Duration of agreements that provide Senior Executives remuneration from SmartCraft**

The employment agreements of the CEO and the Senior Executives are permanent employment agreements that have a mutual 3 to 6-month notice period from the last day of the month in which the written notice is received by the other party. The Group has limited use of severance payments if the Group terminates the employment agreement. However, it does not preclude the use of this if it seems appropriate.

No current agreement include allowance for more than six months base salary. The CEO has a severance agreement of 6 months in addition to the 6-month mutual notice period. The CFO has a severance agreement of 3 months in addition to the 3-month mutual notice period. Any use of severance payments is restricted and requires approval. Severance payments to employees are approved by the CEO.

Severance payments to Senior Executives are approved by the CEO and reviewed by the Board via the remuneration committee. Severance payments to the CEO are approved by the Board via the remuneration committee. The right to severance pay is conditional upon the CEO or a Senior Executive not committing a serious breach of duty or other material breach of his/her duties.

## **2.6 Salary and terms of employment of other employees**

In the preparation of these Guidelines, the salary and terms of employment of the other employees of the Group have been taken into consideration, so that the remuneration offered to the Senior Executives, is not in an unreasonable disproportion compared to the salary otherwise offered by the group to its employees.

## **3 DECISION MAKING PROCESS AND PROCEDURES FOR DEVIATIONS FROM AND AMENDMENTS TO THE GUIDELINES**

### **3.1 Remuneration to the CEO**

Remuneration to the CEO is determined annually by the Board and executed by the remuneration committee. The remuneration committee functions as an advisory body to the Board of Directors, with the purpose of ensuring a thorough and independent preparation of matters regarding remuneration to the Senior Executives. By way of an independent preparation, and this being solely the remuneration committee's responsibility, the company is able to counteract any conflicts of interest arise in connection with determining the remuneration to the Senior Executives.

### **3.2 Remuneration to the group's Senior Executives**

Remuneration to the individual member of the Senior Executive group is determined by the CEO. Prior to the settlement, the CEO shall discuss proposed changes with the remuneration committee. The Board will be informed about agreed changes in remuneration.

Arrangements that include allocation of shares, options and other forms of remuneration linked to the SmartCraft shares shall be approved by the General Meeting, however provided that the Investment Program may be implemented following the General Meeting's approval of these guidelines. Within the framework of any resolution passed by the General Meeting, the Board shall decide on the process of implementing the remuneration scheme. The Board may also delegate such authority.

The annual increase in the base salaries to the Group's Senior Executives is expected to be market based and fair.

### **3.3 Remuneration to executives in subsidiaries of SmartCraft**

All subsidiaries of SmartCraft ASA shall follow the main principles of the Group's executive remuneration guidelines for executives in each company as described in the preceding sections of these guidelines. The increase in base salaries to management in subsidiaries is expected to be market based and fair.

### **3.4 Fees for group positions**

Group management will not receive remuneration or financial benefits from other SmartCraft group companies and no additional remuneration is paid for special services outside the normal functions of the managerial position.

### **3.5 Deviating from the Guidelines**

The Board may temporarily deviate from any part of the guidelines under special circumstances if this is necessary to protect the long-term interest and financial capacity of the group or safeguard the viability of the group. Before the Board decides to deviate from the guidelines, the matter must be reviewed by the Board of Director's remuneration committee. Any deviation from the guidelines must be justified in the annual salary report.

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