KONGSBERG

ANNUAL REPORT AND SUSTAIN ABILITY REPORT 2019

01 YEAR 2019

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01

YEAR 2019

Key Figures 2019

MNOK	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
SALES										
Revenues	24 081	14 381	14 490	15 845	17 032	16 613	16 323	15 652	15 128	15 497
New orders	32 452	16 574	13 430	14 319	15 238	22 097	15 043	14 605	15 016	13 584
Order backlog	33 129	17 283	15 629	16 914	19 597	21 020	15 687	16 523	17 839	17 759
Book-to-bill ratio	1.35	1.15	0.9	0.9	0.9	1.3	0.9	0.9	1.0	0.9
PERFORMANCE										
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	2 279	1 394	1 279	1 217	1 784	2 060	2 142	2 294	2 385	2 485
Earnings before interest and taxes (EBIT)	1 183	945	772	692	944	1 258	1 659	1 840	2 026	2 113
Earnings before taxes (EBT)	967	844	654	729	944	1 285	1 644	1 809	1 991	2 097
Earnings after tax	717	704	559	651	755	880	1 225	1 304	1 418	1 500
PROFITABILITY										
EBITDA %	9.5%	9.7%	8.8%	7.7%	10.5%	12.4%	13.1%	14.7%	15.8%	16.0%
EBIT %	4.9%	6.6%	5.3%	4.4%	5.5%	7.6%	10.2%	11.8%	13.4%	13.6%
BALANCE SHEET										
Equity	12 810	12 626	7 365	6 725	6 127	6 282	6 657	6 274	5 484	4 881
Equity ratio %	32.5%	45.7%	35.6%	31.7%	32.0%	31.0%	38.2%	38.6%	35.1%	35.0%
Net interest-bearing debt	(1 565)	(5 706)	384	2 195	(941)	(3 551)	(1 935)	(1 198)	(2 191)	(1 813)
Working capital[1)]	17	(14)	955	2 533	2 698	155	775	1 000	(644)	(522)
ROACE[1)]	10.0%	12.5	9.1	8.2	21.8	35.9	32.5	36.3	51.6	65.2
EMPLOYEES										
Number of employees, total	10 793	6 842	6 830	7 159	7 688	7 664	7 493	7 259	6 681	5 681
Number of reported injuries per million hours worked (TRI)	2.3	1.6	3.2	3.5	4.1	4.7	3.7	1.5	1.7	6.3
Number of lost time days per million hours worked (ISR)	31.4	17.6	16.2	32.0	14.2	45.3	15.6	13.6	1.1	22.3
THE ENVIRONMENT[2)]										
Energy consumption (GWh)	165.1	131.2	124.4	122.8	119.35	123.7	127.0	114.7	108.9	103.2
CO_2 emissions (metric tonnes)	60 393	35 466	32 517	33 464	39 268	26 006	25 294	19 579	22 747	20 005
Waste (metric tonnes)	7 830	1 888	1 884	1 986	2 368	1 788	1 935	1 784	1 622	1 772
OWNERS' VALUE										
Market capitalisation	24 839	21 167	18 120	14 940	17 400	14 760	15 300	14 940	13 920	15 960
Earnings per share after tax (EPS) in NOK	3.98	5.58	4.62	5.44	6.23	7.28	10.24	10.91	11.83	12.46
P/E in NOK	34.64	30.20	32.70	22.95	23.05	16.77	12.49	11.46	9.82	10.64
Dividend per share in NOK	2.50	2.50	3.75	3.75	4.25	9.25	5.25	3.75	3.75	3.75

1) See Note 33 for definitions.
2) Figures incl. aquired companies. See Climate and Environmental Accounts page 89 for comparable figures.

KEY FIGURES – KONGSBERG

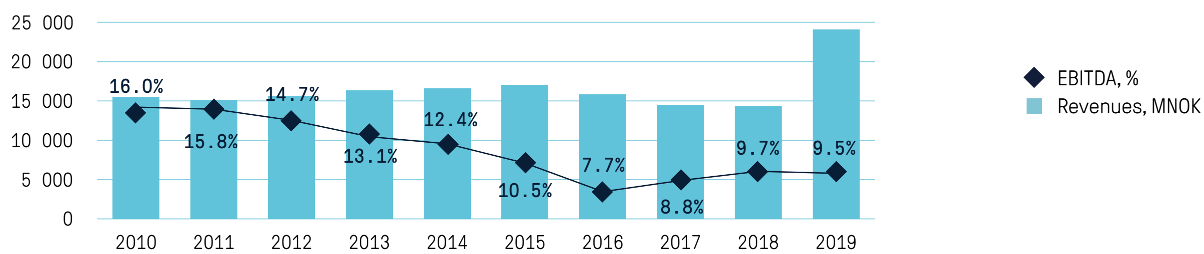
REVENUES

MNOK 24,081

Kongsberg Defence & Aerospace 30%
Kongsberg Maritime 67%
Other activities 3%

EBITDA MNOK 2,279	EBIT MNOK 1,183	PROFIT FOR THE YEAR MNOK 717
DIVIDEND PER SHARE NOK 2.50	EARNINGS PER SHARE AFTER TAX NOK 3.98	MARKET CAPITALISATION MNOK 24,839

HISTORICAL DEVELOPMENT



KEY FIGURES – BUSINESS AREAS

Kongsberg Defence & Aerospace

2,917

REVENUES

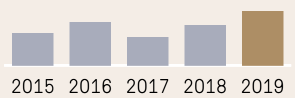
MNOK 7,245

+18.7% from 2018

EBITDA

MNOK 1,157

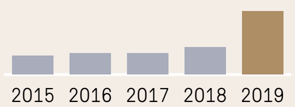
+32.9% from 2018



NEW ORDERS

MNOK 16,060

+133.3% from 2018



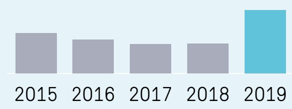
Kongsberg Maritime

7,212

REVENUES

MNOK 16,038

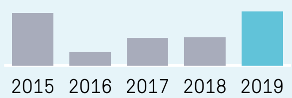
+112.6% from 2018



EBITDA

MNOK 1,151

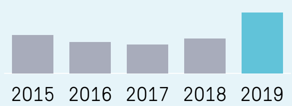
+89% from 2018



NEW ORDERS

MNOK 15,469

+74.1% from 2018



Other activities

664

REVENUES

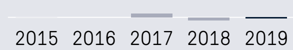
MNOK 798

+9% from 2018

EBITDA

MNOK (29)

+66.1% from 2018

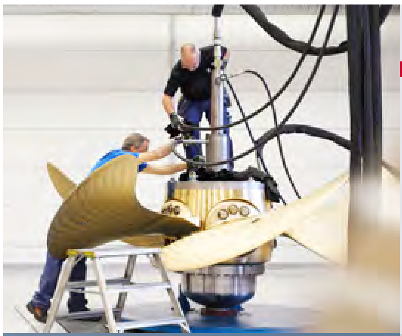


NEW ORDERS

MNOK 923

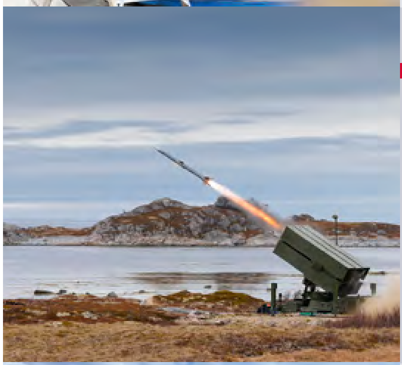
+14.6% from 2018

Important milestones 2019



KONGSBERG

- Strong growth, both organic and through acquisitions.
- Closed two acquisitions: Rolls-Royce Commercial Marine and Aerospace Industrial Maintenance.
- Entering 2020 with a record high order backlog.
- Became a significantly larger company and a more complete supplier within our product areas.



KONGSBERG DEFENCE & AEROSPACE

- Won KONGSBERG's largest contract ever for an air defence system for Qatar with a value of NOK 5.6 billion.
- Other important contracts include NASAMS to Australia, JSM to Japan, mobile ground based air defense to the Norwegian defense and several contracts for remote-controlled weapon stations (RWS).
- Good growth and profitability and high levels of activity.
- Order intake of NOK 16 billion and an order backlog of NOK 20 billion at the year-end.

KONGSBERG MARITIME

- The integration of Commercial Marine was the largest ever integration in KM. MNOK 260 of cost synergies were realised in 2019. The aim to realise a total of MNOK 500 has been brought forward by two years and will be realised by the end of 2020.
- The business area is growing in 2019, also adjusted for acquisitions. There is a strong order intake, despite the new-build market being generally sluggish.
- Successful delivery of comprehensive KONGSBERG technology for Johan Sverdrup field phase 1 and the start of phase 2.
- Awarded contract for state-of-the-art semi-submersible drilling rig worth MNOK 350 for Keppel Offshore & Marine.

KONGSBERG DIGITAL

- Kognifai Dynamic Digital Twin contract with Norske Shell for the Nyhamna gas production plant and a digitalisation partnership with Shell.
- Launch of Vessel Insight, a data infrastructure solution for the maritime sector.
- Turnover: MNOK 800, 25 per cent growth.

President and CEO Geir Håøy

During the course of 2019, we have become a significantly larger supplier to the maritime industry. We have been heavily involved in the maintenance of military aircraft and helicopters, and we have an increased order backlog through large and small contracts.

"2019 has been one of the most eventful years in our history."

At the time of writing, close to one year have passed since Rolls-Royce Commercial Marine was incorporated into Kongsberg Maritime. With this acquisition, we have doubled our sales in the maritime sector and gained a significantly stronger foothold in the maritime industry. We have strengthened our product portfolio, gained valuable expertise and are providing even more services. Propulsion, deck management and vessel design are now an integral part of our portfolio and put us in a position to deliver solutions from bridges to propellers.

Kongsberg Maritime is currently conducting important work in harmonising the existing products and solutions of Kongsberg Maritime and Commercial Marine. This is important for both us and our customers. With this, we will be in a position to make systems even smarter, through further seamless integration. This will give us a competitive edge in the market and cost-efficiencies internally.

We have increased our strategic presence, and now enter projects at an earlier stage, particularly when selling complete solutions. We are finding that customers want to talk to us to an even greater extent than previously. We have further strengthened our position in the high-end market, where we can take advantage of our entire product portfolio and be a key partner and contributor at an early stage, participating in the development of the solutions.

From a sustainability perspective, Kongsberg Maritime is a company that can genuinely make a difference. For example, we are currently delivering hybrid energy solutions helping to reduce CO_2, SO_2 and NOx emissions and enabling vessels to operate more efficiently, with lower fuel consumption. Now that large-scale resources are being invested worldwide to reduce climate gas emissions, Kongsberg Maritime is ready to deliver solutions to facilitate this reduction. We are currently just at the start of what will be an important source of income for Kongsberg Maritime in the years to come.

The acquisition of Commercial Marine was made possible by our shareholders contributing approximately MNOK 5,000 in a rights issue. Prior to the issue, we were clear on how we would realise synergies, and we have delivered on this faster and more effectively than we initially announced. This integration and improved profitability has come at a time when assistance from the market was minimal. Orders for new vessels were at a historically low level in 2019, which has put further pressure on us to realise synergies more quickly. Kongsberg Maritime has seen a large order intake despite the weakness of the market. We also managed to deliver positive underlying results from the first quarter of our ownership of Commercial Marine. A lot was due to good planning, which meant we were able to implement our plans as soon as we took over the company; we also enjoyed extraordinary efforts from our employees.

2019 was the year KONGSBERG took an important step into the growing market for the heavy maintenance of military aircraft and helicopters. We took over ownership of what had been the Norwegian Air Force's main workshop in Kjeller, and entered into agreements with the Norwegian Armed Forces for strategic partnerships and maintenance services. Both Norway and a number of European countries have begun to outsource maintenance services to industry. The reason for this is the desire to reduce maintenance costs, maintain qualified readiness and release funds for operational training.

> "2019 was the year KONGSBERG took an important step into the growing market for the heavy maintenance of military aircraft and helicopters."

The acquisition of 49.9 per cent of the shares in the Finnish company Patria in 2016 was the first strategic decision we made in order to gain a stronger foothold in this market. The purchase of what is today Kongsberg Aviation Maintenance Services (KAMS) at Kjeller has opened the door to providing more maintenance services to the Norwegian Armed Forces. For many years, Kongsberg Defence & Aerospace has performed maintenance of helicopter gearboxes. We are now taking on much greater responsibility for the entire Norwegian Air Force, in close collaboration with Patria, which has extensive experience in this area.

The maintenance of military aircraft and helicopters is a significant international sector. These platforms have a service life of several decades. We have seen more nations collaborating in bilateral agreements for the maintenance of these platforms. For example, KAMS has significant expertise in the maintenance of the F-16 fighter plane, which many nations worldwide will take advantage of for a long time to come. We will also be offensive in terms of tenders for other aircraft and helicopter types, especially the F-35, which is now being phased in by several nations. We are starting with our domestic market, and will work hard to win

> "At the start of 2020, KONGSBERG is in a stronger position than at the start of 2019. There is evidence of this in our order backlog, which has increased significantly during the year."

an international market share with our commitment to maintenance.

At the start of 2020, KONGSBERG is in a stronger position than at the start of 2019. There is evidence of this in our order backlog, which has increased significantly during the year. The contract we won in 2019 with Qatar for the NASAMS air defence system was the largest in our history at MNOK 5,600. We also signed a significant air defence contract with Australia. What is special about these two contracts is that we have the opportunity to develop NASAMS further. Both nations require new capacity in terms of range and flexibility in the use of missiles and radar development.

I would also like to say that we have confirmed our number one worldwide position in remote weapon control systems, RWS. The USA continues to purchase RWS within the framework contract with Kongsberg Defence & Aerospace. This confirms our position in this market and means we have a good chance of being awarded new framework contracts with the USA, which is by far our largest customer in this sector. In addition, we have added new nations to our customer list, including Denmark and Germany. The latter is for a solution to combat drones, a major issue in today's world.

In 2019, we won our first Joint Strike Missile (JSM) delivery contract with Japan. It was only a matter of time before we received the first contract. We are approaching full operational capacity for F-35 missiles. Eventually some of the countries that have chosen the F-35 fighter plane will have to consider ordering the JSM if they need this type of capacity.

Another important breakthrough in 2019 was the contract with Shell for a dynamic digital twin of its processing plant at Nyhamna. This is a full-scale, real time twin of a physical processing plant where you can monitor, operate, simulate and plan. The fact that Shell chose Kongsberg Digital is confirmation that we have developed digital solutions which can be part of changing the oil and gas industry in the future. Digital twins can be used in many areas. Our particular key areas are shipping, oil and gas and offshore. I believe that we have only seen the start of what digital twins can do for safety, efficiency and, not least, sustainability. It will be an extremely important tool and will open up new opportunities for industries where we have a high level of knowledge.

Throughout 2019, order intake has increased organically for Kongsberg Maritime and Kongsberg Digital. We are extremely proud of having won contracts and increased the order backlog, in spite of a tough market. We will closely monitor developments in the market, especially relating to the ordering of new vessels. For Kongsberg Maritime, the after-market has gradually become more important and will be just as significant over the next 2-3 years, before normalisation of the new builds market.

Within defence, we have doubled our order backlog during 2019. We have communicated to the market that we are in a good position to win contracts worth more than MNOK 100,000 in the coming decade. With the predictability we are seeing in terms of the defence sector and delivery times, we are confident that we are well positioned for further growth within defence going forward.

We have seen that a number of nations are now upgrading their defence capabilities. The entire geopolitical situation has become more challenging and unpredictable than it has been for a number of years. At the same time, NATO member states are being challenged to spend a greater proportion of GNP on defence, and we are also seeing the effects of this in the European defence market. Here, we are in a position to offer defence materials that fit well with current and future defence strategies. Together with our partners and subcontractors, we have developed products and solutions to meet the needs of individual defence strategies. I believe this is the main reason behind our success. We have world-leading products, in many cases superior to our competitors. The

"Throughout 2019, order intake has increased organically for Kongsberg Maritime and Kongsberg Digital. We are extremely proud of having won contracts and increased the order backlog, in spite of a tough market."

Norwegian defence industry is known for delivering quality and being trustworthy. Our customers know that we are in a position to deliver what has been agreed.

Our products are well-positioned in today's market, but we have to develop constantly in order to retain this position. In 2019, the US Navy conducted its first live exercises with the Naval Strike Missile (NSM). The fact that the US has chosen our NSM means we have made the right choices, stood by them and created products that are in demand from many nations.

But we shouldn't forget that many years of work are behind 2019's order intake. We have worked systematically on many of these programmes for a number of years. This shows that we are in an industry where it is important to be patient and work systematically with end users and decision-makers in order to successfully get to the right position. To sum up, 2019 has been one of the most eventful years in our history. We have adapted to the markets of today and prepared for the future. Throughout 2019, KONGSBERG has positioned itself through acquisitions and strategic cooperation agreements.

When entering 2020 the world experienced the outbreak of a new virus, COVID-19. The outbreak, that started in Asia, have now spread around the world. Norway as well as other nations have launched measures both to prevent spreading of the virus as well as measures to support industries. Among the measures are; closing of schools and universities, strong restrictions on travel as well as measures that limit normal operations for business and individuals. Several measures have also been initiated to help industries through the challenging situation, which to most areas of the industry seems unavoidable. KONGSBERG has implemented several preventive measures, in order protect our employees and business partners, and to the largest possible degree secure normal operations.

Despite a challenging and unpredictable situation going forward I can assure that we will work hard to secure our employees, generate value for our owners and continue to make a difference for our clients and business partners.

Finally, I would like to thank our customers and owners for their trust in us, and our employees for their drive and spirit.

Geir Håøy
President and CEO
March 2020

02

ABOUT KONGSBERG

This is KONGSBERG

Kongsberg Gruppen (KONGSBERG) is an international technology group that delivers advanced and reliable solutions that improve safety, security and performance in complex operations and under extreme conditions. KONGSBERG works with demanding customers in the global defence, maritime, oil and gas, fisheries and aerospace sectors. We deliver EXTREME PERFORMANCE FOR EXTREME CONDITIONS.

KONGSBERG's objective is to secure and increase stakeholder value through profitable and growth-oriented industrial development with a long-term, sustainable and international perspective.

Organisation

The Group is divided into three business areas and other operations. The three business areas are Kongsberg Defence & Aerospace, Kongsberg Maritime and Kongsberg Digital. Kongsberg Digital is a digital focus area which is reported as other activities. Other activities also include real estate business and the corporate staff. The corporate staff provides group governance and supportfunctions to the business areas, the CEO and the Board and their councils and committees.

Ownership structure

Kongsberg Gruppen ASA is listed on the Oslo Stock Exchange and is subject to Norwegian securities legislation and stock exchange regulations. The Norwegian state owns 50.001 per cent of the shares in the company.

Financial value added

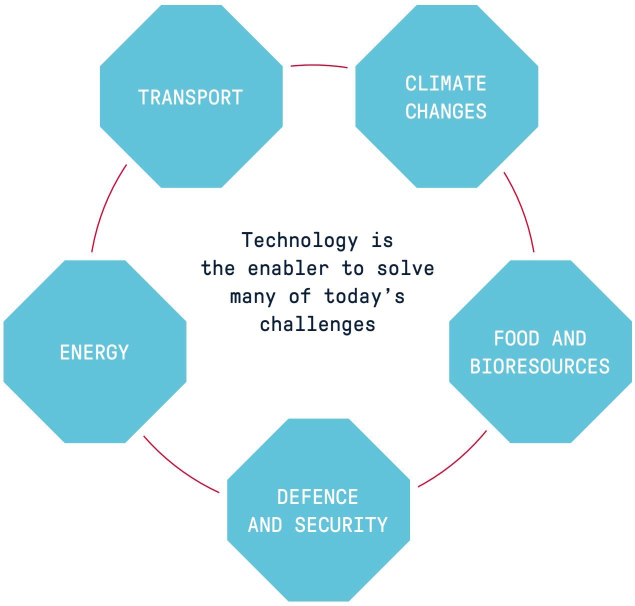
At KONGSBERG, we create value in the areas and countries in which we operate. We create value for our customers through our products. We create value through the payment of government fees and taxes, dividends to owners and wages to employees, and indirectly by buying goods and services from suppliers. Value is also created through the importance we attach to research and development.

Sustainability and corporate social responsibility

Sustainability and corporate social responsibility is important for KONGSBERG and is an integral part of our strategy. We shall conduct our business in a sustainable and accountable manner, and we must carry out our corporate social responsibility in accordance with the applicable expectations of society. This gives KONGSBERG the necessary "licence to operate" in order to execute our business.

The UN has defined 17 sustainability development goals the world should reach by 2030. Several of these goals can only be achieved through innovation and the sensible application of technology. Sustainable technological development is a central element in our strategy. For KONGSBERG, this involves business opportunities in several markets viewed in the light of our broad technology and skills platform.

KONGSBERG has acceded to the UN Global Compact initiative. We support and respect international human and employee rights such as the UN's Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, ILO Core Conventions and the OECD Guidelines for Multinational Enterprises. KONGSBERG uses the Global Reporting Initiative (GRI) guidelines for the voluntary reporting of sustainable development.



EXTREME PERFORMANCE

FOR EXTREME CONDITIONS

KONGSBERG develops and delivers advanced systems and technologies for extreme conditions. Our solutions ensure efficiency, safety and high performance in operations ranging from deep sea to outer space.

Strategy and ambitions

KONGSBERG's deliveries are often of strategic importance for our customers, and contribute to the satisfaction of important societal needs and development trends within sectors such as safety, energy, transport and climate. It is important for KONGSBERG to hold technological and product positions where we are either world-leading or have the potential to become world-leading in the long term. For KONGSBERG to be successful, a good balance between operations, market positioning and new initiatives is important. Our strategic and business related decisions are based on a culture that promotes high ethical standards.

KONGSBERG's strategic goal is to utilise our technologies to develop sustainable solutions for today's societal challenges. Our deliveries are facilitating a green switch in shipping, optimal management of the ocean's resources, monitoring of the condition of the oceans using data and information from satellites, as well as greater security for society. This is positioning KONGSBERG as a highly attractive employer for the recruitment of new talent for value creation and growth going forward.

Strategic priorities

Kongsberg Defence & Aerospace

Secure strategically important contracts, and achieve growth in selected geographical areas both through our own activities and in collaboration with partners.

Kongsberg Maritime

Secure the position as a leading maritime technology supplier, following the successful integration of Commercial Marine in 2019.

Kongsberg Digital

Take the leading position within digitalisation of the maritime and offshore industry, with a focus on Vessel Insights, Digital Twin and the Kognifai platform.

Focus areas to ensure profitable growth and sound business operations

- Deliver what we have promised our customers on time and with the agreed quality and price.
- Develop and sell attractive products and solutions, and win new contracts.
- Always have an organisation tailored to the demands of the market.
- Position ourselves for new opportunities and markets.
- Continuous focus on innovations.

Vision

We have a strong, value-based culture that drives our business performance. Our vision defines our direction and what we are striving to achieve.

Our values

We have four core values that support this vision, that describe what we stand for, our ethical attitudes and what we believe in. Our core values are our foundations; they make us who we are and have formed the basis of our operations for over 200 years. These core values act as guidelines for the way in which we act and work, and characterise our cooperation both within and outside the Group. These values are important for developing a healthy and strong corporate culture and thereby provide a platform for good corporate governance.

Our customers and partners can trust KONGSBERG to deliver, always. Dealing with KONGSBERG means dealing with reliable people, a reliable corporation and reliable products. KONGSBERG is a responsible organisation characterised by integrity and concern for health, safety and the environment.

DETERMINED

(intent, resolute, goal-oriented)

We are known for our drive and persistence. We always strive to meet our customers' expectations. We set ambitious goals for ourselves and we are driven towards them with a clear and constant focus.

What we start, we finish. We do not give in.

INNOVATIVE

(unconventional, pioneering)

Always performing better is a vital part of who we are. We constantly innovate and implement improvements in all parts of our business – from our products, through our processes, to our customers' experiences.

We are relentless in our pursuit of improvement, fresh ideas and new solutions.

COLLABORATIVE

(cooperative, network-oriented)

Collaboration is fundamental to our business. We exchange ideas among ourselves, with our suppliers and partners, and we cooperate closely with our customers. We work as a team, we share knowledge and we value team success – to the benefit of our customers and our own competitiveness.

We collaborate as individuals and as an organisation.

RELIABLE

(dependable, trustworthy)

Our customers and partners can trust KONGSBERG to deliver, always. Dealing with KONGSBERG means dealing with reliable people, a reliable corporation and reliable products. KONGSBERG is a responsible organisation characterised by integrity and concern for health, safety and the environment.

We are reliable people. We are responsible citizens.

Corporate Executive Management

GEIR HÅØY

President and Chief Executive Officer

GYRID SKALLEBERG INGERØ

Chief Financial Officer
Group Executive Vice President Legal, Compliance and Property

EGIL HAUGSDAL

Executive Vice President, KONGSBERG.
President,
Kongsberg Maritime

EIRIK LIE

Executive Vice President, KONGSBERG.
President,
Kongsberg Defence & Aerospace

HEGE SKRYSETH

Executive Vice President, KONGSBERG.
President,
Kongsberg Digital

HANS PETTER BLOKKUM

Group Executive Vice President HR and Security

HARALD AARØ

Group Executive Vice President Business Development and Strategy

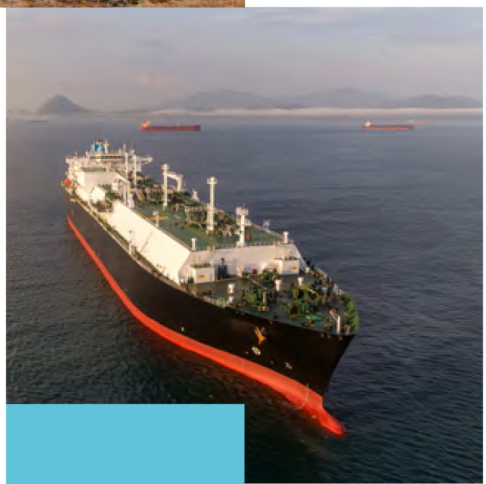
EVEN AAS

Group Executive Vice President Public Affairs, Communication and Sustainability

KONGSBERG DEFENCE & AEROSPACE

BUSINESS AREAS

KONGSBERG is comprised of three business areas operating with autonomy in a strong corporate governance model. The organisation is connected through competence and technology synergies and a common culture based on our values: Determined, Innovative, Collaborative and Reliable. We are an innovative and customer focused organisation dedicated to provide extreme performance for extreme conditions.



KONGSBERG MARITIME

KONGSBERG DIGITAL

CONTINUING TO STRENGTHEN OUR POSITION

Kongsberg Defence & Aerospace

- Integrated Defence Systems
- Space & Surveillance
- Missile Systems
- Aerostructures
- Defence Communications
- Protech Systems
- Patria
- Kongsberg Aviation Maintenance Services

Two decades of innovation, change and a focus on results have made Kongsberg Defence & Aerospace (KDA) a respected global technology leader and a leading supplier within defence, monitoring, space and aircraft structures, and within maintenance, repairs and service. We take great pride in developing advanced solutions and products of strategic importance, for markets around the world, with applications spanning from underwater to surface, land and air to space.

In 2019, alongside its ordinary operations, the business area continued to work on integrating the space environment and the acquired business Kongsberg Aviation Maintenance Services (KAMS), formerly Aerospace Industrial Maintenance Norway

Pearl Harbor: The Independence variant littoral combat ship USS Gabrielle Giffords successfully demonstrate the capabilities of the Naval Strike missile 1 October 2019 during exercise Pacific Griffin.

(AIM Norway). From 1 January 2020, the Protech Systems and Defence Communications divisions will be merged to form the Land Systems division.

Integrated Defence Systems

The Integrated Defence Systems division supplies the world's most advanced air defence system in NASAMS (Norwegian-Advanced-Surface-to-Air-Missile-System), monitoring systems and artillery firepower, as well as land- and vessel-based combat systems. The division has a strategic cooperation agreement with Raytheon for NASAMS and with thyssenkrupp Marine Systems (tkMS) in kta naval systems SA, a joint venture company which supplies exclusive combat systems for tKMS submarines. NASAMS is the world best-selling air defence system in its class, with 15 countries using NASAMS elements in their defence systems. The division will also supply mobile surface-to-air defence systems to the Norwegian Armed Forces.

Space & Surveillance

The Space & Surveillance division supplies a broad spectrum of systems and electronics for launch vehicles and spacecraft, as well as ground stations and services related to the processing of satellite data for space and maritime surveillance customers in over 40 countries. The division has over 500 employees and is Scandinavia's largest operator within the space segment, in an expanding industry. The division works with key partners, including NASA (National Aeronautics and Space Administration), Rocket Lab (global player within the launch of small satellites) and Space Norway. KONGSBERG owns 50 per cent of Kongsberg Satellite Services (KSAT), a world-leading supplier of communication services for spacecraft and launch platforms and advanced monitoring services via satellites.

Missile Systems

The Missile Systems division has over 50 years' experience from a variety of missile programmes. Products include Penguin, the Naval Strike Missile (NSM) and the Joint Strike Missile (JSM) which is launched from surface ships, helicopters and fighter aircraft. KONGSBERG is the world's only supplier of fifth generation long-range precision strike missiles with stealth capabilities. The U.S. Navy has chosen NSM for its OTH programme (Over-The-Horizon Weapon-System). An NSM missile was successfully launched from a U.S. Navy LCS-class warship during the year. The first contract for the delivery of JSM to Japan was also signed.

Aerostructures

The rapidly expanding Aerostructures division is a Centre of Excellence for complex composite structures and metallic alloy assemblies and details.
Its core capabilities range from design, prototyping and industrialisation, to large-volume manufacturing for aerospace and other high-performing markets. Activities range from the manufacture of parts for the F-35 and helicopters to the mechanical production and maintenance of helicopter gear boxes.

Defence Communications

The Defence Communications division designs and manufactures robust radios and radio communication and other network components used in advanced tactical communication systems. The tactical communication solutions are used in more than 30 countries. In 2020, Defence Communications will be merged with the new Land Systems division.

Protech Systems

Protech Systems is a world leading supplier of remote weapons stations. The systems allow soldiers to operate from a protected position inside the vehicle. Since 2001, Protech Systems has delivered over 20,000 systems to 23 nations. 2017 saw the start of deliveries of the MCT-30 (Medium Calibre Turret), a tower system based on the same technology as the PROTECTOR RWS (Remote Weapon Station). The division also has a high level of activity linked to the U.S. CROWS programme, under which it has been supplying weapons stations worth over MNOK 23,000 since 2010. In 2020, Protech Systems will become part of the new Land division.

Patria

Patria is Finland's leading supplier of defence maintenance services and covers all defence aspects within MRO (Maintenance, Repair and Overhaul). Patria is an international organisation with approximately 2,800 employees and owns 50 per cent of the shares in Nammo. KONGSBERG holds 49.9 per cent of the shares in Patria.

Kongsberg Aviation Maintenance Services

Kongsberg Aviation Maintenance Services (KAMS) was acquired by Kongsberg Defence & Aerospace in 2019. Through this acquisition, KONGSBERG has taken a strategic step into the maintenance market for aircraft and helicopters in the Nordic region and Northern Europe. KAMS is jointly owned by KDA, which owns 50.1 per cent, and by Patria, which owns 49.9 per cent, and has approximately 300 employees.

"The past year has seen exceptionally high levels of activity. We have been well-rewarded for our strategic positioning work in previous years through the securing of delivery contracts for major defence programmes. This will help to ensure strong growth over the coming years within all KDA's main segments. Key events during 2019 have been significant air defence contracts with NASAMS for Qatar and Australia, the CROWS programme with a marked increase in activity, an NSM launch carried out by the U.S. Navy within the OTH programme, a contract for JSM for Japanese fighter aircraft, and the full-scale production of F-35 parts. The acquisition of the former AIM Norway was also a key element in KONGSBERG's strategic direction to strengthen the position as a strategic partner for the Norwegian Armed Forces related to preparedness and operational needs."

Eirik Lie – President, Kongsberg Defence & Aerospace

TECHNOLOGY FOR A GREENER OCEAN SPACE

Kongsberg Maritime

- Acquisition of Rolls-Royce Commercial Marine
- Integrated Solutions
- Global Customer Support
- Sensors & Robotics
- Propulsion & Engines
- Deck Machinery & Motion Control

Kongsberg Maritime (KM) develops and supplies technology which is helping to realise sustainable management of the ocean space. The business area doubled in size during 2019, after KONGSBERG completed its largest acquisition to date. The market lies within traditional merchant vessels and fishing vessels, and offshore and research vessels, as well as advanced offshore installations linked to aquaculture, and oil and gas.

Acquisition of Rolls-Royce Commercial Marine

April 2019 saw completion of the acquisition of Rolls-Royce Commercial Marine. The two companies had complementary portfolios. With almost twice as many employees and a total of 34 global locations, KM is shaping the maritime future with its products and integrated solutions, along with a world-class service network. Over 30,000 vessels worldwide are fitted with equipment supplied by KM.

Kongsberg Maritime has one of the foremost environments for the development of battery systems for ships and offshore installations.

Integrated Solutions

KM supplies integrated systems to improve the efficiency of ships. This includes complete system designs, electrical engineering solutions and solutions for integrated maritime automation and navigation, cargo management and sensors. KM's bridge systems ensure safe manoeuvring, whilst the control and monitoring technology continues to make ships more efficient, smarter and more profitable thanks to reduced fuel consumption, hybrid solutions and automation. KM also has a team of ship designers developing designs for shipping companies with exacting requirements as regards efficiency and safety. We are determined to be at the cutting edge of developments within new technologies and applications, such as autonomy, satellite positioning and hybrid solutions.

Global Customer Support

KM has over a thousand service engineers supporting customers worldwide, wherever they are. A global network of service locations ensures fast and capable support. The aim is to ensure cost-effective service and parts for customers' vessels. The team is available 24/7, enabling customers to operate efficiently and with minimal down-time. Global Customer Support is also responsible for upgrading and rebuilding existing vessels, and helps to ensure that the existing fleet can cut its operating costs and comply with new environmental requirements. This is being done by installing batteries

> "By merging Kongsberg Maritime and Rolls-Royce Commercial Marine, we are positioning ourselves as a strategic supplier of complete solutions for the maritime market. This integration is going to create a sea of opportunities. Not only does the technology become more accessible, but it will also provide more possibilities to integrate systems. This will lead to safer and more efficient installations, as well as giving us greater opportunities to maintain the strong position we already have."
>
> **Egil Haugsdal –** President, Kongsberg Maritime

onboard, e.g. through the replacement or upgrading of propulsion systems tailored to the customer's operations and vessels. Control systems offer more secure or more efficient operation, while digital solutions offer reduced energy consumption.

Sensors & Robotics

KM supplies products and systems for advanced seabed surveys, underwater navigation, sonar equipment, underwater communication and marine robotics (Unmanned Surface Vessel (USV) and Autonomous Underwater Vehicle (AUV)) for research, fisheries and defence vessels and aquaculture installations. Our subsea technology is used within offshore, oil and gas, defence, fisheries and aquaculture, subsea construction and oceanography, and for seabed mapping, surveys and investigations. KM's products and systems are based on highly innovative, pioneering hydroacoustic technology and sensors, advanced signal processing and specialist expertise in underwater autonomy and robotics.

Propulsion & Engines

KM is a world-leading supplier of propulsion systems, and meets the requirements of customers for performance and cost-effectiveness in many markets. The factories in Norway and Finland have supplied over 10,000 thrusters since inception around 80 years ago, and Sweden and Finland have supplied just as many water jets. Product development takes place in close collaboration with customers and leading universities. The product areas are propellers/reduction gears, thrusters, electric pods and water jets. KM also acts as the sales channel for the renowned medium-speed engines manufactured by Rolls-Royce Bergen Engines.

Deck Machinery & Motion Control

KM's main product range comprises handling equipment for advanced offshore operations, but the company's offering also includes standard solutions for deck machinery for merchant and passenger vessels and tugs. Developments have taken place rapidly from the outset, with hydraulic winches to complete system deliveries, and the recent launch of new electric winch motors. The Motion Control area supplies rudders, steering machines and stabilisers, and has perhaps KONGSBERG's broadest catchment area in the maritime market.

Digitalisation is contributing to more efficient operation of ships. Today, KONGSBERG has various digital solutions for ship monitoring, and the pace of development is high. The KONGSBERG Vessel Performance product is just one specific example. This solution enables both the crew and the operator to make informed decisions which can reduce energy consumption and operating costs, with the added environmental benefits that this brings.

NEXT GENERATION SOLUTIONS

Kongsberg Digital

- Kognifai – Kongsberg Digital Platform and Ecosystem
- Maritime Digital Ecosystem and Vessel Insight
- Kognifai Dynamic Digital Twin for heavy asset industries
- Remote Drilling Operation Solutions for oil & gas
- Renewable Energy and power grid optimization
- Maritime Simulation

Kongsberg Digital (KDI) was established in 2016 to deliver next-generation software and digital solutions to customers in the maritime, oil and gas and renewable energy sectors. KDI possesses leading domain and digital expertise in areas which support increased automation and autonomous operations in the industry.

Kognifai – Kongsberg Digital Platform

Kognifai is KONGSBERG's digital, cloud-based ecosystem. Kognifai is tailor-made for industrial use, particularly the part dealing with asset data, time series, alarms and incidents. Kognifai harmonises and standardises information in a structured way, making it easier for customers and third-parties to use the data for value creation.

Maritime Digital Ecosystem and Vessel Insight

Given KONGSBERG's extensive maritime footprint, it is natural that the group is aiming to create a standardised ship-to-cloud infrastructure and establish a

Kognitwin Energy is our digital twin. The solution enables increased collaboration, efficiency and safety for the people working on platforms.

digital ecosystem for the maritime sector. The infrastructure is called Vessel Insight and is based on Kognifai.

In addition to being a data infrastructure, Vessel Insight gives access to an ecosystem of applications and solutions in order to create value. Collectively, Vessel Insight enables customers to connect ships, retrieve data for use in analyses, and develop or download value-creating applications on top.

Kognifai Dynamic Digital Twin for heavy asset industries

In its simplest form, a digital twin is a digital replica of processes and devices. Advanced digital twins, such as Kognifai Dynamic Digital Twin, contain solutions which enable substantial reductions in operating costs, improvement and streamlining of work processes and increased production of oil and gas. Our accurate flow and process simulators, combined with dynamic data from the automation systems, in what is known as "hybrid analytics", enable the ongoing automatic testing of different operating scenarios, accident and incident prediction and production optimisation. Kognifai Dynamic Digital Twin enables the automation of processes, the remote control of complex installations and a higher degree of autonomy in process control systems.

"The past year has been very important for Kongsberg Digital. Not only have the existing businesses done well, we have also taken huge strides forward as regards our strategic priority areas. The first of these was the launch of the maritime data infrastructure solution Vessel Insight and the letters of intent which followed with global players such as DNV GL, MAN and MacGregor. The second was the first commercial contract for the delivery of Kognifai Dynamic Digital Twin to Nyhamna and Norske Shell. Viewed against this backdrop, we see a very bright outlook for the group from 2020 onwards."

Hege Skryseth – President, Kongsberg Digital

Remote Drilling Operation for Oil & Gas

KDI supplies systems for data acquisition and the visualisation of drilling operations in real time, as well as applications for operations analysis and advanced decision support. KDI also supplies solutions that increase production efficiency using real-time simulators for design, multi-phase flow and operator training. These systems collectively offer drilling operators much improved well safety and greater efficiency during the drilling process.

Renewable energy and power grid optimisation

In the energy sector, we are working with many major stakeholders in the industry to develop a dynamic digital twin and smart grid functionality for the distribution network operators. KDI uses dynamic physical models, data-driven analyses and virtual sensors in order to provide the distribution network operators with suitable tools for accurate load predictions, decision support concerning grid balancing, and advice regarding possible improvements for improved utilisation and flexibility in the distribution network.

Maritime Simulation

KDI offers market-leading simulator solutions which ensure the authentic and thorough training of personnel and students in the maritime, marine and offshore markets. These simulator solutions are also used for verification and decision support, for example, in preliminary studies and research projects within design, security and cost optimisation.

Vessel Insight collects and structures data from ships and provides access to applications that create value for the crew, ship operator and owner.

THE WORLD OF KONGSBERG

	Number of employees	Number of suppliers	Value added MNOK	Investments MNOK
Totalt	10 793	10 166	24 081	544
Europe	78%	84.6%	75%	91%
Asia	13%	5.7%	12%	3%
North America	7%	7.0%	12%	4%
Central and South America and the Antarctic	1%	0.5%	1%	2%
Oceania	1%	1.5%	-	-
Africa	0%	0.7%	-	-

Refer to notes, pages 30–34

1) Certain suppliers may have been counted two or more times if they are suppliers for two or more of our business areas. The figures do not include all suppliers dealt with directly by our international locations.

Europe

Kongsberg Maritime has several offices in the UK.

Norway

Employees **6,475 (4,518)**
Number of suppliers[1) **4,578 (3,623)**
Value added **MNOK 12,389 (9,222)**
Investments **MNOK 488 (188)**

The Group headquarters are located in Kongsberg.

Kongsberg Defence & Aerospace constitutes the most significant part of the Group's defence business, with its main activities being in Kongsberg. In addition, we have operations in Horten, Asker, Kjeller, Tromsø and Bergen. Here, there are development, production, test, sales and service activities.

Kongsberg Maritime's head office located in Kongsberg. KM also has other companies for development, production, testing, sales and service in Norway: In Horten, Ålesund, Ulsteinvik, Brattvåg, Hjørungavåg, Bergen, Hagavik, Longva, Asker, Oslo, Kristiansand, Stavanger, Sandefjord and Trondheim.

Kongsberg Digital is located in Asker, Horten, Kristiansand, Stavanger and Trondheim. Operations include sales and product development, project deliveries, service and production. Kongsberg Digital also owns 27 per cent of eSmart Systems AS. The company is located in Halden and develops digital intelligence for the energy industry and smart communities.

Finland

Employees **490 (X)**
Number of suppliers[1) **813 (X)**
Value added **MNOK 1,913**
Investments **MNOK 1**

KONGSBERG own 49.9 per cent of Patria Oyj, which has its headquarters in Finland. Patria is Finland's leading supplier of technology solutions and maintenance services within defence, security and aviation.

Kongsberg Maritime has three locations in Finland: Kokkola, Rauma and Turku. Kokkola and Rauma are production sites associated with the Propulsion & Engines division, while the Turku office is part of Ship Intelligence.

Finland was reported under Rest of Europe in 2018.

Poland

Employees **448 (215)**
Number of suppliers[1) **18 (327)**
Value added **MNOK 192 (128)**
Investments **MNOK 6 (5)**

Kongsberg Defence & Aerospace, through the subsidiary Kongsberg Defence Sp. Zo.o, has a marketing office in Warsaw.

Kongsberg Maritime operates production, service and project support in Gdynia, Gniew, Krakow and Szczecin.

Great Britain

Employees **229 (70)**
Number of suppliers[1) **511 (581)**
Value added **MNOK 581 (267)**
Investments **MNOK 17 (10)**

Kongsberg Defence & Aerospace, through its subsidiary Kongsberg Norcontrol AS, has a sales and service office in Bristol.

Kongsberg Maritime has several offices in the UK. The two largest are located in Aberdeen and Dunfirmline. We also have smaller offices in Birmingham, Bristol, Derby, Great Yarmouth, Portsmouth and Gateshead (Washington).

Rest of Europe

Employees **783 (189)**
Number of suppliers[1) **2.383 (1.493)**
Value added **MNOK 2.971 (959)**
Investments **MNOK 25 (7)**

The Group has sales, service and project support offices in Greece, Italy, the Netherlands, Russia, Spain, Germany and Hungary.

Kongsberg Maritime has locations that carry out production, assembly, sales, service and project support in Denmark, Sweden, Spain, Croatia, Greece, Italy, Germany, Turkey, France, the Netherlands and Russia.

Asia

Singapore has one of the world's largest ports and is a significant shipowner and shipyard nation.

China

Employees **517 (464)**
Number of suppliers[1] **517 (464)**
Value added **MNOK 496 (322)**
Investments **MNOK 1 (3)**

Kongsberg Maritime has built up significant operations in China. The business area is a local supplier to the Chinese shipbuilding industry and now has offices in Shanghai, Dalian, Guangzhou, Jiangsu and Zhenjiang. In Zhenjiang, we have a production unit consisting of, among other things, an electromechanical assembly line where we produce consoles, cabinets and sensors. We also have a center with CNC machines where we manufacture mechanical components andmechanics.

India

Employees **302 (267)**
Number of suppliers[1] **104 (10)**
Value added **MNOK 163 (108)**
Investments **MNOK 1 (3)**

Kongsberg Defence & Aerospace has, through its subsidiary Kongsberg Norcontrol AS, a sales and service office in Ahmedabad. In addition, it owns 49 per cent of Aatash Norcontrol, a company which is also located in the Ahmedabad.

Kongsberg Maritime has sales and service offices, software support and development activities in Mumbai.

Kongsberg Digital has operations both in Mumbai and Bangalore. In Mumbai they perform sales support and project support, while software development is the main activity in Bangalore.

Singapore

Employees **36 (169)**
Number of suppliers[1] **117 (180)**
Value added **MNOK 631 (464)**
Investments **MNOK 1 (1)**

Kongsberg Defence & Aerospace, through the company Kongsberg Norcontrol AS, has major deliveries to Singapore's vessel traffic monitoring, where it has a sales and service office.

Kongsberg Maritime in Singapore has sales, installation, engineering, commissioning and service / support and training as its main tasks. Singapore has one of the world's largest ports and is a significant shipping and shipbuilding nation.

South Korea

Employees **244 (163)**
Number of suppliers[1] **155 (431)**
Value added **MNOK 1,245 (660)**
Investments **MNOK 3 (2)**

Kongsberg Defence & Aerospace has a sales office in Seoul.

Kongsberg Maritime's main business in South Korea is located in Jungkwan outside Busan. For a number of years we have built up a local presence in the world's largest shipbuilding nation. Main tasks are sales, engineering, installation, commissioning and service / support as well as local production. In addition, we have offices in Gohyeon, Gudeok-Ro, Mokpo, Okpo and Ulsan.

Middle East

Employees **58 (39)**
Number of suppliers[1] **49 (26)**
Value added **MNOK 171 (110)**
Investments **MNOK 10 (0)**

Kongsberg Defence & Aerospace has offices in Kuwait and Qatar. The main tasks are operational and delivery of projects within tactical radio and communications systems. In addition, the company has had employees stationed in Oman in connection with the NASAMS project.

Kongsberg Maritime has a service office in Dubai.

Rest of Asia

Employees **37 (8)**
Number of suppliers[1] **94 (42)**
Value added **MNOK 108 (57)**
Investments **MNOK 0 (0)**

Kongsberg Defence & Aerospace has an office in Malaysia for marketing and local project management.

Kongsberg Maritime has a sales and service office for fishing activity in Kuala Lumpur, Malaysia. In addition, KM has service offices in Japan and New Zealand.

North America

KONGSBERG has several businesses in the United States.

USA

Employees **644 (537)**
Number of suppliers[1)] **587 (574)**
Value added **MNOK 2,575 (1,624)**
Investments **MNOK 19 (6)**

Kongsberg Defence & Aerospace has a marketing office in Alexandria (Virginia). In Johnstown (Pennsylvania), they manufacture and maintain the PROTECTOR Remote Weapon Station for the American market. The business unit has project office in Mount Arlington, New Jersey.

Kongsberg Geospatial has a sales and service office in Florida, while Kongsberg Satellite Services has a marketing office in Silicon Valley in San Francisco, California.

Kongsberg Maritime has operations in Seattle (Washington), Houston and Galveston (Texas), New Orleans (Louisiana), Pocasset (Massachusetts), Long Beach (California), Miramar (Florida) and Arlington (Virginia). In Pocasset we work with development, sale and support of autonomous underwater vehicles (AUV). The other units works with sales and customer support. The Seattle business is also engaged in technology development and adaptation of existing products to the US market.

Kongsberg Digital's has operations in Houston (Texas) for sales, support and project implementation. There is also an office in West Mystic Groton (CT) for sales and customer support.

Canada

Employees **115 (98)**
Number of suppliers[1)] **120 (35)**
Value added **MNOK 310 (283)**
Investments **MNOK 2 (3)**

Kongsberg Defence & Aerospace is represented by Kongsberg Geospatial in Ottawa. The company is known for its geospatial visualisation tools for military command and control systems.

Kongsberg Maritime's largest business in Canada is located in Vancouver. Here the company has its own product development and production. The business area also has two sales and support offices on the East Coast, in St John's and Dartmouth.

Kongsberg Digital operates in St. Johns, where they do sales and customer support.

Central and South America and Antarctica

Brazil

Employees **119 (63)**
Number of suppliers[1] **348 (142)**
Value added **MNOK 147 (87)**
Investments **MNOK 8 (2)**

Kongsberg Maritime has two operations in Brazil, in Rio de Janeiro and Niteroi. Here they work with sales, service, engineering, as well as user training and simulator training.

Mexico

Employees **22 (21)**
Number of suppliers[1] **1 (0)**
Value added **MNOK 39 (35)**
Investments **MNOK 0 (0)**

Kongsberg Defence & Aerospace's subsidiary Kongsberg Nordcontrol AS has a marketing office in Mexico City.

Kongsberg Maritime has a service office in Veracruz, Mexico.

Rest of Central & South America

Employees **8 (5)**
Number of suppliers[1] **42 (8)**
Value added **MNOK 14 (11)**
Investments **MNOK 0 (0)**

Kongsberg Maritime has service offices in Panama and Chile.

Antarctica and Svalbard

Kongsberg Defence & Aerospace
Kongsberg Satellite Services is a 50 per cent owned subsidiary with ground stations for satellite data in Antarctica and on Svalbard.

Kongsberg Maritime has operations in Rio de Janeiro, Brazil.

Kongsberg Maritime has offices in Perth, Australia.

Oceania

Australia and New Zealand

Employees **46 (8)**
Number of suppliers[1)] **156 (32)**
Value added **MNOK 98 (34)**
Investments **MNOK 2 (0)**

Kongsberg Defence & Aerospace has a marketing office in Canberra.

Kongsberg Maritime has sales and service operations in Perth and Melbourne.

Kongsberg Maritime has sales and service operations in Namibia and South Africa.

Africa

Algeria, Namibia, South Africa and rest of Africa

Employees **20 (8)**
Number of suppliers[1)] **70 (10)**
Value added **MNOK 38 (9)**
Investments **MNOK 0 (0)**

Kongsberg Defence & Aerospace's office in Algiers, Algeria works with operation and delivery of projects related to tactical radio and communications systems. Kongsberg Norcontrol AS wowns about 35 per cent of a company in Cape Town, South Africa.

Kongsberg Maritime has sales and service operations in Namibia and South Africa.

03

SUSTAINABILITY

About the Sustainability Report

The report covers 2019, and addresses topics of importance to us and our stakeholders. Any significant events from 1 January 2020 to 19 March 2020 will also be mentioned. All figures are related to the 2019 financial year.

The purpose of this report is to give our stakeholders information about how KONGSBERG approaches sustainability and social responsibility.

Changes to the reporting platform since the preceding report

KONGSBERG acquired and integrated Rolls-Royce Commercial Marine and Kongsberg Aviation Maintenance Services (KAMS) (previously AIM Norway) in 2019. We have added around 3,900 employees to our organisation and increased our operating revenues by around MNOK 10,000. These developments are reflected throughout the organisation, including in the reporting basis for sustainability. This means that the information for 2019 is not directly comparable with previous years, although we have attempted to explain major changes, e.g. in our climate statement.

Limitations of the report

The report deals only with companies in which KONGSBERG owns 50 per cent or more. The environmental data includes all of our Norwegian units, as well as all our manufacturing units all over the world and the largest offices outside of Norway.

The information in the report is based on data obtained from different parts of the Group. Although importance is attached to ensuring that the data is complete and correct, some of the information will be based on estimates.

Our process to define the content

We periodically carry out materiality assessments, most recently in autumn 2019.For more details of this, see "Sustainability strategy and priority".

When carrying out the materiality assessment, we take into account what our key stakeholders are concerned about in our dialogue with them. This includes our owners, investors and lenders, our employees, customers, suppliers, and regulatory and local authorities in the areas in which we are active.

The content of the report is largely defined based on what we have called "Focus areas", where each area of focus includes an overview of goals and activities. These are approved by the Corporate Executive Management and the Board.

Sustainability strategy and priority

Sustainable innovation is an integral part of KONGSBERG's business strategy. We make active use of the UN's Sustainable Development Goals in order to identify risk and opportunities and establish where we can make the biggest and most effective contribution. Our most significant contribution to achieving the sustainability goals is the supply of high-tech products and services, which reduce our customers' emissions of harmful greenhouse gases.

Our sustainability strategy

Our sustainability strategy "Technology for Global Challenges" is an integral and fundamental part of our business approach, and includes sustainable innovation and business opportunities and sustainable internal operations. Based on our broad portfolio of products and services, our growth ambitions and current global challenges, we need to be ambitious and adapt to a rapidly changing world.

We develop innovative products and solutions for our customers, which reduce greenhouse gas emissions. This is particularly relevant in the field of Green Shipping, through the development of autonomous vessels, hybrid systems and electric ferries. Through our unique position, which makes use of crossover technology and collaboration between our business areas, we facilitate innovation in both technology and sustainability. We work with private and public parties to reduce harmful effects on the oceans, through control systems for aquaculture facilities, monitoring marine areas for illegal fishing and fishing quotas, plastic trawler management, marine surveillance, etc. Applying more sustainable thinking in our innovation also strengthened our global competitiveness.

Although our internal operations have a relatively low emissions level, we are actively working on measures to achieve our target to reduce greenhouse gases by 20 per cent in the 2015 to 2020 period. Read more about this in the chapter on climate and environment.

We develop innovative products and solutions for our customers, which reduce greenhouse gas emissions.

UN Sustainable Development Goals

The UN's 17 Sustainable Development Goals are intended to help ensure that the overall goal for a sustainable planet will be achieved by 2030. These Sustainable Development Goals can only be achieved through the efforts of businesses.

We have selected the Sustainable Development Goals to which we believe we can make the biggest contribution, while remaining fully aware that all the goals are important. We strive to support all the goals through our operations, both in terms of reducing any negative impact and by seizing any business opportunities which may be presented by the goals.

Technology companies such as KONGSBERG are very important for sustainable ocean resource utilisation. Here we see significant opportunities and have ambitions for KONGSBERG as the "ocean expert" to play an important role in exploiting this potential.

Goals 7, 9 and 14 are the goals we believe we can make the largest contribution to, through innovation and by developing technology for sustainable solutions. Examples are autonomous and electric ferries, control systems for use in aquaculture, on fishing trawlers, monitoring of marine areas for illegal fishing and controls of fishing quotas and plastic in the oceans. Technological development in the defence part of the business is enabling many of the innovative sustainable solutions, known as "cross-over" technology. Together, these support goal number 13, 'Stop climate change'.

We support *goal number 4* by working extensively with universities and colleges, setting up student programmes and hosting summer students in order to motivate those studying natural sciences to complete their education. We support the science centre Vitensenteret in Kongsberg and Horten science centre and work with natural science teaching in primary and secondary schools. We strive to continue a corresponding engagement in our international operations.

We support *goal number 5* by working actively to improve the gender ratio and ensure that the genders have equal rights, thereby helping to improve equality in a traditionally male-dominated working environment.

We support *goal number 8* by using Norwegian standards and ILO Conventions as a basis for our activities in every country, and impose the same requirements on our suppliers. We thereby help to protect employee rights and promote a safe and secure working environment for all employees.

We support *goal number 16* by having comprehensive and robust internal controls and sanctions in place for exports, in particular to eliminate the risk that our military products could be used in contravention of international rules and humanitarian law. We also have a comprehensive anti-corruption programme across all our international operations.

We support *goal number 17* by working closely with our business partners. Examples are technology development, projects for monitoring plastic in the oceans and collaboration for ethical business conduct, anti-corruption and export.

UN initiative for the sustainable use and management of oceans

Technology companies such as KONGSBERG are very important for sustainable ocean resource utilisation. Here we see significant opportunities and have ambitions for KONGSBERG as the "ocean expert" to play an important role in exploiting this potential. In 2018, we signed up to the UN initiative for sustainable ocean use and management. You can read more about this in the sustainable innovation focus area in this report, and on the UN website www.unglobalcompact.org/take-action/action-platforms/ocean.

Materiality assessment

During the last quarter of 2019, we performed an extensive materiality assessment in order to learn more about what our owners, staff, business partners, finance institutions and the society expect of us in terms of sustainability, financial, environmental and social matters, and what they consider most important, seen in context with our own assessments. This will form the basis of our strategic work and prioritisations for the future. Our biggest shareholder, the Ministry of

Trade, Industry and Fisheries, the Oslo Stock Exchange and others also emphasise that the use of materiality assessments forms a fundamental part of work with and reporting of sustainability issues. In the past, we have also performed materiality assessments at periodic intervals.

We found that external and internal stakeholders alike showed a high degree of engagement throughout the process of the materiality assessment.

The topics are presented in the figure, aligned to the Sustainable Development Goals to which we believe we can make the biggest contribution. The topics that appear at the upper right of the figure are considered by external stakeholders and internally in KONGSBERG to be highly important, and will be given the most attention and reported in the most detail in future.

The materiality assessment was performed by a third party organisation in order to ensure the independence and integrity of the process.

GRI Standards and which of the indicators we report on

For 2019, we have strived to report in accordance with the materiality analysis conducted during the final quarter of 2019. The materiality analysis that was used as a basis from the start of the year had the following five main themes:

- Responsible business conduct
- Sustainable innovation
- Health, Safety and the environment & People
- Sustainability and corporate social responsibility in the supply chain
- Corporate social responsibility

The themes considered to be more significant from the materiality analysis conducted in 2019 are cyber and information security, human rights and artificial intelligence and technological development.

The relationship between the five main topics in our materiality assessment and GRI Standards is described in more detail on our website. Which of the GRI standards and disclosures we report on is described there.

We are contributing to a partnership to help reduce the negative impact on the ocean through management systems for plastic in the ocean, amongst other things.

MATERIALITY ASSESSMENT 2019

Color code:
Alignment with the Sustainable Development Goals

Framework for the preparation of Sustainability Report

WHITE PAPER NO. 8 (2019-2020)
The Norwegian State's direct ownership of companies – Sustainable development

WHITE PAPER NO. 27 (2013–2014)
Diverse and value-creating ownership

The Norwegian state owns 50.001 per cent of the shares in KONGSBERG. The State's ownership share is managed by the Ministry of Trade, Industry and Fisheries. We have defined the contents of the report to ensure compliance with the White Papers.

THE NORWEGIAN ACCOUNTING ACT

The Norwegian Accounting Act requires that large enterprises report on corporate social responsibility in the Directors' report or in a separate report. The report must include information about human rights, employee rights and social conditions, the environment and anti-corruption work.

In our opinion, the Sustainability Report for 2019 fulfils these requirements.

GLOBAL COMPACT

KONGSBERG acceded to the UN Global Compact initiative in 2006. It requires that we annually report our activities and results related to the human rights, employee rights, environment and anti-corruption principles stated in the initiative. The Group's report on sustainability serves as such report – a COP (Communication on Progress). More information about Global Compact can be found at www.unglobalcompact.org

THE OSLO BØRS GUIDELINES FOR REPORTING ON CORPORATE RESPONSIBILITY FROM 2018 AND EURONEXT GUIDELINES FOR ESG REPORTING AS FROM 2020

Our reporting is in our opinion, on the whole, in accordance with Oslo Børs' guidance. This guidance was based on the GRI Sustainability Reporting Guidelines. They describes the expectations for conducting materiality assessment, corporate governance, communication and yearly update.

GLOBAL REPORTING INITIATIVE (GRI)

We use GRI Standards for voluntary reporting of sustainable development. The guidelines include financial, environmental and social dimensions related to the organisation and is the leading global initiative in this area.

We conducted a thorough materiality analysis during the final quarter of 2019. This is described in detail under "Sustainability strategy and priority".

Our reporting is in our opinion, on the whole, in accordance with the GRI Reporting Principles. GRI applies a classification that shows to what extent a company uses GRI's definitions and disclosure requirements, namely Core or Comprehensive. KONGSBERG has decided to report on Core level.

On our website, under www.kongsberg.com/investor-relations/reports-and-presentations/, there is an index showing the GRI standards and indicators that are reported and where the information is found in the company's Annual Report and Sustainability Report. More information about GRI can be found at www.globalreporting.org

DELIBERATIONS BY THE BOARD

The Group's report on sustainability is processed and approved by the Corporate Executive Management and the Board.

EXTERNAL VERIFICATION

The Sustainability report is verified by a third party, the audit firm Deloitte. See auditor's statement for 2019.

Organisation and Management Systems

KONGSBERG's governance model is closely linked to "the Norwegian Code of Practice for Corporate Governance". The following is an overview of the governance model and organisation linked to sustainability and corporate social responsibility.

THE ANNUAL GENERAL MEETING	The Annual General Meeting (AGM) is the Group's supreme governing body. Here, the shareholders can influence how sustainability and corporate social responsibility are practised at KONGSBERG.
THE BOARD OF DIRECTORS	The Board decides in all significant matters and has overall responsibility for the strategy and management of the company. The Board adopts the Group's Code of Ethics and Business Conduct and Strategy for Sustainability and Corporate Social Responsibility, and the Sustainability Report is reviewed and approved by the Board.
CORPORATE EXECUTIVE MANAGEMENT	Corporate Executive Management holds the ultimate responsibility for the Group's strategy, development and operational management. The Chief Executive Officer is responsible for ensuring that the content of the Group's Strategy for Sustainability and Corporate Social Responsibility is monitored, complied with and integrated into the Group's ordinary strategic planning.

Business areas
The business areas are responsible for follow-up and compliance with policy, goals and governance documents related to sustainability and corporate social responsibility. The practical aspects of the work are usually handled by the business areas, with support from the corporate staff.

Ethics Committee
The Group's Ethics Committee aims to help raise ethical awareness, ensuring good behaviour and KONGSBERG's good reputation. In the first instance, the Committee shall address matters of principle and questions related to policies and provisions. The composition of the Ethics Committee is subject to Board approval.

Forum for responsible business conduct
The Forum is a link between the business areas, the corporate staff and Corporate Executive Management on questions related to business ethics, compliance, sustainability and corporate social responsibility. Its main responsibility is to help promote, further develop and coordinate the Group's efforts in this field.

Quality management
KONGSBERG has a strong focus on quality management and control. Our quality management systems control all our activities in order to deliver products and services that meet customer's quality requirements. All business areas have integrated management systems that cover relevant topics such as quality, outer surroundings, health, safety and environment, compliance, sustainability, corporate social responsibility and information security. Our quality management addresses both quality in projects and products and includes quality planning, quality assurance and quality control. KONGSBERG's management system ensures efficient operations and that products are delivered according to the goals and requirements concerning time, cost and performance. Systematic internal quality audits are carried out in the entire value chain.

Business areas have the following certifications
KDA is certified according to AS9100, ISO9001, AQAP2110, AQAP2210 and ISO14001 and ISO27001.

KM and KDI are certified according to ISO9001, ISO14001, ISO 45001 (replaces OHSAS18001) and ISO27001.

Responsible Business Conduct

KONGSBERG has more than 200 years of tradition and history as a defence supplier and as a technology company. It is fundamentally important for us to conduct our business in a responsible manner. It involves following the laws and regulations applicable in the countries where we operate, our own corporate Code of Ethics and Business Conduct and other national and international principles and frameworks for responsible business conduct.

DEFENCE PRODUCTS

The main part of our defence business delivers missiles, systems for weapons guidance and control, decision support and communications. KONGSBERG does not produce cluster bombs, land mines, nuclear weapons, chemical or biological weapons. We comply with all requirements and directions specified in the UN conventions.

We operate in industries and countries that can involve different types of risk. We conduct risk analysis and seek to prioritise and manage risk to prevent and mitigate to the greatest possible extent.

The defence industry

The Norwegian Armed Forces safeguard important social functions both in peacetime, crisis situations, armed conflict and in war. A modern defence calls for state-of-the-art defence systems, and KONGSBERG's defence systems and products are an integral part of this. KONGSBERG's role as a supplier of defence products must be seen in the context of Norway's national security policy, and Norway's international obligations as a member of the United Nations and NATO. The Norwegian Armed Forces and KONGSBERG collaborate extensively to develop customised systems for the country's specific needs. KONGSBERG has developed high-tech defence systems that also play an important role on the international arena. In 2019, defence business represented about 30 per cent of our turnover.

Export of defence material

Norwegian rules for export of defence material are among the most restrictive in the world. The Norwegian parliament has sanctioned that defence products can only be sold to pre-approved countries. Transparency about export of defence material is an important principle in Norway. KONGSBERG consistently complies with all requirements set by the Ministry of Foreign Affairs regarding the application process, reporting and statistics.

KONGSBERG also holds shares in companies, and have partners, suppliers and customers in other countries. Export control regulations in other countries must therefore also be complied with. KONGSBERG has a comprehensive programme for internal control and training in connection with our export activities.

Maritime industries

About 70 per cent of the Group's revenue in 2019 are related to maritime industries. The world is still in need of energy and transport, but with emphasis on low carbon solutions. This provides commercial opportunities for the sustainable innovative solutions

We will engage in development of autonomy and artificial intelligence, safeguard norms and values in line with our ethics and business behaviour policies, as well as comply with national and international laws and regulations.

we are developing together with our partners and customers. KONGSBERG's systems and products are to a large extent associated with optimisation, security, operation and control of machines, production processes and equipment. We deliver systems and services that contribute to better utilisation of resources, more efficient navigation and safer operation of complex vessels and installations. Read more about this in the chapter on sustainable innovation.

Autonomy and Artificial Intelligence (AI[1])

KONGSBERG develops advanced technology, which includes autonomous systems and AI, e.g. in offshore transport and drone technology. Artificial intelligence in the form of machine learning is used within a secure framework by our simulators. Wherever this technology is utilised in autonomous solutions, human monitoring is always in place to provide additional security. This raises ethical questions that we have high attention on. Our Ethics Council has the theme on the agenda, and we are part of the international discussion through our membership of Ifbec[2]. Autonomy and AI affects society, working life and legislation. Our approach to AI is to engage in development, safeguard norms and values in line with our ethics and business behaviour policies, as well as comply with national and international laws and regulations.

Conflict minerals

KONGSBERG comply with legal requirements and customer requirements for prohibitions and restrictions related to the purchase of conflict minerals.

Conflict minerals include the minerals tin, tantalum, wolfram (tungsten) and gold, including their derivatives, which are mined in the Democratic Republic of Congo or adjacent states. In order to follow up responsible purchases of minerals, we require our suppliers that they have routines and procedures that include:

- Implementation of appropriate surveys in the country of origin for the conflict mineral when the mineral is used in products included in deliveries to KONGSBERG.
- Risk analysis and procedure to remedy unacceptable conditions related to the extraction of the minerals.
- Implementation of necessary investigations (Due Diligence, with reference to OECD/RMI guidelines or similar) to determine whether the minerals purchased from these countries directly or indirectly relate to armed conflicts in the country.

1) AI is defined by the EU as "Artificial Intelligence systems (AI) are software (and possibly even hardware) designed by people who, if given a complex goal, act in physical or digital dimensions by recognizing their environment through data collection, they interpret structured or unstructured data, reasoning on this knowledge, or processing of the information, derived from this data and determining the best action(s) to take to achieve the given goal."

2) The International Forum on Business Ethical Conduct for the AeroSpace and Defence Industry.

Responsible Tax – our Tax Policy

KONGSBERG's international presence means that we must comply with a wide variety of tax systems in many countries. In our opinion, a responsible approach to taxation is decisive for our long-term activities in the countries in which we operate. This includes identifying and complying with current tax legislation, disclosing all the necessary information to the relevant authorities, and taking prudent tax positions where tax legislation allows different interpretations or choices.

A transaction shall only be made if it satisfies the requirements as well as content pursuant to the tax legislation of the countries in question.

Tax governance

KONGSBERG is committed to complying with tax laws in a responsible manner and to have open and constructive relationships with tax authorities in the countries where we operate. KONGSBERG supports efforts to increase public trust in tax systems.

Attitude towards tax planning

- We engage in efficient tax planning that supports our business and reflects commercial and economic activity.
- We do not engage in artificial tax arrangements.
- We adhere to relevant tax law and we seek to minimize the risk of uncertainty or disputes.
- We conduct transactions between KONGSBERG's business areas on an arm's-length basis and in accordance with current OECD principles.

The commercial aspects of KONGSBERG's business activities are paramount, and all tax planning should be done with this in mind. A transaction shall only be made if it satisfies the requirements as well as content pursuant to the tax legislation of the countries in question.

Tax incentives and exemptions are sometimes made available by governments and fiscal authorities in order to support investment, employment and economic development. Where they exist, and are granted to us, we seek to apply them in the manner intended.

We establish entities in jurisdictions suitable to hold our

The administration principles for KONGSBERG's tax policy comply with the OECD requirements for responsible business conduct globally.

investments, taking into consideration our business activities and requirements, and the regulatory environment available to us.

Tax risk management

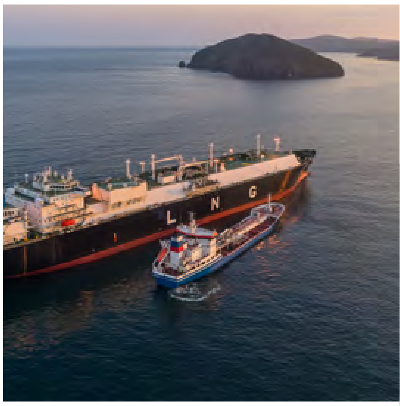
Our tax team seeks to deliver clear, timely and relevant business advice on tax matters. KONGSBERG manage risk through appropriate risk management processes, controls and guidelines. Where there is uncertainty surrounding the interpretation of tax laws, we will seek second opinions from external tax advisers, having established our own understanding of the position, and/or seek to resolve the uncertainty by dialogue with tax authorities.

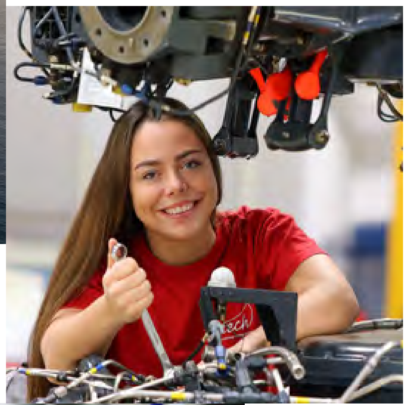
Our approach to tax risks follows the same principles that apply to all other business risks. We consider reputation and corporate social responsibility as well as purely financial impacts. When making decisions on tax we take into account the materiality of any item, as well as the costs of effective risk mitigation actions. By being compliant in terms of local tax legislation, we aim to minimize tax risk.

Relationships with authorities and transparency

KONGSBERG is transparent in our approach to taxation and our tax positions. We aim to build and sustain relationships with fiscal authorities that are constructive and based on mutual respect. We seek to work in collaboration with fiscal authorities wherever possible to achieve agreement and certainty, and to prevent and resolve disputes.

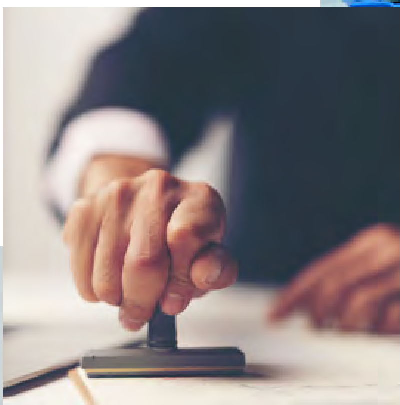
The tax reporting complies with applicable local tax legislation, as well as with current international reporting requirements and accounting standards such as IFRS.

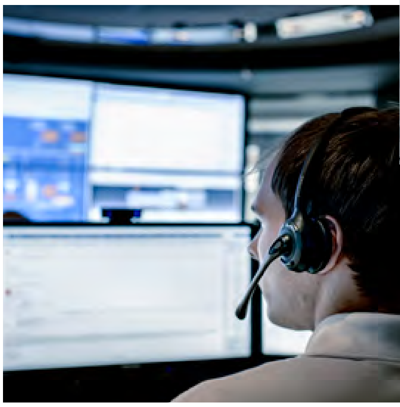




FOCUS AREAS 2019-2020

Our focus areas describe key sustainability and corporate social responsibility areas and are an integral part of our business strategy.





ZERO TOLERANCE FOR CORRUPTION

Ethics, integrity and compliance

"For KONGSBERG, maintaining a high ethical standard in our daily operations is very important. We are experiencing a constantly changing world, with an increased focus on compliance with laws, rules and sanctions. This places great demands on an international business. We work systematically on improvements to our processes and routines so that they meet applicable requirements. We ensure implementation of our processes through training and we follow up through reporting and audits to make sure we comply with applicable requirements."

Geir Håøy, President and CEO

Our Code of Ethics and Business Conduct is the backbone for how we conduct our operations, and the code applies regardless of where, when and which of our employees is doing business.

Our position

Business Ethics

Our Code of Ethics and Business Conduct is regularly updated in line with national and international developments. It expresses our basic attitudes and indicates how we shall relate to colleagues, customers and society in general.

Tone at the top

The Board of Directors and management of KONGSBERG set requirements for periodic external evaluation of the compliance programme. They assess and approve risk assessments and actions plans for Responsible Business Conduct on yearly basis. The Chief Compliance Officer reports status every quarter to the Corporate Management, the Audit Committee and the Board.

Anti-corruption

KONGSBERG has zero tolerance for corruption. By that, we mean that we will never permit sales to be achieved through corruption. Meanwhile, we recognise that doing business in vulnerable parts of the world may involve greater risks for corruption. For our business partners, zero tolerance in practice means requiring that any historical situations are regularised, that an approved anti-corruption programme is implemented and complied with, and that corruption is clearly denounced through words and actions. Our attitude is expressed explicit through our Code of Ethics and Business Conduct, and our endorsement of the UN Global Compact, the OECD's Guidelines for Multinational Enterprises and our membership of Transparency International, The International Forum on Business Ethical Conduct (IFBEC) and Maritime Anti-Corruption Network (MACN). The Board and Corporate Management Team devote considerable attention to this work.

Our Code of Ethics and Business Conduct is the backbone for how we conduct our operations, and the code applies regardless of where, when and which of our employees is doing business. This Code is communicated and implemented to ensure a clear understanding throughout the Group, and as such shall contribute to a strong business culture, working in a preventive manner against the occurrence of errors and irregularities. Well-integrated values and the Code of Ethics and Business Conduct make up an important element of our risk management.

Before we enter into an agreement with a business partner (customer, supplier, market representative, joint venture partner, other collaboration partner, recipient of sponsorship or charitable contributions), we must be certain that the business partner has satisfactory ethical standards in place. We use a risk-based approach, which includes compliance Due Diligence investigations.

We carry out compliance Due Diligence investigations in accordance with internationally recognised standards. The level at which these investigations are conducted depends on the business partner and the risks concerned, and we carry out screening using recognised screening tools. The risk assessments are regularly revised and updated. We have incorporated requirements regarding ethics and corporate social responsibility into our standard agreements with business partners, and carry out risk-based audits.

Notification of alleged misconduct

The Group has procedures for notification of any breach of the Code of Ethics and Business Conduct. Employees will always have the right to issue alerts about circumstances worthy of criticism, and are under a duty to do so if there is a question of a violation of laws, rules or our Code of Ethics and Business Conduct. KONGSBERG will not tolerate a whistleblower being

Training in our Code of Ethics and Business Conduct is the backbone for how we conduct our operations.

subject to reprisals or negative reactions. The Group has two ombudsmen who can provide advice and receive alerts from employees. Internal and external questions about ethics, whistle-blowing, etc., can be directed to the Chief Compliance Officer by sending an e-mail to: ethics@kongsberg.com or to our global web-based notification channel. Our notification channel ensures that everyone can report concerns and ensure that this is treated in a confidential manner and in line with applicable laws.

In 2019 we have processed 32 cases internally, mainly concerning the work environment and financial irregularities of a personal character. All issues are considered in accordance with our procedures, and the majority of these issues were closed during 2019.

Exports and sanctions
KONGSBERG is committed to complying with all applicable laws regarding exports, imports, transit and trade in all countries in which we operate. These include laws on export bans, sanctions, customs, product/country of origin labelling and anti-boycotts.

There is a particular focus on the export of defence systems and other military equipment, along with associated technology and services. In Norway, and in most countries KONGSBERG operates in, services and technology subject to export controls can only be exported subject to an export licence from the authorities. Sanctions may apply regardless of export classification. Customers and parties involved in the transactions must be checked with respect to sanctions and export bans. Customers and parties involved in the transactions must be checked with respect to sanctions and export bans.

KONGSBERG has a comprehensive programme for internal control and training in connection with our export activities. Several employees are "Certified Export Control Managers" for both defence materials and dual use goods. This practise will be continued in 2020 to build further expertise.

In 2019, a Trade Compliance project was established in collaboration with Patria. The main

KONGSBERG is committed to complying with all applicable laws regarding exports, imports, transit and trade in all countries in which we operate.

objective for the project is to improve processes and routines, interaction and competence building. We will conduct extensive internal audits in 2020 to map and focus on this.

The UN and the EU are the two most important international institutions making decisions on the imposing or lifting of sanctions. Decisions of the UN and EU largely determine which sanctions Norway implements. In addition, countries such as the USA have imposed further sanctions against countries and parties that are more comprehensive than those of the UN or EU. KONGSBERG has guidelines and procedures which are regularly updated (most recently in 2019) in order to address this.

Data privacy at KONGSBERG
The EU General Data Protection Regulation (GDPR) came into effect from May 2018. Over the last years, KONGSBERG has undertaken work on data privacy in order to comply with the new requirements in the regulation. KONGSBERG had its Binding Corporate Rules (BCR) approved in February 2018 (updated in 2019). This is the legal basis for the processing of personal data within the Group. This framework forms the basis for how KONGSBERG must ensure that the personal data of our employees, customers and partners is treated in accordance with these requirements.

A separate privacy organisation has been set up in the Group and in the business areas with overall responsibility for ensuring and coordinating the establishment of internal processes and procedures, to ensure compliance. KONGSBERG has focus on IT security, and it is an important part of securing personal data processed in the company for our own employees, customers and other partners. We participate in a network with focus on privacy with other large Norwegian companies, with purpose to share experiences and best practices. The status of privacy is reported annually as part of the overall compliance report to the group management and the board.

Please find our privacy statement on kongsberg.com/privacy (updated in September 2019) together with a public version of our BCR as well as an overview of the companies which are part of it.

In-house training
All our new employees go through a training programme that deals with the Group's Code of Ethics and Business Conduct. The programme is updated regularly, and consists of e-learning courses and classroom courses for new employees and managers. In addition, a complex training programme has been further developed in the field of ethics, business-related behaviour and special topics for exposed target groups, including a general introduction to our notification rules.

Our challenges

We perform risk assessments in all our business areas and facilitate action plans to reduce identified risk. KONGSBERG operates in both the defence industry and the oil and gas industry, which, according to Transparency International, are two of the sectors most susceptible to corruption.

Our activities involve the use of market representatives. The use of third-parties is generally known to imply a high risk of corruption, so we pay particular attention to that aspect of our anti-corruption programme. We have drawn up and implemented comprehensive internal regulations for signing and following up agreements with market representatives. The regulations include assessments of a market representative's ethical standards and reputation. Further, risk is assessed based on industry, country and company, and approval procedures have been introduced for the use of standard terms of business and verification of payments, as well as for follow-up during the agreement period and including training and external audits.

We carry out periodic evaluation of our compliance and anti-corruption programme. The last occasion was in 2017. Improvement measures identified through previous internal and external evaluations, audits and compliance audits with ISO standard 37001 "Anti-bribery management systems" were implemented during 2019.

Law violations in 2019

None of the companies in KONGSBERG were sanctioned due to law violations related to business ethics in 2019.

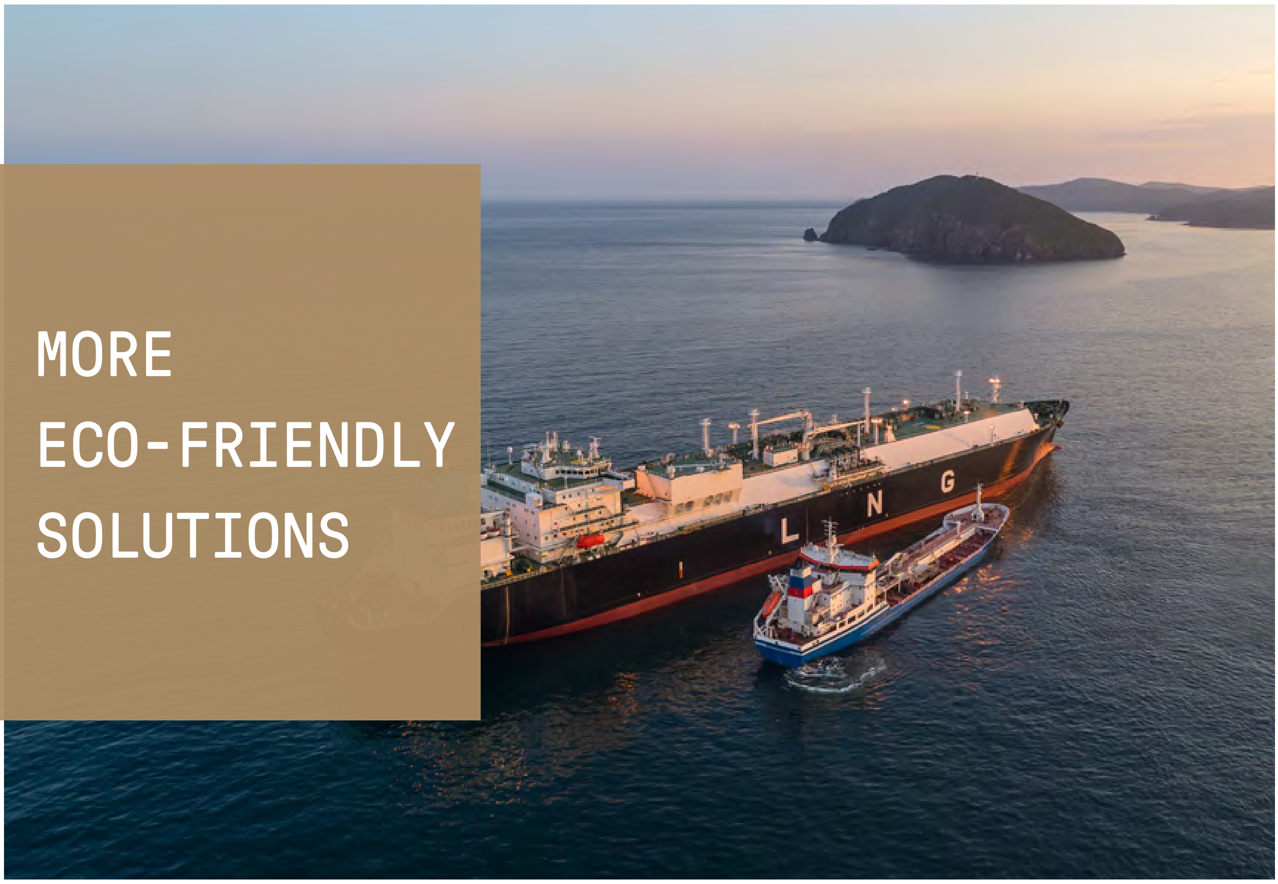
Organisation
KONGSBERG strengthened our compliance organisation through the addition of five new employees in 2019. This makes a total of 10.5 people spread across the Group and business areas. Chief Compliance Officer reports direct to the CEO and Audit Comittee as well as administratively to the CFO.

GOALS AND ACTIVITIES

Goals:
Every aspect of our business activities shall be conducted in an ethical and responsible manner

Goals for 2019 What we said	Status for 2019 What did we do?	Goals for 2020 1 year	Goals for 2020–2024 5 year
• Follow up of audits that have been carried out against the ISO standard for "Anti-corruption management systems".	• Followed up audits that have been carried out against the ISO standard for "Anti-corruption management systems".	• Carry out external evaluation of the compliance programme to verify compliance with Norwegian and relevant international frameworks.	• Every three years, we carry out an external evaluation of our compliance programme in order to verify compliance with Norwegian and relevant international rules.
• Implementation of revised governance documents. • Develop and maintain internal governance documents.	• Revised governance documents for Due Diligence compliance regarding business partners, gifts and hospitality, as well as sponsorship and data privacy.	• Develop annual audit programme for revision of third-parties. • Develop and maintain internal governance documents.	• Continue and further develop the audit programme for auditing third-parties. • Continually evaluate auditing and the need to establish new governing documents.
• Carry out risk analyses, internal controls and audits to confirm compliance with legislation, rules and internal procedures. • Carry out risk reduction measures as needed. • Reinforce internal control function in our compliance department.	• Establishment of internal control group at group level for third-party audit. • Conducted 11 audits of third-parties. • Completed audit program for export control.	• Conduct and further develop our IDD programme for business partners. • Conduct audits for third-parties. • Conduct audit program for export control.	• Continue and further develop our IDD programme for business partners. • Continue the ongoing audit programme for third-parties. • Conduct audit program for export control.

Goals for 2019 What we said	Status for 2019 What did we do?	Goals for 2020 1 year	Goals for 2020–2024 5 year
▪ Further develop and carry out continuous training.	▪ Completed training: e-learning distributed to 3,500 new employees, classroom teaching at 14 of our international sites, risk-based training for third-parties, more than 50 persons have completed export control training, designed training for management and new board members.	▪ Implementation of training plan based on needs and risk assess-ments.	▪ Continue ongoing training based on needs and risks.
▪ Maintain and further develop good forms of cooperation with business partners and other external parties.	▪ Membership in Ifbec, Transparency Int, MACN, FSI's interest groups for export control and anti-corruption. ▪ Cooperation and networks with other companies in data privacy and anti-corruption.	▪ Maintain and further develop good forms of cooperation with business partners and other external parties. ▪ Cooperation and networks with other companies in data privacy and anti-corruption.	▪ Develop, maintain and further develop good forms of cooperation with business partners and other external parties. ▪ Develop, cooperation and networks with other companies in data privacy and anti-corruption.
▪ Further develop and maintain incentives and KPIs for ethics and integrity, as well as internal rules and procedures for reactions and sanctions.	▪ Ethics and integrity are part of our management evaluation systems. ▪ Further development and maintain incentives and KPIs for ethics, as well as internal rules and procedures for reactions and sanctions for undesirable business conduct is carried forward.	▪ Develop incentives and KPIs for ethics, as well as internal rules and procedures for reactions and sanctions for undesirable business conduct.	▪ Develop, and further develop incentives and KPIs for ethics as well as internal rules and procedures for reactions and sanctions for undesirable business conduct.
▪ Continue to communicate a clear and distinct "Tone at the Top" to all managers at all levels.	▪ Ethics and compliance is an important part of management meetings and presentations. ▪ Clearly stated zero-tolerance for corruption. ▪ Ethical Council has responsibility for assessment and evaluation of KONGSBERG's values and ethical guidelines.	▪ Communicate a clear and distinct "Tone at the Top" to all managers at all levels.	▪ Continue to communicate a clear and distinct "Tone at the Top" to all managers at all levels.



MORE ECO-FRIENDLY SOLUTIONS

Sustainable innovation

KONGSBERG has a long-term commitment to the reduction of greenhouse gases and other negative environmental effects. Our most important contribution is to use our technology and expertise to develop even more climate-friendly solutions for our customers. This effort will often coincide with the desire to reduce costs and increase efficiency and security. Our competitiveness will be strengthened as a result of these efforts.

Research and Development

KONGSBERG is investing heavily in the upgrading of our existing product portfolio and the development of new products. The upgrades and improvements to the product portfolio are focused on ensuring that our customers have access to new versions and improvements where required. It is also important to invest in existing products to ensure that they can continue to be produced and maintained throughout their lifecycle.
In recent years, KONGSBERG has

spent between a third and half of its R&D investments on the development and innovation of new products and services, and in 2019 this amounted to around MNOK 950. A significant portion of this, around MNOK 350, was spent on products and areas that directly support the UN's sustainable development goals.

Transport

We deliver systems for integrated maritime automation and navigation, cargo management and level sensors, temperature sensors and pressure transmitters to the merchant marine and passenger market. Our bridge systems ensure safe and efficient passage for vessels around the world. Our control and monitoring technology continues to introduce new efficiencies for ships, enabling smarter, more profitable operation through fuel reduction, hybrid solutions and process automation. Yara Birkeland is at the forefront of the initiative where 40,000 lorry loads annually will switch from roads to zero-emission vessels.

Climate

Our most important contribution is to use our technology and expertise to develop even more climate-friendly solutions for our customers. We have engaged in ocean farming that provides climate friendly food production, and we are at the forefront of developing battery-powered autonomous ships.

Food

Food and life under water are key elements in the UN's sustainable development goals. KONGSBERG is investing in solutions for offshore aquaculture, which will enable the development of solutions to move fish farms further away from the coast, where local pollution and fish health are less challenging. KONGSBERG is also perfecting solutions to increase our knowledge of developments in fishery resources in the ocean, which will in turn help to combat overfishing.

We are a world-leading manufacturer of scientific instruments for research on fisheries. Single beam and multibeam echosounders and sonars are used on research vessels globally, where scientists rely on our technology and precise measurements.

Defence and security

Many of the major innovation projects for the defence sector also have applications in the civil sector which are of importance for the sustainable development goals. KONGSBERG is developing and supplying solutions for the remote control of air navigation services in Norway's short runway network, based on technology originally developed for defence purposes. This exploits the potential for viable local communities and is an example of the crossover use of technology.

KONGSBERG has, in cooperation with the Norwegian Armed Forces, developed anti-ship missiles that help secure national sovereignty in Norwegian ocean territories, air defence systems that secure our military airbases, weapon stations that secure our armed forces and technology that monitors maritime transport. A national defence industry contributes to make Norway less vulnerable and will secure our autonomy as a democracy.

Energy

KONGSBERG has extensive experience in automation, analysis and sensors. This is how we can provide the energy industry with applications and features for smart data and decision support.

KONGSBERG has been working with Ocean Farming to develop the world's first digital ocean farm, "Ocean Farm 1".

SUSTAINABLE INNOVATION

World's first Hybrid Powered Expedition Cruise Ships

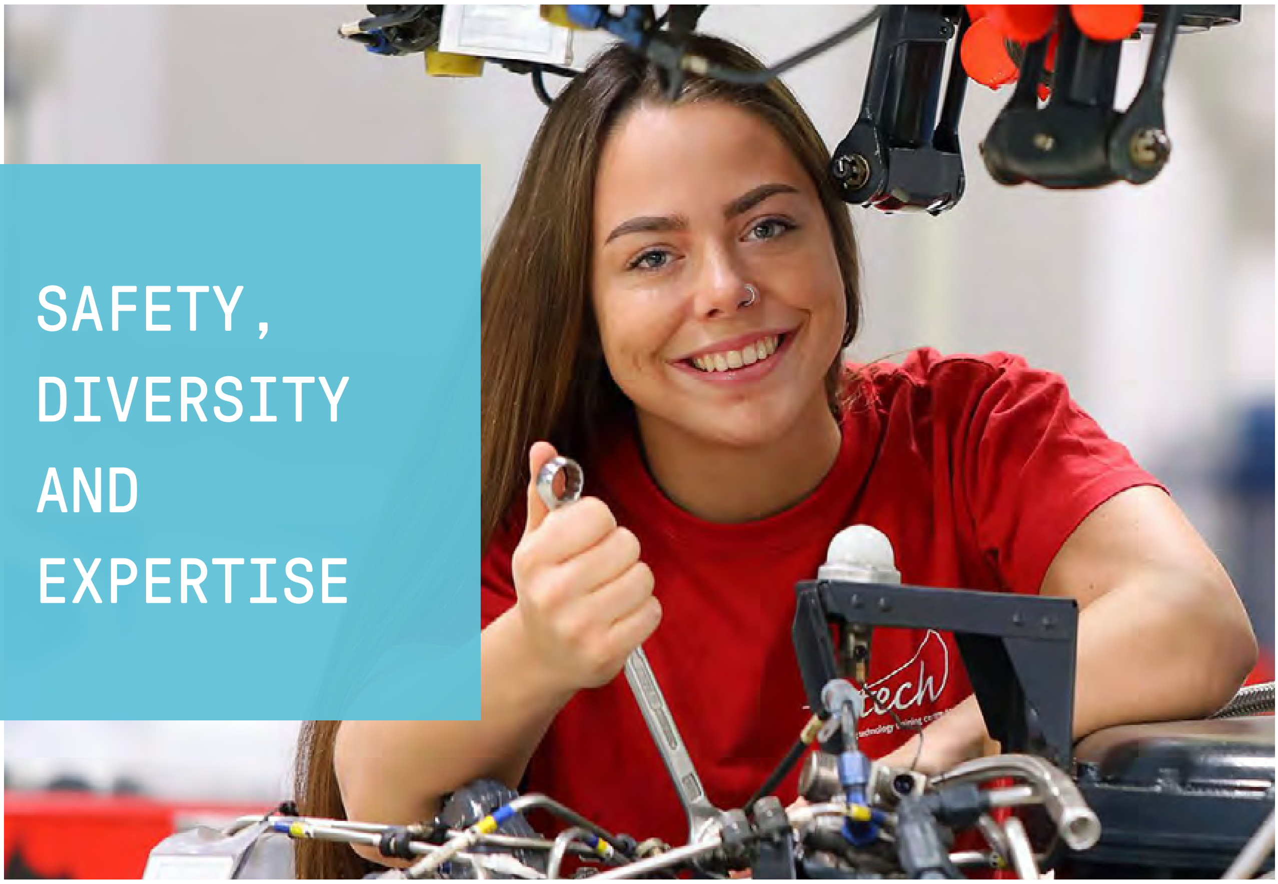
KONGSBERG's hybrid diesel/battery installation reduces Hurtigruten's fuel consumption and emissions on its new Polar Expeditionary cruise ships. Hurtigruten and shipbuilder Kleven worked with KONGSBERG on MS Roald Amundsen and MS Fridtjof Nansen. Their goal is to ensure they operate emission-free in sensitive areas while meeting environmental and reliability requirements dictated by the harsh polar conditions.

A 'first phase' system onboard the Roald Amundsen reduces fuel consumption. Fridtjof Nansen features a larger capacity 'second phase' battery pack. This enables fully electric sailing across greater distances for longer periods and zero-emission port operation. Hurtigruten aims to upgrade the first ship to the same battery system.

For zero-emissions mode, Kongsberg Maritime's SAVe Energy Storage system powers the complete system, eliminating the need for running engines. KONGSBERG's AZP 120L-PM thrusters provides propulsion and manoeuvring, whilst Kongsberg Maritime's electric power system, generators, motors, switchboards, power management system, ACON integrated automation system provides power. The Kongsberg Energy Management System provides real-time information about the vessels operation, fuel consumption and emission levels.

The decision to invest in a hybrid solution was an important milestone in Hurtigruten's goal of sailing fully electric expeditionary ships in the Arctic and Antarctic.

The technology, in combination with the design of the hull and effective use of electricity onboard, reduce fuel consumption by approximately 20 per cent. CO_2 emissions are reduced by a similar amount equalling more than 3,000 tonnes of CO_2 annually.



SAFETY, DIVERSITY AND EXPERTISE

Health, Safety and the Environment & People

KONGSBERG is an enterprise based on knowledge and expertise, where the greatest asset is our employees. In order to secure the broad expertise we require and manage it in relation to our international operations, our aim is to offer a secure, exciting, attractive and stimulating workplace.

Our position

During 2019, we acquired over 3,900 new employees through acquisitions and organic growth. We extend a warm welcome to all our new colleagues here at KONGSBERG and are working systematically to integrate them into our culture through daily procedures and processes, active promotion of values and training in our business ethics guidelines.

KONGSBERG's vision for Health, Safety and the

During 2019, we acquired over 3,900 new employees through acquisitions and organic growth. We extend a warm welcome to all our new colleagues here at KONGSBERG!

Environment (HSE) is zero events, accidents or fatal injuries involving our employees, visitors, customers or partners in our global operations. In order to achieve this vision, KONGSBERG never stops working to build a strong culture.

Safety must always come first, and our employees and partners are instructed to stop work if a safety risk arises. We all have a personal responsibility for making our joint HSE efforts preventive.

We place emphasis on the increased reporting of near-accidents and HSE observations, and these measures will contribute to reducing the number of injuries and accidents. HSE data is collected from all companies in the Group and reported to the Corporate Executive Management and the Board each quarter.

We are committed to preventing both discrimination and harassment. In this year's global employee survey, not one employee reported that they had been discriminated against or had experienced harassment. The survey also confirms that our staff are familiar with our whistle-blower system. We also perform follow-up work, with regular surveys of the general working environment. We have zero tolerance for unacceptable behaviour and motivate our employees to report such incidents.

We support and respect international human rights and labour rights that are set out in the UN's Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, ILO Core Conventions (International Labour Organization) and the OECD Guidelines for Multinational Enterprises. Leadership in KONGSBERG is about creating value and achieving results through people. The key to success lies in the combination of good management and dedicated employees. Managers shall exercise their leadership based on our values, the Corporate Code of Ethics and management principles. Our managers shall create an environment in which our employees are able to prosper and succeed in meeting our strategic priorities. On the basis of this, we have implemented a management development programme, Leadership@KONGSBERG, that will contribute to clarifying and quality-assuring processes for goal setting, follow-up and evaluation.

An important condition for long-term success is that KONGSBERG properly manages employee competences. The Group is aiming to increase the exchange of knowledge and staff between the business areas. Good work processes and development opportunities are important incentives in recruiting and retaining good employees. KONGSBERG places emphasis on strengthening competences and is continuously working to develop its employees. Individuals and teams who comply with our values and demonstrate desirable conduct are to be valued. This culture will help us to attract people with the right skills and behaviour to address the technical challenges of tomorrow in a sustainable manner. Every other year, a global job satisfaction survey is conducted to provide feedback on how employees experience working conditions and the working environment.

KONGSBERG will reward its employees both for results achieved and desirable conduct. We will be competitive, but not salary leaders. KONGSBERG ensures that the salaries and conditions of all employees are in accordance with local legislation, agreements and guidelines. The principles and systems for remuneration of executive management are determined by the Board. The Board has a separate Compensation Committee which deals with all significant matters related to wages and other remuneration to senior executives prior to formal discussion and decision by the Board.

Diversity and gender equality create value and make us more competitive. They expand the mindset and have a positive influence on the company's strategy and management. The importance of this work is reflected in our HR strategy and by the Corporate Executive Management and the Board, and the work is monitored by the Compensation Committee. We work systematically and purposefully to recruit, develop and retain people of different age groups, ethnicity and gender. Our focus on diversity is reflected in promotion, recruitment and leadership development, and is monitored with periodic surveys and follow-up work.

The 2019 goal was to increase the share of women in management roles, with a focus on operational positions and international operations. The percentage of female managers in KONGSBERG has risen in recent years, and 20.7 per cent of our managers are now women. There are a number of reasons behind this increase, but a key factor has been awareness when hiring new managers. One of our initiatives to motivate women to apply for management roles has been the Female Forum. The aim of the forum is to give female managers an opportunity to meet and use the network as a tool. In 2019, the Female Forum was rolled out with global participation. It is also important to have goals and targets, and then measure the results driving behavioural change. The HR strategy includes several concrete measures supporting these targets. We have also succeeded in increasing the percentage of women we recruit, achieving 25 per cent in 2019.

Our challenges

We operate in about 40 countries, and security and emergency preparedness for our personnel is our top priority. Our ethical guidelines provide a clear framework for how we work, regardless of country and region. They give us licence to operate and are essential for our existence and reputation. Our international growth involves new partners and supplier chains, which means increased focus on matters related to both human and labour rights.

A world of instability and multiple threats require a higher degree of security for our information and intellectual property rights. We rely on having loyal employees who follow our standards of confidentiality and integrity. Risk management and vulnerability analysis are tools for applying the right level of security.

Due to digitalisation and accelerating technological development, our employees need to upgrade their skills continuously. Moreover, this will lead to new knowledge requirements in the future. KONGSBERG is a global company with employees located throughout the world. This leads to major variations within language, culture and ethnicity, and requires good and effective leadership. Knowledge sharing and collaboration through networks across the established structures provides added value for the company and is expected to become a more usual working method.

We must communicate effectively and through appropriate channels both internally and externally. Both our social media profile and our employees should reflect this in relation to the outside world.

KONGSBERG wants to motivate more women to pursue their studies in technology-based subjects.

GOALS AND ACTIVITIES

Goals:
Further develop our global organisation and actively pursue diversity to foster an environment and a culture where everyone feels included

	Goals for 2019 What we said	Status for 2019 What did we do?	Goals for 2020 1 year	Goals for 2020–2024 5 years
VALUES			• Invite all employees to tell us what they think about our values in an electronic survey. • Revitalise our values in order to face up to changes in society and the expectations of our employees.	• Continually review the need for training and a focus on our values. • Actively use the values in our management evaluation tool.
DIVERSITY AND GENDER EQUALITY	• We are maintaining our focus on diversity (gender, ethnicity, etc.), gender equality and inclusion with a continued focus on the following: 1. Increase the focus on diversity in our international operations. 2. Strengthen the focus on social exclusion. 3. Place female managers in operational positions.	1. We now operate in about 40 countries. It is important for us to have a focus on diversity, including in our international operations. The proportion of women across executive management internationally is 20.7 per cent. 2. During 2019, 18 have received occupational training. 3. The percentage of female managers in operational positions went down from 13 per cent to 10 per cent in 2019. This reduction is due to a different gender balance in acquired companies. 4. The proportion of women being recruited is 25 per cent.	• KONGSBERG aims to promote inclusion in working life. Our goal is to have a minimum of 20 people in occupational training. • The target for the percentage of nationalities other than Norwegian in our management teams is 14 per cent. • The target for the percentage of female managers is 22 per cent, and 15 per cent for female operational management.	• We shall work systematically and purposefully to recruit, develop and retain people of different age groups, ethnicity and gender. Our focus on diversity is reflected in promotion, recruitment and leadership development, and is monitored through periodic surveys and follow-up.

Goals for 2019 What we said	Status for 2019 What did we do?	Goals for 2020 1 year	Goals for 2020–2024 5 years
HSE ▪ Securing the continuation of the Group's reporting and activities relating to HSE after the integration of new companies in KONGSBERG. ▪ Sharing experiences and cooperating through a new and larger HSE network. ▪ A continuous focus on improving established KPIs.	▪ Achieved a 28 per cent increase in relation to the goal for an increase of 10 per cent on 2018 in the number of reported incidents and HSE observations. ▪ Introduced KONGSBERG's 9 "Lifesaving rules" as part of the KONGSBERG Global HSE Day in "one KONGSBERG". ▪ Carried out various campaigns and training measures at Group and business level, including the use of reflectors, use of appropriate protective equipment, safe driving and safe working when lifting and unloading.	▪ Contribute to ongoing improvements in HSE by sharing experiences and cooperation across the Group. ▪ Improve HSE KPI goals relative to the results achieved in 2019. ▪ Further improvement and increased efficiency of reporting process.	▪ Continuous improvement work to achieve the HSE vision and HSE KPIs.
ORGANISATIONAL DEVELOPMENT ▪ Continued focus on increasing the completion rate and quality of the appraisal interviews. ▪ Carry out global employee survey. ▪ Mapping of strategic competence.	▪ 87 per cent completion rate for appraisal interviews. ▪ Global employee survey performed. All units have set up action plans based on the results. ▪ Commencement of assessment of the need for strategic expertise.	▪ Minimum 90 per cent completion rate for appraisal interviews. ▪ Implement process for strategic planning of the workforce and competence requirements for Group.	▪ Establish and implement a strategy for continuous competence-building among our employees, with a focus on strategic competence, digitalisation and increased globalisation.

HEALTH, SAFETY AND THE ENVIRONMENT

A process of continuous improvement where everyone can contribute through commitment and awareness

KONGSBERG has a zero vision. One of our goals is to prevent all incidents, accidents or fatal injuries involving our employees, visitors, customers and partners. Through a proactive and open HSE culture, we are continually striving to achieve this goal. Safety must always come first – Our employees have the authority to "Stop work".

Our HSE KPIs have once again seen a positive development this year. The targeted increase in reported near-accidents and observations has been achieved.

KONGSBERG grew throughout 2019, not only organically, but also through two major acquisitions. The activities and operations of the new businesses are high-risk from an HSE perspective. Through the introduction of a new "KONGSBERG Global HSE Day", we introduced the "KONGSBERG Life-Saving Rules", which are based on the rules developed by the International Association of Oil & Gas Producers (IOGP). These are nine life-saving rules within areas where there is a high risk of accidents occurring. They can be linked to the various types of activities and operations in which the "new" KONGSBERG participates. At the same time, we will also contribute to a common basis for the Group's proactive HSE work. The rules are a supplement to the established governance system for HSE. The aim is for them to direct attention on risk areas with relevant issues, and act as a topic for discussion for the various activities and locations within KONGSBERG. The KONGSBERG Life-Saving Rules are intended to ensure focus and attention, to bring us closer to our zero vision and boost our efforts to build a strong and proactive HSE culture.

Our HSE work is being continued with goals concerning continuous improvement and focus. The zero vision and safe@KONGSBERG is our goal.

KONGSBERG has a zero vision. We aim to ensure that no incidents, accidents or fatal injuries occur.

EQUALITY AND MANAGEMENT

Young Professional Advisory Board

Developments within professional life have led to fierce competition to attract and retain the greatest talent. We have to think in new, more sustainable ways to stand up to the great changes we are facing. We also have to involve younger employees. When young people evaluate their career goals, they are just as interested in how the Group develops people and society as they are in products and services. Young people communicate in a different way and look to get more out of working life than just money. They want a future-oriented workplace that paves the way for business models and uses technology to ensure that products and services are produced in a way the Earth can sustain.

In light of this, the Young Professional Advisory Board (YPAB) was established in 2018. YPAB consists of a total of ten representatives between the ages of 24 and 31, with different types of education and experience. The board has representation from all three KONGSBERG business areas, and meets at least twice a year. Representatives serve on the board for two years. This group is an advisory body for the CEO and other senior management, related specifically to profiling and strategy work.

The board is used as a consultative body for the Group's strategy, to capture trends and ideas which may have an impact on its content and implementation. The board members have also reviewed the Group's HR Strategy and provided input on its content. They advocate suggestions and opinions on behalf of the age group they represent.

The board provides input on how the Group should position itself to ensure it is attractive to the younger age groups, both internally and externally. It offers its views on the Group's values and behaviour, which influences management principles and future management training within the company.

Corporate management is extremely happy to be working with young and talented employees who can both challenge and share new knowledge, something that is vital in our strategic work.

BUSINESS AND RESPONS-IBILITY

Human rights

KONGSBERG respects all internationally recognised human rights, as set out in our Code of Ethics and Business Conduct. Violations of human rights shall not occur at KONGSBERG.

Our position

KONGSBERG endorses and will strive to comply with the intentions laid down in:

- The UN Universal Declaration of Human Rights
- The UN Convention on the Rights of the Child
- The ILO conventions
- The UN Guiding Principles on Business and Human Rights (UNGP).
- The OECD Guidelines for Multinational Enterprises
- The UN Global Compact
- Reporting requirements according to Global Reporting Initiative (GRI)

UNGP is a prevailing international standard concerning how businesses should approach human rights. KONGSBERG will strive to comply with the UNGPs and is committed to continuous improvement of our human rights

KONGSBERG acknowledges that we have an independent responsibility to respect human rights and that this applies regardless of where we are operating; it is particularly important in states which do not safeguard human rights.

risk assessment and reporting. We acknowledge that we have an independent responsibility to respect human rights and that this applies regardless of where we are operating; it is particularly important in states which do not safeguard human rights.

KONGSBERG complies to the UNGP by:

- Comply to applicable laws and regulations in the countries we have operations.
- Be familiar with and use UNGP and OECD's guidelines in development of strategies for responsible business conduct, when relevant.
- Conduct risk assessment for Human Rights adapted to our operations.
- Follow the principle for "follow or explain" and principle of materiality.

KONGSBERG has identified the following areas that need special focus with regards to Human Rights.

- A good, safe and secure working environment.
- Avoidance of child labour and compulsory labour.
- Non-discrimination based on gender, ethnicity, religion, sexual orientation etc.
- Acceptable working hours and reasonable wage conditions.
- Freedom of association and the right to collective bargaining, or the freedom to elect their representatives.
- Respect for human rights in the communities in which we operate. This entails respecting the human rights of people outside of our organisation, that might be affected by our business activity.

Under these areas, KONGSBERG will identify the Salient Human Rights Issues, which will be at the core of our annual Human Rights assessments and -reporting. We will continually carry out risk assessments relating to human rights, and implement preventive or risk-mitigating measures to avoid causing or contributing to serious human rights violations.

The occurrence of a Severe Human Rights Impact, or the finding of a high risk of such impact, shall be reported to Line Management and to the Business Area's Compliance Officer, and handled on a case-by-case basis.

KONGSBERG will report annually on Human Rights, as part of our Sustainability report. Reporting will include:

- A statement of KONGSBERG's Salient Human Rights Issues.
- Reporting on Severe Human Rights Impacts related to the salient issues, in own business units and in the supply chain.
- Actions taken to prevent or mitigate potential impacts related to each salient issue.

Governance
KONGSBERG's governance system is designed to capture a broad range of risks related to our business, including risks related to political and military instability, as well as conditions that deviate from our Code of Ethics and Business Conduct.

Corporate approval of significant offers, contracts and framework contracts
All bids entailing risks as described above will undergo extensive risk assessment, including an independent assessment of Human Rights risks by the compliance organisation, and require approval by the Executive Steering Group of the Business Area. Bids that have material risks associated with compliance will also need approval by the Corporate Board of Directors.

Supply Chain
We expect our suppliers to keep the same standard as us, and have implemted our requirements in our "Supplier Conduct Principles" which are part of our supplier agreements. Read more about this in the chapter "Sustainability and Corporate Social Responsibility in the supply chain".

Our challenges

Product risk

KONGSBERG delivers a broad spectre of world leading technology, including marine robotics and seaborne transportation, complex integrated defence- and communication systems, space and surveillance technology and digital ecosystems. Our business is diverse and dynamic, and so are the associated risks. KONGSBERG will work continuously to identify and mitigate emerging risks and is committed to preventing risks of illicit practices related to our products.

Compliance with trade and export regulations

Most of KONGSBERG's defence systems and military equipment are included under the Norwegian export control regime, meaning they are subject to strict regulations by the Norwegian government. The Ministry of Foreign Affairs (MFA) include the following considerations when granting export licenses[1]:

- The risk of military equipment being used for internal oppression.
- The risk that export could provoke, prolong or aggravate existing armed conflicts.
- Knowledge that the military equipment could be used to commit genocide, crime against humanity or other war crimes.
- High probability that the military equipment will lead to breach of international provisions on terrorism or transnational organised crime.
- Risk of the military technology or equipment being sold illegally in the buying country.
- Risk of the export contributing to serious gender-based violence or other violence against women and children.

KONGSBERG considers the Norwegian export control regime an integrated part of our Human Rights Risk Assessment. Compliance with Norwegian, as well as international, export regulations are considered top priority. KONGSBERG has established specific routines and control mechanisms in this regard and will work continuously to build and maintain a culture of export compliance across the organisation.

1) Guidelines for the Ministry of Foreign Affairs' processing applications for export and defense equipment, as well as technology and services for military purposes (22 February 1992; reviewed 28 November 2014)

> KONGSBERG will work continuously to identify and mitigate emerging risks and is committed to preventing risks of illicit practices related to our products.

GOALS AND ACTIVITIES

Goal:
No breaches of human rights shall occur in our operations

Goals for 2019 What we said	Status for 2019 What did we do?	Goals for 2020 1 year	Goals for 2020–2024 5 years
▪ Make risk assessment and Due Diligence related to human and worker rights. ▪ Ensure that new companies in the Group have the same focus on the topic.	▪ Risk evaluation and Due Diligence has been carried out at selected locations related to human and workers' rights. ▪ No significant deviations or violations of conditions related to these areas have been reported in 2019. ▪ We have revised our internal risk assessment and reporting guidelines on human rights to ensure compliance with the UN guiding principles of business and human rights (United Guidelines for Business and Human Rights – UNGP).	KONGSBERG will reduce the risk of human rights breaches within its own organisation and in our supply chain by implementing our guidelines regarding human rights: 1. Conduct risk assessments regarding human rights within our own organisation and implement mitigation measures as and when necessary. 2. Carry out Due Diligence regarding suppliers in accordance with internal requirements. 3. Monitor our suppliers in accordance with internal requirements. 4. Monitor and ensure that our acquired companies integrate our requirements and procedures into their day-to-day operations. 5. Carry out targeted skills development and training of personnel.	1. KONGSBERG shall have a framework for human rights in accordance with the laws and guidelines in force at all times, including the UN's guideline principles regarding industry and human rights. This means that we update our framework and our practice in line with developments in the field of human rights. 2. KONGSBERG shall minimise the risk of human rights breaches within its own operations and the supply chain. This means that we will: a) Continue to implement our guidelines to monitor human rights. b) Further develop and distribute a training programme for our employees and suppliers.

KONGSBERG CYBER SECURITY CENTER

Security in KONGSBERG

Security is important for KONGSBERG and concerns the protection of information, personnel and physical assets. To ensure that the security-related work is both practical and effective, this is a part of KONGSBERG's governance model and business strategies and is integrated in relevant business processes.

Cybersecurity

Cybersecurity or digital security includes managing the risks and security challenges posed by the use of information technology. It includes both hardware, software, services, communication between them, and not least structured work processes.

About our defence against cyber threats

- Our services are carefully monitored and protected by layered security architecture including extensive logging and monitoring.
- We conduct security training and awareness programmes.
- We carry out risk management

We have established KONGSBERG Cyber Security Center as a dedicated, common resource center focusing on Information and Cyber security.

to balance business goals, efficiency and the right level of safety.

- We employ continuously improvement of our processes.

Collaboration in the cyber security

KONGSBERG is dependent on the trust of its owners, customers and business partners.

- We have close cooperation with governmental bodies within the cyber security domain.
- We have active collaboration and interaction with special interest groups and leading authorities on information security and risk management.
- We have established KONGSBERG Cyber Security Center as a dedicated, common resource center focusing on security.

Development of secure solutions for our customers

- KONGSBERG has a long tradition for delivering mission critical solutions, rooted in the defence- and aerospace industry, the high-tech industrial environments of the maritime sector and the oil and gas industry.
- We use privacy by design as a fundamental principle in software development.
- We have structured processes for lifecycle management. This allows us to deliver high quality services and meet security requirements.
- We have internationally acknowledged standards fully included as a part of our strategy and operations.

Information security

Information security consist of work processes and procedures based on ISO27001 and shall ensure an adequate level of security with regard to confidentiality, integrity or availability.

Information represents very important assets and values for KONGSBERG. We ensure these values with structured and robust information security processes. We make use of all the safety perspectives set out in ISO 27001. This has been implemented in all our business areas through policies, processes and procedures, which together meet all information security requirements that the business faces. Compliance is ensured through extensive audit programs and monitoring.

Personnel security

Personnel security shall address both the intentional and unintentional risk of people misusing their legitimate access to KONGSBERG's property for unauthorised purposes.

Personnel safety in KONGSBERG is maintained by robust processes throughout the employment or engagement at KONGSBERG. This includes everything from selection process, agreements, training, access control and processes for termination.

Physical security

Physical security shall protect personnel, assets and property from damage or destruction.

In KONGSBERG, we achieve good physical safety through a combination of secure areas that are physically shielded for access for unauthorized persons, access control systems in all locations, zone divisions and strict physical safety requirements around IT services. These are requirements that our suppliers and partners also must comply to.

QUALITY AND SAFETY THROUGHOUT

Sustainability and Corporate Social Responsibility in the supply chain

Sustainability and corporate social responsibility in the supply chain covers suppliers' relationships with ethical guidelines, human rights, workers' rights, anti-corruption, the climate and the environment. Systematic and good collaboration on corporate social responsibility in the supply chain is part of our strategy for responsible business operations. This contributes to reduce risk and increase quality in the value chain.

Our position

KONGSBERG has more than 10,000 suppliers globally, with about half of them being Norwegian. This means we help to safeguard jobs and build competence, not only where we have operations, but also to a large extent where we use suppliers. The suppliers are an

We follow up our responsibility through clear requirements in our agreements with suppliers as well as risk-based follow-up and audits.

important part of our value creation, at the same time as we are important and, in many cases, essential to their value creation. We want to work with suppliers that share our values and requirements regarding responsible business conduct. This is specified in our "Supplier Conduct Principles", which is part of our supplier agreements.

The business areas have established processes and systems for carrying out risk assessments of all critical suppliers and suppliers with purchases above specified limits. The risk assessment covers existing and new suppliers and includes the assessment of environmental conditions, human rights and employee rights, HSE, business ethics and anti-corruption. Based on the result of the initial risk assessment, the supplier is followed up with additional assessment and possible measures.

We see it as our ethical responsibility to ensure that the entire value chain relating to our products satisfies our requirements for sustainability and corporate social responsibility, although the legal responsibility rests with the individual supplier. We follow up our responsibility through clear requirements in our agreements with suppliers as well as risk-based follow-up and audits. Our suppliers are obliged to require the same standards of their subcontractors.

Our challenges

Making sure that all subcontractors throughout the value chain comply with our requirements is our main challenge.

KONGSBERG has a wide range of subcontractors, who we work with to create the very best technological products.

GOALS AND ACTIVITIES

Goal:
Securing a responsible supply chain, especially regarding environment, climate and human rights.

Goals for 2019 What we said	Status for 2019 What did we do?	Goals for 2020 1 year	Goals for 2020–2024 5 years
▪ Conduct annual internal training for the purchasing organisation. ▪ Develop e-learning for our suppliers.	▪ Training has been conducted both internally and in combination with supplier conferences for our largest suppliers ▪ E-learning courses are under development.	▪ Distribute e-learning to our suppliers, with particular emphasis on the environment, climate and human rights. ▪ Arrange vendor conferences for our largest suppliers. ▪ Conduct internal training for purchasing organisa-tions.	▪ Continuously assess the need to update governance documents, methodologies, tools and training for our own employees and suppliers. ▪ Evaluate and further develop work with a sustainable value chain.
▪ Ensure compliance with our requirements for subcontractors through agreements and audits.	▪ The business areas have a risk-based method for monitoring the supply chain, including distribu-tion of our requirements into contracts, self-assessments and use of audits.	▪ Establish specific criteria for environment and climate requirements in the selection and renewal of suppliers.	▪ Make effective follow-up of the supply chain through the development and automisation of administration and by setting effective KPIs.

SUPPORTING CHILDREN, YOUNG PEOPLE AND THE LOCAL COMMUNITY

Corporate social responsibility

KONGSBERG contributes to value creation and economic development in the communities where we operate. As an international technology group, KONGSBERG has major corporate social responsibility, and we have a particular focus on nurturing children's and young people's interests and skills in the natural sciences. We invest in the local communities wherever we have a presence, and in our employees and their families by supporting cultural, social and sporting activities.

We aim to motivate students to complete courses of study on which they have embarked

In engineering studies, drop-out rates have been high among first and second year students on certain courses. KONGSBERG has been working closely for several years with a number of colleges and universities, including NTNU and the University of South-Eastern Norway. Established

Every year, KONGSBERG takes on a large number of students who work in different departments and summer projects throughout the company.

partnerships between industry and educational institutes ensure that the changes taking place in industry are rapidly transferred to the education sector, thereby ensuring that studies remain relevant. Similarly, the knowledge and skills developed in educational institutes will also engender innovation and change in industry. We have rolled out several initiatives to motivate students to complete their degrees. One of these is the YOUR EXTREME competition for students at NTNU. This competition, which we have been running since 2013, is a 48-hour case competition in which groups of 2–5 students work on solving a hypothetical future scenario where sustainability and technology are at the core of the problem. The aim of the competition is to relate students' theoretical knowledge to solving practical problems they may encounter in working life.

As well as the student competition, KONGSBERG is the main sponsor for three multidisciplinary student projects at NTNU where students get to put theory into practice. Since 2014, KONGSBERG has been the main sponsor of Revolve NTNU, in which a new team of students develops, designs and builds a racing car to use in competition. NTNU's Ascend project participates in the annual International Aerial Robotics competition, where the goal is to push the limits of capability of autonomous drones. In NTNU's Propulse project, students design, develop and build a rocket to use in the Spaceport America Cup, the biggest student rocket competition in the world.

From theory to practice – the summer job programme

Every year, KONGSBERG takes on a large number of students who work in different departments and summer projects throughout the company. The projects are very popular, and many have been extended for several years. Through the summer jobs, students get to see what opportunities are available when they graduate, and we want this to motivate them to study harder and complete their degrees. At the same time, it is a good recruitment arena for us where we get to know the students better.

The summer project "Coastal Shark" is based on an autonomous watercraft.

Silje and Mats became permanent employees after having summer jobs with KONGSBERG.

We aim to raise the percentage of women involved in technology

KONGSBERG is working systematically to increase the percentage of women studying technology. In 2019, the percentage of women in technology careers was only 23 per cent. One of the steps KONGSBERG has taken to address this is its sponsorship of the Girl-project ADA. The aim of the project is to foster satisfaction and motivation in girls while they are studying, to provide a careers network and inform students of job opportunities. A goal for the summer student programme is to have at least 45 per cent women participating.

We support children and young people to raise interest in the natural sciences

The natural sciences are essential to solving some of the challenges the world is facing. Therefore, we want to motivate children and young people to study physics, maths and natural sciences through a variety of measures, all the way from kindergarten to college.

Thus we support the science centre "Vitensenteret i Norge", which is free to schools and kindergartens. Children are introduced to the natural sciences through play and experiments, as well as teaching modules in subject areas such as energy, mechanics, mathematics, technology and animation, with more for the older ones. We collaborate with a number of secondary schools, colleges and universities in Norway. Here we hold motivational lectures, invite people to visit the company, participate in career days and take on students for work placement. We support selected student projects where the students wish to write their master's degree in collabora-

Every year, KONGSBERG takes on a large number of students who work in different departments and summer projects throughout the company.

tion with KONGSBERG. KONGSBERG has a strong focus on vocational education and we offer, along with other companies in the town of Kongsberg, a unique training programme for apprentices through the K-Tech training centre. An apprenticeship certificate programme in polymer composites has also been established at the composite factory in Kongsberg. During 2019, there were 71 apprentices in total.

In 2016 we opened the KONGSBERG Innovation Center, where our employees can bring their children and experiment with drones, robots and visualisation. The Center also hosts visits from local schools and educational institutions, and is used by students working with us.

Inclusion at work

Far too many people are currently excluded from work. An inclusive workplace is important for everyone – from people needing jobs, to companies needing workers. It is also important for the community, because it supports our welfare state. In 2019, KONGSBERG focused on improving its organisation to ensure that more people were able to come to work. In 2019, 18 people benefited from our practical work placement positions.

Contributions to sports, culture and social activities

KONGSBERG's sponsor strategy focuses on activities and projects in Norway and internationally within the following areas:

- Sports – in particular local sports activities for young people in the local communities in which KONGSBERG operates.
- Culture – in particular local communities in which KONGSBERG operates.
- Social, humanitarian and/or environmental activities – locally, nationally and internationally – that aim at sustainability.

Norway

In Norway, we have concentrated on supporting organisations in the local communities where we are represented. KONGSBERG has chosen to support many different sports, especially for children and young people, and we always sponsor teams as opposed to individuals. Our two biggest cultural sponsorships are with the Kongsberg Jazz Festival and Glogerfestpillene (classical music festival). Both festivals enjoy a very high professional level and have their own programmes for developing young talents.

Employees have the opportunity to try out new technology at Kongsberg Innovation Center.

YOUR EXTREME 2019

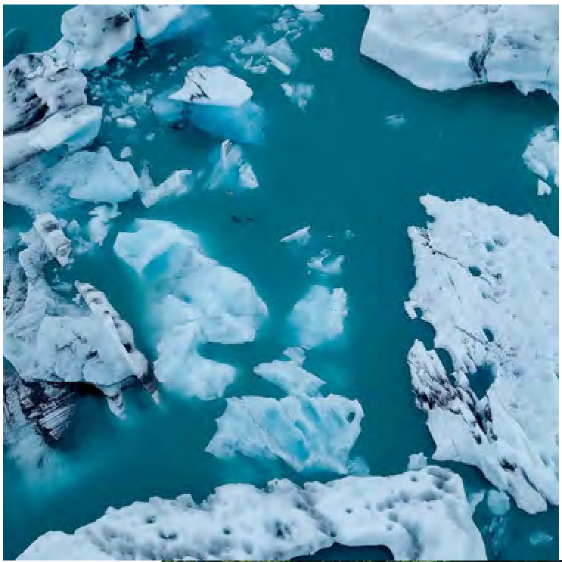
Urbanisation – interplay between land and ocean

Since 2013, KONGSBERG has collaborated with NTNU in arranging the student competition YOUR EXTREME. This is a 48-hour case competition, where groups of 2–5 students work on solving a hypothetical future scenario where sustainability and technology are at the core of the problem.

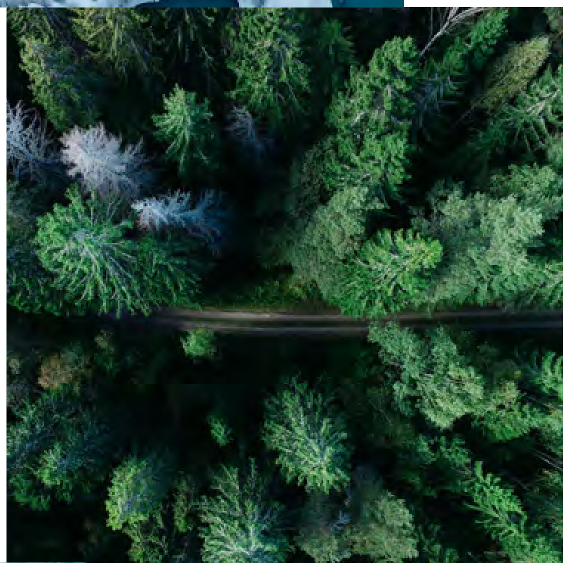
The purpose of the competition has been to motivate students to complete their degrees, due to the significant drop-out of first and second-year students in certain subjects, and to relate their theoretical knowledge to solving practical problems they may encounter in working life.

The theme for the 2019 competition was "Urbanisation – interplay between land and ocean". The students were challenged to describe the role that technology can play in implementing resource-efficient and climate-adapted initiatives for more robust and resilient coastal towns and cities. The students were asked to reflect on technical, ethical and societal issues related to urbanisation along the coast.

This year's winner was the "Green Hemisphere" team. Their proposed solution was based on a concept which uses dry ice or silver iodide to trigger precipitation. By obtaining data from weather stations and using KONGSBERG technology for autonomous drones and mother ships, an outline was presented as to how humans can control the weather for the very first time. In their entry, the team demonstrated the use of technology and expertise in an innovative and sustainable way. Their solution addressed five criteria: Problem delimitation, innovation, feasibility, sustainability and market potential.



CLIMATE AND THE ENVIRONMENT



This chapter explains our work relating to climate and the environment, climate risk and climate accounts.

Climate and environment

Sustainability and consideration for climate and the environment form an integral part of KONGSBERG's business strategy. We are developing innovative products and solutions for our customers which reduce greenhouse gas emissions, particularly within "Green Shipping" with the development of autonomous vessels, hybrid solutions and electric ferries. We are developing technology through collaboration and the use of "cross-over" technology between our business areas within defence, maritime and digital. We are contributing through collaboration in order to reduce harmful impacts on the oceans via management systems for fish farms, monitoring of marine areas for illegal fishing, plastic in the oceans, port monitoring, fishing quotas, trawler management, etc.

We are aiming to cut our own CO_2 emissions by 20 per cent by the end of 2020, based on the figures for 2015. We acknowledge that it is unlikely we will achieve our goal. The Group's emissions measured in absolute terms are more or less the same for 2019 as in 2015, excluding acquired companies. Emissions measured relative to turnover for the Group also remained stable during the period 2015-2019, excluding acquired companies.

During 2020, we will set new goals for the period through to 2030. In 2019, we carried out a pilot project concerning use of the "Science Based Target" methodology in one of our divisions in the defence business. The aim is to increase our internal expertise and provide us with a basis for evaluating whether the methodology is suitable for identifying effective goals for reducing greenhouse gas emissions within our value chain. We will also continue our efforts to further develop climate requirements in our internal operations, for our suppliers, climate-friendly logistics, the circular economy and climate-friendly buildings.

We are monitoring our own production facilities and preparing climate and environmental accounts which give an overview of our energy consumption, CO_2 emissions and waste management. Read more about the climate and environmental accounts that cover all Norwegian units, all production units and major offices abroad. The key figures also include a presentation of the results within the fields of value creation, employee relations and health and safety, in addition to climate and the environment.

In 2020, KONGSBERG will continue to analyse our climate risk and opportunities, based on the Task Force for Climate-related Financial Disclosures (TCFD).

All our business areas are certified in accordance with

> We are monitoring our own production facilities and preparing climate and environmental accounts which give an overview of our energy consumption, CO_2 emissions and waste management.

ISO 14001 Environmental Management, and we are continuing the work of developing a circular economy in our operations. One example is the circular economy in our division for land-based systems in KDA, which offers solutions and services throughout the life-cycle of its products, ensuring they have a longer lifespan and giving customers the opportunity to return products when they have finished using them. With this initiative, we are helping to reduce waste when systems become outdated, and making it possible to secure components for reuse and resale.
We will continue our efforts to enhance internal expertise, tools and processes for analysis and reporting. For the years 2015, 2016 and 2017, we submitted reports to the Carbon Disclosure Project (CDP), achieving Category E, B and C respectively. During these years, we encountered little interest among our stakeholders for these reports because we had a low internal CO_2 footprint. We therefore decided not to continue submitting them. We are now seeing an increase in the level of interest in CDP generally and the method has been developed further; we intend to start submitting reports to CDP again from 2020 onwards.

Making a difference through the UN Action Platform on Sustainable Ocean Business

KONGSBERG deeply share the concerns of the future of the ocean health. Dying oceans represent a high risk for our planet, for people, species and the global economy. We have been engaged in this issue for decades, trying to understand the changes, the consequences and how we can be part of the solution.

Two years ago, we joined the Action Platform, where leading actors from business, academia and Government institutions convene to determine how ocean industries can advance progress towards the Sustainable Development Goals. The work of the platform also builds upon the Ten Principles of the UN Global Compact, which outline business responsibilities in the areas of human rights, labour, environment and anti-corruption. We see cooperation as crucial to succeed; only together we can truly turn these challenges into opportunities.

We believe the Ocean Principles should be used as a common foundation for all companies to start disclosing their impact on the ocean and improve their corporate strategies accordingly. Together we need to identify how we can put business at work delivering healthy and productive oceans - with traceable seafood, green shipping, renewable energy, ocean data sharing and clean waters without waste. Together we must define what it means to be stewards of the ocean.

Next on the agenda is UN Ocean Conference in Lisbon in June 2020. This conference will mark a major milestone for the private sector to show its commitment to this important work. Our CEO, Geir Håøy will be speaking and advocating for extensive cooperation between science, governments and the private sector.

> "As we enter the Decade of Action and Delivery for the Global Goals, we need a broad multi stakeholder approach to develop the technologies and solutions we need for the world we want. A company like KONGSBERG can play a key part in these crucial efforts to develop market-based solutions that can deliver on the goals."
>
> **Sturla Henriksen,**
> *Special Advisor on Oceans to the UN Global Compact.*

Climate risk

The climate is continously changing. Incidents caused by extreme weather, along with the danger that the world will not succeed in reducing its greenhouse gas emissions sufficiently to limit temperature rises in line with the Paris Agreement, bring risk and challenges also to businesses. KONGSBERG will contribute to the green transition to reduce this risk.

KONGSBERG has started a process of evaluating and reporting for climate risk, supporting the Task Force for Climate-related Financial Disclosures (TCFD)[1].

Our managers and Board design our business strategy, fundamental components of which are sustainability and climate issues. Our overall risk assessments involve a range of scenarios including geopolitical conditions, climate-related conditions, market conditions, etc. We evaluate opportunities and risks on the basis of what we regard as the most probable scenarios. Our business areas perform continuous risk assessments, including climate risk from 2019. This will be further developed from 2020, and will include the supply chain and logistics.

Our risk assessments are provisional and will be further developed and updated on an ongoing basis. We have determined that physical risk resulting from climate change, in the form of costs caused by physical damage such as floods, hurricanes, drought, fires, etc., is low in our operations. We have thoroughly surveyed production sites and offices and have relevant safety measures in place for the locations that could be affected by incidents such as flooding.

We have ascertained that transition risk, which is the financial risk associated with the transition to a zero emission society, is relatively low for KONGSBERG. At the same time, it may involve a risk to us that the maritime sector is generally exposed to market and transition risk, especially related to oil and gas business, which in turn may impact on demand for our products and services.

Changes in climate policy could result in changes to framework conditions, such as more stringent legislation or an increase in carbon pricing with the aim of reducing emissions. Our production is not energy-intensive, and our total emissions are low. Significant increases in flight prices could result in increased costs for us, but this also apply to other parties in the market and is not expected to have a major effect on our competitiveness.

As a leading technology company, KONGSBERG will have considerable opportunities to develop competitive technology which responds to the market's changing demands for low-emission products and services.

KONGSBERG has determined that liability risk, in the form of claims for damages linked to decisions or the lack of decisions which can in any way be connected to climate policy or climate change, is low. This also applies to reputational risk, which can affect companies who are considered to have contributed to climate change or have not done enough to limit the effects of climate change. Our assessment is that our technology is part of the solution and is helping towards the transition to a zero emission society.

Technological development is part of the solution for the transition to a zero-emissions society.

1) The G20 countries' "Financial Stability Board" has established the Task Force on Climate-related Financial Disclosure (TCFD) to develop a method of evaluating and reporting on climate-related financial uncertainty.

Climate and Environmental Accounts for 2019

The Group has adopted a target of reducing CO_2 greenhouse gas emissions by 20 per cent relative to turnover or in absolute figures by the end of 2020, with the baseline in figures from 2015.

KONGSBERG has acquired and integrated Commercial Marine and Kongsberg Aviation Maintenance Services (KAMS), (previously AIM Norway) in 2019, considerably increasing both the number of employees and turnover. The percentage turnover in the maritime and defence segments changed from 58/42 in 2018 to 70/30 respectively in 2019. This is reflected in the climate statement and renders comparison difficult.
In addition, the data quality and scope of the figures for the climate statement improved during the period 2015–2019, which is reflected in the higher emission figures. This particularly applies to flights booked outside Norway. We are continually making improvements and will establish a new climate strategy from 2020 and adopt a new baseline and climate goals.

CO_2 emissions in 2015 were just under 40,000 metric tonnes.

The Group's emissions were more or less the same in 2019 as in 2015, excluding acquired companies. Total CO_2 emissions are estimated at 60,400 tonnes for 2019, including acquired companies. The ratio calculated for total emissions relative to turnover remained stable from 2015 and indicates a slight increase relative to the number of full-time equivalents.

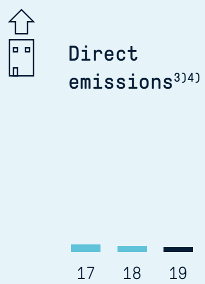
CO_2 emissions

Total (exclusive acquired companies)

40,274 MT (+2.6% from 2015 (baseline year))

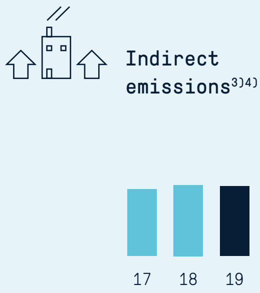
A total of 60,393 MT inclusive acquired companies

Direct emissions[3)4)]



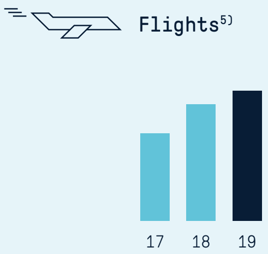
698 MT

Indirect emissions[3)4)]



10.085 MT

Flights[5)]



18.803 MT

Transport of products and goods[6)]

10.688 MT

Our direct and indirect emissions relative to energy consumption indicate a reduction in relation to both turnover and employees. The same applies to emissions relative to the transport of goods. Emissions related to flights indicate an increase with regard to turnover/employees. This is primarily due to a significant increase in customer support activity within KM following the acquisition of Commercial Marine. This organisation has a high degree of travel-related activity. See the ratios in the tables for CO_2 emissions, energy consumption and waste.

1) Source: 2015 data from the Department for Environment, Food & Rural Affairs, UK. www.ukconversionfactorscarbonsmart.co.uk.
For Norway, a location-based factor of 50t CO2/GWh has been used (this emission factor for Norway has also been used in previous reporting years).
2) CO_2 emissions from transport are limited to import, export and domestic transport, payable in Norway.
3) CO_2 emissions (metric tonnes) for KONGSBERG. Emissions from the consumption of fossil fuels for the production of district heating supplied by Kongsberg Technology Park are included in direct emissions. Indirect emissions include the consumption of electricity, district heating and cooling from external suppliers within the business areas, as well as the consumption of electricity for the production of district heating and cooling in Kongsberg Technology Park.
4) The figures for 2019 show emissions exclusive of acquired companies.
5) The figures for 2019 include flights purchased abroad for acquired companies.
6) The figures for 2019 include acquired companies.

CO_2 EMISSIONS

Metric tonnes	*Changes in the last year*	*2019 exclusive acquired companies*	*Changes in the last year*	*2019 inclusive acquired companies[4]*	*2018*	*2017*
Scope 1 (Direct emissions)[3]	-16%	698	+51%	1 251	830	1 065
Oil and gas (business area)		657		1 210	631	943
Oil and gas (Kongsberg Technology Park)		41		41	199	122
Scope 2 (Indirect emissions)[3]	-2%	10 085	+43%	14 672	10 290	9 670
Electricity (business area)		8 389		11 912	8 521	8 007
Electricity (Kongsberg Technology Park)		1 670		1 670	1 766	1 656
District heating from external suppliers		17		1 081	3	7
District cooling from external suppliers		9		9	0	0
Scope 3 (Other emissions)	+12%	18 803[5]	+101%	33 782	16 800	12 607
Flights purchased in Norway		8 905		23 885	10 224	8 936
Flights purchased abroad		9 897		9 897	6 576	3 671
Total without shipping	+6%	29 586	+78%	49 705	27 920	23 342
Transport of goods and products paid for in Norway	+42%	10 688[6]	+42%	10 688	7 546	9 175
Total including shipping	+14%	40 274	+70%	60 393	35 466	32 517

The environmental accounts includes the following sources of CO_2 emissions:

- **Direct emissions (Scope 1):** Emissions from the use of fuel oil and gas for heating and processes, as well as from the production of district heating at Kongsberg Technology Park.
- **Indirect emissions from electricity (Scope 2):** Emissions from electricity consumption and district heating or cooling from external suppliers. The CO_2 emission factors used for electricity are location-based and in accordance with GHG Protocol Scope 2 Guidance [1].
- **Emissions from flights and the transport of goods and products (Scope 3):** Emissions from flights and emissions associated with the transport of goods and merchandise [2].

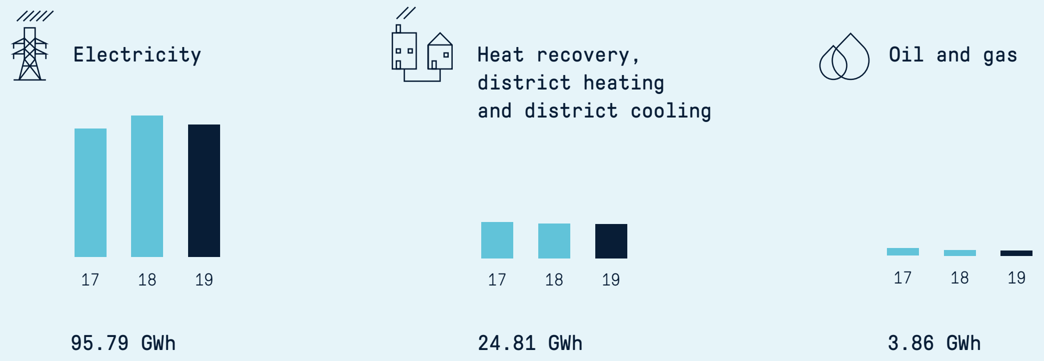
1) Source: 2015 data from the Department for Environment, Food & Rural Affairs, UK. www.ukconversionfactorscarbonsmart.co.uk. For Norway, a location-based factor of 50t CO2/GWh has been used (this emission factor for Norway has also been used in previous reporting years).
2) CO_2 emissions from transport are limited to import, export and domestic transport, payable in Norway.
3) CO_2 emissions (metric tonnes) for KONGSBERG. Emissions from the consumption of fossil fuels for the production of district heating supplied by Kongsberg Technology Park are included in direct emissions. Indirect emissions include the consumption of electricity, district heating and cooling from external suppliers within the business areas, as well as the consumption of electricity for the production of district heating and cooling in Kongsberg Technology Park.
4) The figures for 2019 show emissions exclusive of acquired companies.
5) The figures for 2019 include flights purchased abroad for acquired companies.
6) The figures for 2019 include acquired companies.

Energy consumption

Total (exclusive acquired companies)

124.46 GWh (-5.1% from 2018)

A total of 165.12 GWh inclusive acquired companies



Graphs: Total energy consumption for KONGSBERG. The figures include electricity, oil and gas, as well as recycled energy used by Kongsberg Technology Park for the production of district heating, district cooling and compressed air also supplied to non-KONGSBERG companies. See the ratios in the tables for CO_2 emissions, energy consumption and waste.

KONGSBERG uses energy in the form of electricity, district heating, district cooling, gas and heating oil in its operations. Kongsberg Technology Park produces district heating, district cooling and compressed air for businesses based in the technology parks in Kongsberg. Approximately half is supplied to other businesses in the technology park. District heating and district cooling are produced using electricity, heating oil, gas and heat recovery. Efficient technology makes it possible to recover in the range of 20-25 GWh heat at the facility at Kongsberg Technology Park. The use of as much recovered heat as possible in the facility is desirable, as this helps reduce a similar consumption of oil, gas and electricity. In 2019, 25 GWh was recovered at the facility.

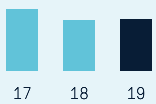
Waste

Total (exclusive acquired companies)

2,239 MT (+19% from 2018)

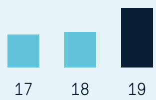
A total of 7,830 MT inclusive acquired companies

Residual waste



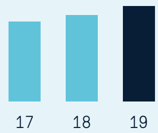
559 MT

Hazardous waste



645 MT

Recycled waste



1,035 MT

Graphs: Total waste production for KONGSBERG (metric tonnes). See the ratios in the tables for CO_2 emissions, energy consumption and waste.

Waste volumes are included in KONGSBERG's internal environmental reporting, where waste generated is divided into waste categories and waste for recycling divided into recycling fractions.

Key Figures Sustainability

FINANCIAL VALUE CREATION

MNOK	*2019*	*2018*	*2017*	*2016*	*2015*	*2014*	*2013*
ADDED VALUE							
Salaries	6 908	4 638	4 417	4 649	4 725	4 537	4 304
Dividends	450	450	450	450	510	1 110	630
Dividends – % of earnings	63 %	64%	81%	69%			
Interest to lenders	122	100	110	63	24	30	43
Retained earnings	267	254	109	201	245	(230)	595
OTHER FINANCIAL KEY FIGURES							
Costs related to the purchase of goods and services	13 059	7 239	7 610	8 722	9 143	8 497	8 439
Financial support received from authorities	103	53	59	35	18	21	14
INCOME TAX EXPENSE							
Norway	92	61	(15)	(40)	85	291	332
Rest of Europe	71	14	13	17	9	27	11
North and South America	47	38	33	48	49	50	55
Asia, Africa and Australia	40	27	64	53	46	37	21
Total	**250**	**140**	**95**	**78**	**189**	**405**	**419**

SOCIAL INVESTMENTS

MNOK	*2019*	*2018*	*2017*	*2016*	*2015*	*2014*	*2013*
Financial support to organisations, etc. [1]	6.8	6.9	9.1	12.4	9.3	8.8	7.3

1) In addition, there is funding for professorships and direct costs such as wages etc. for our own employees contributing in part-time positions at various colleges and educational institutions. See pages 73–78 for further information.

EMPLOYEES

	2019	2018	2017	2016	2015	2014	2013
LEVEL OF EDUCATION							
Master's degree (%)	23	29	29	29	28	28	29
– of which doctorates (PhD)	1	2	2	2	1	1	1
Bachelor's degree (%)	30	36	35	35	37	36	34
Technicians (%)	7	12	12	12	15	14	14
Production workers (%)	16	11	11	11	11	11	11
Other (%)	21	11	13	13	10	11	11
NUMBER OF EMPLOYEES							
Number of employees, total	10 793	6 842	6 830	7 159	7 688	7 726	7 493
Number of full-time equivalents (FTEs)	10 704	6 771	6 728	7 027	7 571	-	-
Number of full-time employees	10 488	6 674	6 636	6 963	7 364	7 470	7 171
Number of part-time employees	305	168	194	196	324	256	322
AGE							
Average age	44	43	43	42	41	41	41
Employees under age 30 (%)	12	13	14	15	19	21	21
Employees between ages 30 and 50 (%)	58	59	57	58	56	55	56
Employees over age 50 (%)	30	28	29	27	25	24	23
PERCENTAGE OF WOMEN							
Women as a % of the number of employees	19.5	21.8	21.5	21.2	21.0	20.9	21.4
Women in managerial positions as a % of total managerial positions	21	20	20	19	18	18	21
Shareholder-elected women on the Board (%)	40	60	60	40	40	40	40
TURNOVER							
Turnover (employees who have resigned)	809	465	357	477	430	516	587
Turnover (%)	7.5	6.8	5.2	6.7	5.6	6.7	7.8
– Men	5.1	5.6	4.2	6.0	4.2	5.5	5.9
– Turnover men, of total men	6.6	7.1	5.4	7.6	5.4	6.9	-
– Women	2.4	1.2	1.0	0.7	1.4	1.2	1.9
– Turnover women, of total women	13.1	5.6	4.7	3.3	6.4	5.8	-

HEALTH AND SAFETY

	2019	2018	2017	2016	2015	2014	2013
Sick leave as a % of hours worked	2.6	2.6	2.3	2.5	2.6	2.6	2.5
Sick leave for the Norwegian companies	3.1	3.0	2.8	2.8	2.8	3.0	3.1
Number of reported injuries per million hours worked (TRI)[1)]	2.3	1.6	3.2	3.5	4.1	4.7	3.7
Number of lost time days per million hours worked (ISR)	31.4	17.6	16.2	32.0	14.2	45.3	15.6
Number of reported injuries leading to absence among employees	30	13	31	40	20	34	27
Total number of injuries among employees[2)]	111	71	129	176	196	240	86
Total number of near-accidents among employees	387	379	232	183	140	140	158
Registered work-related fatalities	0	0	0	0	0	0	0

1) Includes lost time injuries and injuries involving medical treatment.
2) Includes lost time injuries, injuries involving medical treatment and injuries treated with first-aid.

CLIMATE AND ENVIRONMENT

	2019 exclusive acquired companies	*2019 inclusive acquired companies*	*2018*	*2017*	*2016*	*2015*
CO_2 EMISSIONS						
CO_2 emissions (metric tonnes) [3]	29 586	49 705	27 920	23 342	23 229	25 933
CO_2 emissions from transport (metric tonnes) (first reported in 2015)	10 688[2]	10 688	7 546	9 175	10 235	13 335
Total CO_2 emissions (metric tonnes)	**40 274**	**60 393**	**35 466**	**32 517**	**33 464**	**39 268**
CO_2 emissions relative to sales (metric tonnes/MNOK)	2.4	2.5	2.5	2.2	2.1	2.4
CO_2 emissions relative to man-years of labour (metric tonnes/ man-years of labour)	5.7	5.6	5.2	4.7	4.8	5.3
ENERGY USE						
Electricity (MWh)	95 753	134 027	102 071	92 795	96 734	91 582
Gas/oil (MWh)	3 857	6 277	4 095	5 397	3 471	4 400
Heat recovery (MWh) [1]	24 811	24 811	25 004	26 208	22 591	23 366
Energy consumption (MWh) per employee	17.4	15.3	19.2	18.2	17.2	15.5
Energy consumption (MWh/MNOK)	7.5	6.9	9.1	8.6	7.7	7.0
WASTE (METRIC TONNES)						
Waste for recycling	1 035	5 712	937	866	1 016	1 410
Residual waste	559	1 080	549	665	583	560
Hazardous waste	645	1 038	402	353	387	398

1) Energy recovery at Kongsberg Technology Park, as well as purchased district heating and remote cooling from external companies.
2) Figures inclusive acquired companies.
3) CO_2 emissions (metric tonnes) for KONGSBERG. Emissions from the consumption of fossil fuels for the production of district heating supplied by Kongsberg Technology Park are included in direct emissions. Indirect emissions include the consumption of electricity, district heating and cooling from external suppliers within the business areas, as well as the consumption of electricity for the production of district heating and cooling in Kongsberg Technology Park.

AUDITOR'S REPORT, SUSTAINABILITY

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To the Management of Kongsberg Gruppen ASA

INDEPENDENT AUDITOR'S ASSURANCE REPORT ON KONGSBERG'S SUSTAINABILITY REPORT 2019

We have been engaged by the Management of Kongsberg Gruppen (KONGSBERG) to provide limited assurance in respect of the information presented in the Sustainability Report section ("the Report"), included in the KONGSBERG – Annual and Sustainability Report 2019. Our responsibility is to provide a limited level of assurance on the subject matters concluded on below.

Management responsibilities

The Management of KONGSBERG is responsible for the preparation and presentation of the Report and that it has been prepared in accordance with the reporting criteria described in the Report, including the GRI Standards, level Core. The Management is also responsible for establishing such internal controls that they determine are necessary to ensure that the information is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our responsibility is to express a limited assurance conclusion on the information in the Report. We have conducted our work in accordance with ISAE 3000 (Revised) Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board.

Deloitte AS is subject to International Standard on Quality Control 1 and, accordingly, applies a comprehensive quality control system, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Considering the risk of material misstatement, our work included analytical procedures and interviews with management and individual resources responsible for the preparation of the Report and for sustainability management at corporate level, as well as a review on a sample basis of evidence supporting the information in the Report.

We believe that our work provides an appropriate basis for us to provide a conclusion with a limited level of assurance on the subject matters.

Deloitte.

Conclusions

Based on our work, nothing has come to our attention causing us not to believe that:

- KONGSBERG has applied procedures to identify, collect, compile and validate Sustainability information for 2019 to be included in the Report, as described in the Report.
- Sustainability information presented for 2019 is consistent with data accumulated as a result of these procedures and appropriately presented in the Report.
- The Report fulfils the content requirements for reporting in regards to sustainability as stated in the Norwegian Accounting Act, § 3-3c, article one.
- KONGSBERG applies a reporting practice for its sustainability reporting aligned with the Global Reporting Initiative (GRI) Standards reporting principles and the reporting fulfils in accordance level Core according to the GRI Standards. The GRI Index referred to from the Report appropriately reflects where information on each of the reported standard and specific disclosures of the GRI Standards is presented.

Oslo, March 19, 2020
Deloitte AS

Eivind Skaug

Eivind Skaug
State Authorised Public Accountant

Frank Dahl

Frank Dahl
Deloitte Sustainability

04

CORPORATE GOVERNANCE

The Board's Report on Corporate Governance

KONGSBERG's objective is to safeguard and enhance stakeholder value through profitable, sustainable and growth-oriented industrial development in a long-term and international perspective.

Good corporate governance and corporate management will reduce business-related risk, while the company's resources will be utilised in an effective and sustainable manner. The Group will achieve its goals through further development of first-class competency centres, deliveries of market-leading systems, products and services in its international market segments, and by operating in an ethical, sustainable and socially responsible manner. KONGSBERG is listed on the Oslo Stock Exchange and is subject to Norwegian securities legislation and stock exchange regulations.

How KONGSBERG understands the concept

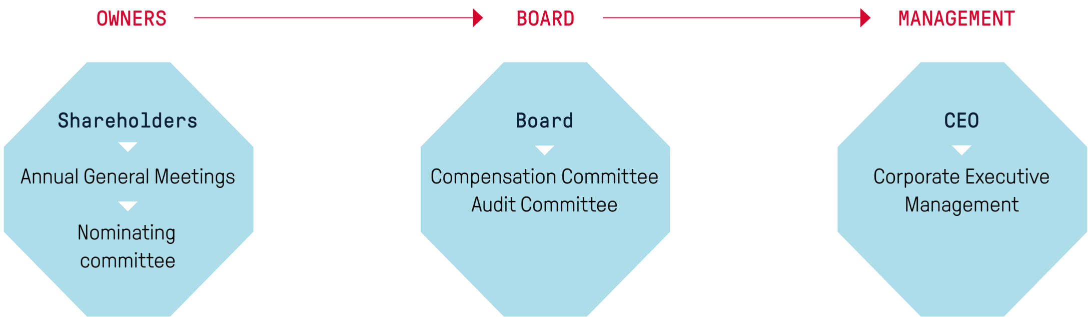
Corporate governance deals with issues and principles associated with the allocation of roles between the governing bodies in a company, and the responsibility and authority assigned to each body. Good corporate governance is distinguished by responsible interaction between owners, the Board and management, seen in a long-term productive and sustainable perspective. It calls for effective cooperation, a defined division of responsibilities and roles between the shareholders, the Board and management, respect for the Group's other stakeholders, and open, reliable communication with the world around us.

The Group's value platform and ethical guidelines are a fundamental premise for KONGSBERG's corporate governance.

Treatment of the topic in 2019

The topic of corporate governance is subject to annual evaluation and discussion by the Group Board. Amongst other things, the Group's management documents are reviewed and revised periodically.

KONGSBERG'S MODEL FOR CORPORATE GOVERNANCE



The Annual General Meeting elects five representatives of the owners to The Board based on a recommendation from the Nominating Committee. They are elected for a two-year term of office.

The Board decides in all significant matters and has overall responsibility for the strategy and management of the company. It provides advice and monitors management.

Strategy and operational management.

Policy

Kongsberg Gruppen

KONGSBERG is subject to reporting requirements regarding corporate governance according to the Norwegian Accounting Act section 3-3b and "The Norwegian Code of Practice for Corporate Governance", see ongoing obligations for stock exchange listed companies point no. 7. The Norwegian Accounting Act is available on www.lovdata.no. "The Norwegian Code of Practice for Corporate Governance", most recently revised on 17 October 2018, is available at www.nues.no.

In compliance with Section 5-6 of the Public Limited Liability Companies Act, this report will be dealt with at KONGSBERG's Annual General Meeting on 14 May 2020. The Group's compliance with and any deviations from the Code of Practice will be commented on and made available to the Group's stakeholders.

The Norwegian state, which owns 50.001 per cent of the Group, also assumes that all companies in which the State has a stake will comply with the "Norwegian recommendation for corporate governance".

As the Norwegian state holds an ownership share of 50.001 per cent, the Group also conducts its activities in accordance with the Storting White Paper no. 8 (2019-2020) – "The Norwegian State's direct ownership of companies – Sustainable value creation", White Paper no. 13 (2006–2007) – "Ownership report", White Paper no. 27 (2013–2014) – "A diverse and value-creating ownership", the Norwegian government's 10 ownership principles for good corporate governance and the OECD guidelines regarding state ownership and corporate governance. The policy was adopted by the corporate Board.

The following elements are fundamental to KONGSBERG's corporate governance policy:

- KONGSBERG shall maintain open, reliable and relevant communication with the public about its business activities and factors related to corporate governance.
- KONGSBERG's Board shall be autonomous and independent of the Group's management.
- Emphasis will be placed on avoiding conflicts of interest between the owners, the Board and the management.
- KONGSBERG will have a clear division of responsibilities between the Board and management.
- All shareholders will be treated equally.

The Group's corporate social responsibility work is considered as an integral part of the principles of good corporate governance. This is in accordance with the government's view, as expressed in the 'Ownership Report'.

Articles of Association

Kongsberg Gruppen ASA

Last revised at the extraordinary general meeting on 2 November 2018.

§ 1 The name of the Company is Kongsberg Gruppen ASA. The Company is a public company.

§ 2 The Company's registered office is in Kongsberg (Norway).

§ 3 The object of Kongsberg Gruppen ASA is to engage in technological and industrial activities in the maritime, defence and related areas. The Company may participate in and own other companies.

§ 4 The Company's share capital is NOK 224,987,581.25, divided among 179,990,065 shares with a nominal value of NOK 1.25. The Company's shares shall be registered in the Norwegian Registry of Securities.

§ 5 The Board shall have five to eight members (Directors). Up to five Directors and up to two Deputy Directors shall be elected at the Annual General Meeting. According to regulations laid down pursuant to the provisions of the Norwegian Companies Act regarding employee representation on the Board in public limited companies, three Directors and their Deputies shall be elected directly by and from among the employees.

§ 6 The Chair of the Board has the power to sign for the Company alone, or the Deputy Chair and another Director may sign jointly for the Company.

§ 7 General Meetings will be held in Kongsberg or in Oslo, and shall be convened in writing with at least 21 days' notice. Documents that apply to items on the agenda for the General Meeting need not be sent to the shareholders if the documents are made available to the shareholders on the Company's website. This also applies to documents which are required by law to be included in or attached to the notification of the General Meeting. A shareholder can nevertheless ask to be sent documents that apply to items on the agenda at the General Meeting.

§ 8 The Annual General Meeting shall:

1. Adopt the Financial Statements and the Directors' Report, including the payment of dividends.
2. Discuss other matters which, pursuant to legislation or the Articles of Association, are the province of the General Meeting.
3. Elect the shareholders' representatives and their deputies to the corporate Board.
4. Elect the members of the Nominating Committee.
5. Elect one or more auditors, based on nominations made by the General Meeting.
6. Stipulate the Board's compensation and approve compensation to the Auditor.
7. Deal with the Board's declaration regarding the stipulation of salary and other compensation to key management personnel. The convening letter shall state that shareholders who would like to participate in the General Meeting are to sign up by a deadline specified in the convening letter. The deadline shall expire no more than five days prior to the General Meeting. The General Meetings are led by the Chair of the Board, or if he/she is absent, by the Deputy Chair. If they both are absent, the General Meeting elects a Chair.

§ 9 The Nominating Committee shall consist of three or four members who shall be shareholders or representatives of the shareholders. The members of the Nominating Committee, including the Chair, shall be elected by the General Meeting. The term of the Nominating Committee members is two years. If the Chair of the Nominating Committee resigns in an election period, the Nominating Committee can elect a new leader among the Nominating Committee members for the remaining portion of the new leader's term. The Nominating Committee shall present to the Annual General Meeting its recommendations for the election of and remuneration of the Directors and Deputy Directors on the Board and the Nominating Committee.

The General Meeting shall determine the guidelines for the Nominating Committee for the Election Committee.

Board of Directors

Kongsberg Gruppen ASA

EIVIND
REITEN

Chairman

PER A.
SØRLIE

Director

ANNE-GRETE
STRØM-ERICHSEN

Deputy chair

MORTEN
HENRIKSEN

Director

MARTHA
KOLD BAKKEVIG

Director

SIGMUND IVAR
BAKKE

Director
(employee elected)

ELISABETH
FOSSAN

Director
(employee elected)

HELGE
LINTVEDT

Director
(employee elected)

The Board's Report relating to "The Norwegian Code of Practice for Corporate Governance"

The KONGSBERG ASA Board actively supports the principles for good corporate governance and attaches importance to KONGSBERG's compliance with the Norwegian Code of Practice for Corporate Governance and to explaining any deviations.

The following is a detailed discussion of each individual section of the Norwegian Code of Practice. The review is based on the latest version of the Code, dated 17 October 2018.

The information that KONGSBERG is required to disclose pursuant to Section 3–3b of the Accounting Act regarding reporting on corporate governance has been taken into account in this report and follows the systematics of the Code of Practice where it is natural to do so. A detailed description of the location of the disclosures required by Section 3–3b of the Accounting Act follows below:

a) "a statement of the recommendations and regulations concerning corporate governance that the Group is subject to or otherwise chooses to comply with": "KONGSBERG Policy" section in the report. The introductory section "Deviations from the code of practice" justifies such deviations.
b) "information on where the recommendations and regulations mentioned in (a) are available to the public": "KONGSBERG Policy" section in the report
c) "a description of the main elements of the Group and, for enterprises that prepare consolidated accounts, if relevant also the Group's internal control and risk management systems linked to the accounts reporting process": Report, section 10, "Risk management and internal control"
d) "articles of association that completely or partially extend or depart from provisions stipulated in Chapter 5 of the Public Limited Companies Act": Report, section 6, "Annual General Meeting"
e) "the composition of the Board, corporate assembly, shareholders' committee/supervisory board and control committee and any working committees that these bodies have, as well as a description of the main elements in prevailing instructions and guidelines for the bodies' and any committees' work": Report, section 8, "The Board, its composition and independence" and section 9, "The Board's work"
f) "articles of association that regulate the appointment and replacement of directors": Report, section 8, "The Board, its composition and independence"
g) "articles of association and authorisations that allow the Board to decide that the enterprise is to repurchase or issue the enterprise's own shares or equity certificates": Report, section 3, "Share capital and dividends"

For the complete overview of the Code with comments, see the Oslo Stock Exchange website at www.oslobors.no or the NUES (the Norwegian Corporate Governance Committee) at www.nues.no.

DEVIATIONS FROM THE CODE OF PRACTICE

According to the Group's own evaluation, KONGSBERG deviates from the code of practice on one major point:

Item 6 – General Meeting
There are two deviations on this point:

I. The entire Board has not usually attended the General Meeting. Thus far, the items on the agenda of the General Meeting have not required this. One or more Board representatives are always present to respond to questions. Other Board members participate on an ad hoc basis. From the Group's perspective, this is considered to be sufficient.

II. Article 8 of the Articles of Association specifies that the General Meetings are to be chaired by the Chair of the Board. If the Chair is absent, the General Meeting is chaired by the Board's Deputy Chair. In the absence of both, the Chair shall be elected by the General Meeting. This is a departure from the recommendation regarding an independent chair. The arrangement has been adopted by the shareholders through a unanimous resolution of the General Meeting and has worked satisfactorily thus far.

1 REPORT ON CORPORATE GOVERNANCE

The description of the main features is generally structured like the Code of Practice. As recommended, more details are provided on the individual points. Item 16, "Management and internal Procedures", is not covered by the recommendation. It has nonetheless been included because the Group considers it to be crucial to KONGSBERG's discussion of corporate governance.

KONGSBERG seeks to comply with international best practice standards when drawing up governance documents. The Group argue that there is a close correlation between high-quality systems of governance and value creation in the company.

The topic of corporate governance is subject to annual evaluation and discussion by the Board. This report was adopted at the Board meeting on 19 March 2020.

2 OPERATIONS

Articles of association

Kongsberg Gruppen ASA is a company whose objective is to engage in technological and industrial activities in the maritime, defence and related sectors. The Company may participate in and own other companies. The above-mentioned is stated in Section 3 of KONGSBERG's Articles of Association. The Articles of Association are available on the Group's website and on page 95 of this report.

Objectives, strategy and risk

The Kongsberg Gruppen ASA aims to be an international technology company based in Norway. KONGSBERG's objective is to secure and increase stakeholder value through profitable and growth-oriented industrial development with a long-term, sustainable and international perspective. Its shareholders' assets are protected and managed through utilisation of the Group's high level of expertise in order to develop attractive solutions for the market, meet important needs for a sustainable society, and focus on continually improving our operations.

KONGSBERG must consolidate its competitiveness and at the same time lay the foundations for sustainable and profitable growth. Growth will come through a combination of organic growth and acquisitions.

To achieve the ambitions, the Board and management have prepared strategies, targets and priorities for the Group and each individual business area. The targets include market work, acquisitions, expertise, corporate social responsibility and sustainability, technology and finance, including capital structure. These targets, our main strategies and risk are covered in more detail in the Directors' report, Chapter 5 of this annual report. The Group's risk management is described in more detail in Item 10. Strategy, objectives and risk profile are subject to annual review and revision by the Board, and are also monitored continuously throughout the year.

Sustainability and corporate social responsibility

The Group's policy for sustainability and corporate social responsibility forms part of our governance model, which is adopted by the Board. Sustainability and corporate social responsibility is an integral part of the Group's strategic processes and is described in more detail in the Group's Annual and Sustainability Report and on the Group's website.

3 SHARE CAPITAL AND DIVIDENDS

Equity

On 31 December 2019, the Group's equity came to MNOK 12,810 (MNOK 12,626), which is equivalent to 32.5 (45.7) per cent of the total assets.

Net interest-bearing debt as of 31 December 2019 was MNOK -1,565 (MNOK -5,706). Of this, cash and cash equivalents represented MNOK 5,654 (MNOK 10,038). Working capital as of 31 December 2019 was MNOK 17 (MNOK -14).

Total assets at 31 December 2019 was MNOK 39,422 (MNOK 27,658). The Board considers the company's capital structure to be satisfactory. At any given time, the company's need for financial strength is considered in the light of its objectives, strategy and risk profile.

Dividend policy

The company's current dividend policy was decided by the Board in 2013: "Dividends over time shall constitute between 40 and 50 per cent of the company's annual profit after tax. In determining the size of dividends, the expected future capital requirements shall be considered."

The General Meeting approves the annual dividend, based on the Board's recommendation. The proposal is the ceiling for what the General Meeting can approve. For the accounting year 2018, a dividend of NOK 2.50 per share was paid.

For the accounting year 2019, the Board proposes to the Annual General Meeting a dividend of MNOK 450, equivalent to NOK 2.50 per share. The dividend represents 62.8 per cent of the ordinary profit. The Board will also request the General Meeting an authority to execute a share buy-back programme with purpose of cancelling the shares. The value of the programme is up to MNOK 500, equivalent to a value of NOK 2.77 per share. The Board will also request the General Meeting an authority to pay an additional dividend of up to MNOK 1,800, corresponding to NOK 10.00 per share. Both authorisations are valid until the next Annual General Meeting. The total value of the cash dividend and planned share buy-back programme is approximately NOK 15.27 per share.

Board authorisations

Capital increase

The Board has not been authorised to issue shares.

Purchase of treasury shares

The General Meeting can, according to the Public Limited Companies Act § 9-4, authorise the Board to repurchase their own shares if the total holding of treasury shares does not exceed 10 per cent of the share capital (Public Limited Companies Act § 9-2).

At the Annual General Meeting on 14 May 2019, the Board was given authorisation to acquire treasury shares up to a maximum nominal value of MNOK 9.7, which is equivalent to 4.3 per cent of the share capital. The authorisation can be used several times and applies up until the next Annual General Meeting, but not later than 30 June 2020. The Board's acquisition of treasury shares pursuant to this authorisation can be exercised only between a minimum price of NOK 25 and a maximum of NOK 300 per share. As of 31 December 2019, the Group owned a total of 16,779 (19,869) treasury shares.

The shares were purchased for the share purchase programme for all employees, and in connection with the company's long-term incentive programme (LTI). Shares can also be used as full or partial payment in connection with business acquisitions, or they can be sold on the market. The shares included in the Group's share purchasing programme are offered to all employees at a discount (20 per cent discount on the market price), and are subject to a one-year lock-in period from the date of acquisition. The LTI scheme is discussed in the annual financial statements Note 28 and section 12 of this report.

4 EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS BETWEEN RELATED PARTIES

Class of shares

The Group's shares are all Class A shares. All shares carry the same rights in the company. At General Meetings, each share carries one vote. The nominal amount per share is NOK 1.25. The Articles of Association place no restrictions on voting rights.

Trading in treasury shares

The Board's mandate to acquire treasury shares is based on the assumption that acquisitions will take place in the market. Acquired shares will be disposed of in the market, as payment for acquisitions, and through share purchase programmes for the Group's employees and the LTI scheme.

Transactions with related parties

The Board is not aware of any transactions in 2019 between the company and shareholders, directors, executive personnel or parties closely related to such individuals that could be described as major transactions. If such a situation were to arise, the Board would ensure that an independent valuation was made by a third party. For further information, see Note 28 and Note 31 of the annual financial statements for 2019.

The Norwegian Government as customer and shareholder

The Norwegian Government, represented by the Ministry of Trade, Industry and Fisheries (NFD), has a shareholding of 50.001 per cent in KONGSBERG. The Government is also a major customer, particularly with regard to deliveries to the Norwegian Armed Forces. Relations with the Armed Forces are of a purely commercial nature and are not affected by the ownership structure.

The Group holds quarterly meetings with the NFD. The topics discussed at these meetings are first and foremost the Group's financial development, and there are briefings on strategic questions related to KONGSBERG. The Government's expectations regarding investment performance and yield are also communicated. These "one-to-one" meetings with the NFD are comparable to what is customary between a private company and its principal shareholders. The meetings comply with the provisions specified in company and securities legislation, not least with a view to equal treatment of the shareholders. A meeting on corporate social responsibility is held once a year.

The requirement regarding equal treatment of the shareholders limits the possibilities for exchanging data between the company and the Ministry. As a shareholder, the Government does not usually have access to more information than what is available to other shareholders. However, that does not preclude discussions on matters of importance to society. Under certain circumstances, i.e. when Government participation is imperative and the Government must obtain authorisation from the Storting (Norwegian parliament), from time to time it will be necessary to give the NFD insider information. In such cases, the NFD is subject to the general rules for dealing with such information.

5 SHARES AND NEGOTIABILITY

The shares are freely negotiable, with the exception of shares purchased by employees at a discount, and shares allocated in connection with the company's long-term incentive (LTI) scheme, see sections 3 and 12. The Articles of Association place no restrictions on negotiability.

6 ANNUAL GENERAL MEETING

Through the General Meeting, shareholders are ensured participation in the Group's supreme governing body. The Articles of Association are adopted by this body. Shareholders representing at least five per cent of the shares can call for an Extraordinary General Meeting.

In 2019, the Annual General Meeting was held on 14 May and 69.88 per cent (67.48) of the aggregate share capital was represented. A total of 112 (98) shareholders were present or represented by proxies.

Notification

The Annual General Meeting is ordinarily held by 1 June each year. In 2020, the date is set for 14 May 2020.

- Notification is usually distributed 21 days in advance of the Annual General Meeting at the latest. The relevant documents, including the Nominating Committee's approved list of nominees, are available at www.kongsberg.com.
- It is important that the documents contain all the information required for the shareholders to take a position on all items on the agenda. The company's Articles of Association stipulate that the deadline for registration can expire no earlier than five days prior to the date of the Annual General Meeting. Efforts are made to set the deadline as close to the meeting date as possible.

All shareholders registered in the Norwegian Central Securities Depository (VPS) receive the notice and are entitled to submit motions and to vote directly or by proxy. The Financial Calendar is published both via a stock exchange announcement and on the Group's website.

Registration and proxies

Registration can be done by written notice in letters, e-mails or online. The Board would like to make it possible for as many shareholders as possible to participate. Shareholders who are unable to attend the meeting will be encouraged to authorise a proxy. A special proxy form has been drawn up to facilitate the use of proxies for each individual item on the agenda. One person is appointed to vote as a proxy for the shareholders. Representatives of the Board, at least one member of the Nominating Committee and the auditor will attend the General Meeting. Management is represented by the Chief Executive Officer and the Chief Financial Officer, at the very least.

Agenda and execution

The agenda is set by the Board, and the main items are specified in Article 8 of the Articles of Association. The same article stipulates that the Chair of the Board will chair the General Meeting. The CEO and other members of the corporate management board review the status of the Group.

All shareholders are entitled to have their cases dealt with at the General Meeting. Cases shall be submitted in writing to the Board a minimum of seven days prior to the deadline for sending the notification of the General Meeting. The reason for wanting to have the case added to the agenda should also be specified. The minutes from the General Meeting will be posted on the Group's website.

KONGSBERG has identified to deviations from the recommendation regarding section 6 – General Meeting. These concern the full Board's participation at the General Meeting, and an independent chair. The deviations are described in more detail in the introduction to this chapter.

7 NOMINATING COMMITTEE

Article 9 of the Group's Articles of Association specifies that the Group shall have a Nominating Committee. The Committee's work is regulated by special instructions adopted by the General Meeting. These instructions were last revised by the Annual General Meeting on 9 May 2016.

The main task is to make recommendations to the Company's General Meeting regarding the election of shareholder-elected Board members. The nominations shall be substantiated and recommend a nominee for the Chair of the Board separately. In the work on finding candidates for the Board, the Committee is in contact with relevant shareholders, Board members and the CEO.

In addition, the Nominating Committee shall submit proposals for the remuneration of Board members and their deputies, and make an annual evaluation of the work of the Board.

The Nominating Committee consists of three to four members who shall be shareholders or representatives of shareholders. The General Meeting shall elect all members of the Nominating Committee, including the Chair. The Nominating Committee itself proposes a list of Committee nominees to the General Meeting. The Nominating Committee's remuneration is approved by the General Meeting based on the Nominating Committee's recommendation.

Composition

The current Committee was elected by the Annual General Meeting of 16 May 2018 and consists of:

- Morten S. Bergesen, managing director of Snefonn AS and Havfonn AS
- Morten Strømgren, department director in the Ministry of Trade, Industry and Fisheries
- Vigdis M. Almestad, senior

PARTICIPATION IN BOARD AND COMMITTEE MEETINGS IN 2019

Participation in meetings	*Board*	*Audit Committee*	*Compensation Committee*
Eivind K. Reiten	11		4
Anne-Grete Strøm-Erichsen	10		4
Morten Henriksen	11	6	
Martha Kold Bakkevig	10	6	
Per Arthur Sørlie (appointed 14 May 2019)	6	3	
Elisabeth Fossan	11		4
Helge Lintvedt	11	6	
Sigmund Ivar Bakke	11		
Irene Waage Basili (retired 14 May 2019)	4		

portfolio manager in ODIN Forvaltning AS

Bergesen was elected Chair of the Committee. The Nominating Committee is elected for a period of two years, and the next election will be held at the Annual General Meeting in 2020.

None of the Committee's members represents KONGSBERG's management or Board. The members are considered to be independent of the daily management and Board. Morten S. Bergesen is managing director of Snefonn AS which, as of 31 December 2019, had a shareholding of 1.32 per cent in KONGSBERG. In addition, Bergesen is managing director of Havfonn AS, which had a shareholding of 0.65 per cent in KONGSBERG at the same point of time. Morten Strømgren is employed by the Ministry of Trade, Industry and Fisheries which, as of 31 December 2019, had a shareholding of 50.001 per cent in KONGSBERG. Vigdis M. Almestad is employed by ODIN Forvaltning AS which, through its funds, had a 1.39 per cent share in KONGSBERG at 31 December 2019. The Nominating Committee is considered to have a composition that reflects the common interests of the community of shareholders. Information about the Nominating Committee, a form for nominating candidates for the Board/Nominating Committee and the deadlines are available on the Group's website.

8 THE BOARD, ITS COMPOSITION AND INDEPENDENCE

The Annual General Meeting in 1999 resolved to discontinue the Corporate Assembly. The reason was an agreement between the unions and the Group that increased the number of employee representatives on the Board from two to three.

Composition of the Board

The Board consists of eight members and currently has the following composition:
Eivind K. Reiten (chair), Anne-Grete Strøm-Erichsen (deputy chair), Morten Henriksen, Martha Kold Bakkevig and Per A. Sørlie. Elisabeth Fossan, Helge Lintvedt and Sigmund Ivar Bakke are Board members elected by and among the employees. Detailed information on the individual directors can be found on the Group's website.

The Board held 11 meetings in total in 2019, of which eight were ordinary, one was held as a telephone conference, and two were Board deliberations without a meeting.

It is important that the entire Board has the expertise required to deal with Board work and the Group's main business activities. In addition, the directors need to have the capacity to carry out their duties.

According to the Articles of Association, the Group shall have five to eight directors. The CEO is not a Board member.

In electing the Board of Directors, the Nominating Committee presents its proposals for Board representatives and Chair to the shareholder-elected Board representatives to the General Meeting. The Board and Chair are selected by the General Meeting for a two-year period.
Eivind K. Reiten was elected Chair of the Board. All Board members will be up for election in 2021.

The Board's independence

All shareholder-elected directors are considered autonomous and independent of the Group's corporate executive management. The same applies relative to important business associates. The Election Committee for the election of employee representatives to the Board complies with the Representation Ordinance and ensures that the recommendation of independence is addressed through nominations and elections. It is important that there are no conflicts of interest between owners, the Board, management and the Company's other stakeholders.

Among the shareholder-elected directors, there are three men and two women, i.e. 40 per cent women.

Election of the Board

The General Meeting elects the five shareholder-elected representatives to the Board. Board members are elected by a simple majority. The Nominating Committee prepares a recommendation for shareholder-elected representatives ahead of the general meeting. The recommendations will be available to the shareholders contemporaneous with notification of the General Meeting. The Norwegian state owns 50.001 per cent of the shares in KONGSBERG and could, in principle, exercise control over the election of the shareholders' directors. The directors are elected for two-year terms and are eligible for re-election.

Three of the directors are elected by, and from, the Group's employees. The election of employee representatives in 2019 was cancelled and a re-election will be carried out in first quarter 2020.

The directors' shareholdings

Directors are encouraged to own shares in the company, but this is not a requirement. As of 31 December 2019, the shareholder-elected directors held the following portfolios of shares in the Group:

- Eivind K. Reiten owns 2,850 (2,850) shares through his 100 per cent-owned company Mocca Invest AS.
- Anne-Grete Strøm-Erichsen owns 2,000 (2,000) shares through her 50 per cent-owned company AGSE Consulting.
- Morten Henriksen owns 3,027 (3,027) shares.
- Martha Kold Bakkevig owns 2,119 (2,119) shares through her 50 per cent-owned company Kold Invest AS.
- Per A. Sørlie owns 1,400 (0) shares.

The employee-elected board members hold the following portfolios of shares in KONGSBERG as of 31 December 2019:

- Elisabeth Fossan owns 5,209 (4,904) shares.
- Helge Lintvedt owns 0 (0) shares.
- Sigmund Ivar Bakke owns 3,383 (3,078) shares.

9 THE BOARD'S WORK

The Board's responsibilities

The Board bears the ultimate responsibility for managing the Group and for monitoring day-to-day administration and the Group's business activities. This means that the Board is responsible for establishing control systems and for ensuring that the Group operates in compliance with the adopted value platform and the Corporate Code of Ethics, as well as in accordance with the owners' expectations of good corporate governance. First and foremost, the Board protects the interests of all shareholders, but it is also responsible for safeguarding the interests of the Group's other stakeholders.

The Board's main responsibilities are to contribute to corporate competitiveness, and to ensure that the Group develops and creates value. Furthermore, the Board is to participate in the framing and adoption of the Group's strategy, exercising the requisite control functions and ensuring that the Group is managed and organized in a satisfactory manner. The Board sets the objectives for financial structure and adopts the Group's plans and budgets. The Board also handles items of major strategic and/or financial importance to the Group.

In important cases where the Chair or other Board members have been actively engaged, this will be disclosed in the proceedings and managed by the Board on a case-by-case basis. These tasks are not constant and the focus will depend on the Group's needs at any given time. The Board appoints the CEO, defines their work instructions and authority, and determines their wages.

Board instructions

The Board's instructions are subject to review every second year by the Board and are revised as needed. The current instructions were presented to the Board in February 2019. The instructions cover the following items: the notification of Board meetings, notification deadlines, administrative preparations, Board meetings, Board decisions, the keeping of minutes, the Board's competency and items on the Board's agenda, segregation of duties between the Board and the CEO, relations between subsidiaries and the parent company, independence and disqualification, main principles for the work of the Board in connection with a possible corporate take-over, confidentiality and professional secrecy and relations to legislation, the Articles of Association and instructions. Rules of procedure for the Board of directors can be read on the Group's website.

The Board may decide to deviate from the instructions in individual cases.

Instructions for the CEO

There is a clear segregation of duties between the Board and executive management. The Chair is responsible for ensuring that the Board's work is conducted in an efficient, correct manner and in compliance with the Board's responsibilities.

The CEO is responsible for the Group's operational management. The Board has prepared a separate instruction for the CEO. The instruction will be reviewed by the Board every second year and will be revised as required. The current instructions were presented and revised by the Board in February 2019.

Financial reporting

The Board receives financial reports ten times per year where the Group's economic and financial status is described. The reports are financial presentations that describe what has happened in the Group's operative and administrative functions during the reporting period. The financial report forms the basis for internal control and communication on status and necessary measures. Quarterly financial reports are compiled that form the basis for the external financial report. This report is dealt with in the Group's audit committee before being submitted to and reviewed by the Board. The report is made public after approval from the Board.

Notice of meetings and discussion of items

The Board schedules regular Board meetings each year. Ordinarily, eight meetings are held each year. Additional meetings are held on an ad hoc basis. The Board held 11 Board meetings (17) in 2019, of which one was held as a telephone conference, and two Board deliberations conducted without a meeting. The Board meetings had 97 (96) per cent attendance in 2019.

All directors receive regular information about the Group's operational and financial progress well in advance of the scheduled Board meetings. The Company's business plan, strategy and risk are regularly reviewed and evaluated by the Board. The directors are free to consult the Group's senior executives as needed. The Board draws up and adopts an annual plan, including set topics for the Board meetings. Ordinarily, the CEO proposes the agenda for each individual Board meeting. The final agenda is decided in consultation between the CEO and the Chair of the Board.

Besides the directors, Board meetings are attended by the CEO, CFO, other EVPs as needed, and the General Counsel (secretary of the Board). Other participants are called in on an ad hoc basis.

The Board adopts decisions of material importance to the Group. This involves, amongst other things, the approval of the annual and quarterly accounts, strategies and strategic plans, the approval of investments, contracts, as well as acquisitions and divestitures of businesses where the Group's authority matrix or the Group's directive concerning significant offers, contracts or framework agreements require this.

New directors are briefed on the Group's current strategy and historical factors related to the current situation.

Duty of confidentiality – communication between the Board and shareholders

The Board's proceedings and minutes are, in principle, confidential unless the Board decides otherwise, or there is obviously no need for such treatment. This ensues from the instructions to the Board.

Competence

The entire Board has completed a programme to gain insight into the Group's business activities. In that connection, the Board makes excursions to different Group locations. The purpose of the excursions is to improve the Board's insight into the commercial activities in the area.

Disqualification

The Board and CEO cannot discuss cases in which they have a significant special interest, and are bound by the rules regarding disqualification as they appear in Section 6–27 of the Public Limited Companies Act and in the instructions to the Board.

Guidelines for directors and executives

The Corporate Code of Ethics discusses this topic under conflicts of interest under Item 5.10. The same applies to the instructions to the Board. Here, it is emphasised that the Board shall act independently of special interests. Independence in this context is defined as follows:

- Board members shall normally not receive any remuneration from the company other than their directors' fee and remuneration for work on Board committees. Any deviation from this general rule requires the approval of the entire Board and shall be recorded in the minutes. When material transactions take place between the company and a director or the CEO, an independent valuation shall be obtained from a third party.
- Board members shall inform the Board of any relationships with KONGSBERG's significant business associates or interests in its transactions.
- The directors' fee shall not be linked to the financial performance of the Group and options shall not be allocated to Board members.
- Cross relationships between directors, the CEO or other executives shall be avoided.
- Board members shall not have or represent significant business relations with the Group.

If a director is in doubt about his/her legal competence, the question shall be discussed by the entire Board. The conclusion on the question of disqualification shall be recorded in the minutes.

Use of board committees

The Board has two subcommittees: an Audit Committee and a Compensation Committee. Both committees act as preparatory bodies for the Board; they are accountable only to the assembled Board and have only recommending authority. In addition, special committees are formed as needed, such as appointment committees.

The Board's Audit Committee

The Audit Committee shall support the Board in its responsibilities related to financial reporting, audits, internal control and overall risk management. The Audit Committee is also a preparatory body in terms of non-financial policy and control. The Committee previously consisted of two shareholder-elected directors and one employee-elected director. After the General Meeting in 2019, the Audit Committee was expanded with one more shareholder-elected board member. The Committee now consists of four members. The Group's CFO and its elected accountant normally participate in the meetings. The CEO and the other directors are entitled to attend if they so desire. Six (seven) meetings were held in 2019, of which one was extraordinary. Members: Morten Henriksen (chair), Martha Kold Bakkevig, Per A. Sørlie and Helge Lintvedt. The instructions for the Audit Committee are published on the Group's website.

The Board's Compensation Committee

The committee shall prepare issues for Board discussion related to remuneration, management development and diversity. This includes, among others, discussion of issues associated with the remuneration for the CEO, and questions of principle relating to salary levels, bonus systems, pension schemes/terms, employment contracts, etc. for leading employees. The committee also prepares issues regarding other conditions associated with remuneration that the committee considers of particular significance to the company's competitive position, profile, recruitment ability, reputation, etc. In addition, the committee prepares for discussion of the Group's management development plans, performance reviews and succession plans for managers, with particular emphasis on ensuring diversity.

The Committee consists of the Chair of the Board, one shareholder-elected director and one employee-elected director. The CEO is entitled to participate in the Committee's meetings if they so desire, except when their own situation is under discussion. Four (four) meetings were held in 2019.

Members:
Eivind K. Reiten (chair), Anne-Grete Strøm-Erichsen and Elisabeth Fossan. The instructions for the Compensation Committee are published on the Group's website.

The Board's own evaluation

The Board has one extended meeting each year to evaluate the work done by the Board and the CEO. In this connection, the Board also holds its own activities up for comparison with the Norwegian Code of Practice for Corporate Governance. The Board's evaluation is made available to the Nominating Committee. Individual performance interviews are conducted each year between the Chair of the Board and the other directors.

10 RISK MANAGEMENT AND INTERNAL CONTROL

The Board's responsibilities and the purpose of internal control

KONGSBERG's internal control and risk management system for financial reporting are based on the internationally recognised COSO framework.

The Group has established a decentralised management model featuring delegated responsibility for profits. As a result, the control function parallels the Group's management model, and it is the individual unit's responsibility to make sure that it has the capacity and expertise it requires to carry out responsible internal control. Corporate executive management and the individual technological fields are responsible for ensuring that the business areas have implemented the appropriate internal controls.

Ten times per year, the management prepares operating reports including risk analyses, and these are sent to the directors. In addition, quarterly financial reports are published for the financial market. The Audit Committee reviews the Group's quarterly report ahead of the Board meeting. The auditor takes part in the Audit Committee's meetings and meets with the entire Board in connection with the presentation of the interim annual financial statements and as otherwise required.

Follow-up by the Board

The Board follows up risk management and internal controls through its annual plan and agenda. This includes a quarterly review of strategic and operational risks, central discretionary items related to financial reporting and non-financial compliance. The Board processes and approves major customer quotations according to the Group's authority matrix. The Board is also involved in the Group's strategy processes on an ongoing basis.

The Group's financial position and risks are thoroughly described in the Directors' Report.

The Board conducts an annual review of the Group's key governance documents to ensure that these are updated and cover the relevant topics.

Compliance with values, ethics and corporate social responsibilities

KONGSBERG stresses that our values and Code of Ethics are to be an integral part of operations. We expect our employees and partners to demonstrate high ethical standards and compliance with applicable rules and regulations.

In 2019, KONGSBERG continued its work on systematic development and follow-up of important areas for compliance with regulations, rules and internal guidelines. The Group has focus on the anti-corruption programme, where employee training, cooperation with business partners on anti-corruption measures as well as training and review of market representatives have been the key elements. We also have a particular focus on export control and sanctions. The Group has compliance functions at both a corporate level and in the business areas. In the same way as the financial reporting, the internal control was established in accordance with a decentralised management model. The KONGSBERG compliance programme is coordinated and monitored from a corporate level.

Routines have been established for notification and follow-up on any alleged misconduct. The Group has a whistleblower system with a web-based notification channel available to all employees globally, providing the opportunity for external notifications and anonymity for whistleblowers.

The Group has an Ethics Committee whose purpose is to promote high ethical standards and good behaviour, and to ensure that KONGSBERG maintains a good reputation.

11 REMUNERATION OF THE BOARD

The Annual General Meeting approves the remuneration paid to the Board each year. The proposal for remuneration is made by the Nominating Committee. From the Annual General Meeting in 2019 until the next Annual General Meeting, the total remuneration to the Board members will amount to NOK 2,473,000 (NOK 2,355,000).

The remuneration breaks down as follows:

- Board Chairperson NOK 544,000 (NOK 518,000)
- Deputy Chair NOK 291,000 (NOK 277,000)
- Other Board members NOK 273,000 (NOK 260,000)

In addition, the members of the Audit Committee receive NOK 10,400 (NOK 10,100) per meeting, and a maximum of NOK 104,000 (NOK 101,000) per year. The Committee's chair receives NOK 12,700 (NOK 12,100) per meeting, and a maximum of NOK 127,000 (NOK 121,000) per year.

The members of the Compensation Committee receive NOK 9,400 (NOK 9,400) per meeting, and a maximum of NOK 47,000 (NOK 47,000) per year. The Committee's chair receives NOK 11,700 (NOK 11,200) per meeting, and a maximum of NOK 58,500 (NOK 56,000) per year.

The directors' fees are not contingent on financial performance, option programmes or the like. No remuneration has been paid in allowances, apart from normal Board fees. None of the Board's shareholder-elected directors works for the company outside of their directorships, and no-one has any agreement regarding a pension plan or severance pay from the company.

12 REMUNERATION OF EXECUTIVE MANAGEMENT

The Board has drawn up special guidelines for the determination of salaries and other remuneration to executive management. The CEO's terms of employment are determined by the Board. Each year, the Board undertakes a thorough review of salary and other remuneration to the CEO. The evaluation is based on market surveys of comparable positions.

The structure of the incentive system for the other members of the corporate executive management is determined by the Board and presented to the Annual General Meeting for information purposes. The terms are determined by the CEO in consultation with the Chair of the Board.

The Board's attitude to executive management's salaries is that they should be competitive and provide incentive, but not be at the very top end of the scale. The incentive system consists of basic wages, bonuses, pensions, long-term incentives (LTI), severance arrangements and other benefits in kind.

The guidelines for determining salaries and other remuneration to executive management are presented in the General Meeting. The guidelines are binding for the LTI scheme and serve as guidelines for the rest.

Performance-based part of salary

In 2006, the Board introduced a new bonus system for executive management. The scheme was adjusted slightly in 2016 and further adjusted in 2018. Performance-based compensation is linked to improved EBIT and ROACE, increased operating revenues and individual targets.

The payment of performance-based salary has a ceiling of 50 per cent of the basic salary. A more detailed description of the scheme is given in Note 28, "Declaration regarding the determination of salaries and other remuneration to senior executives" in the Annual Report for 2019. In 2019, the Group had 76 (76) managers who were covered by an incentive plan that included an individual performance element.

The Bonus System meets guidelines for salaries and other remuneration to senior employees of enterprises and companies with a state shareholding. In 2019, the bonus system consisted of direct payments and payments from previous bonus banks. The bonus bank scheme was discontinued in 2019.

Long-term incentive (LTI)

In 2012, the Board decided to introduce a (LTI) scheme as part of the regular remuneration for the CEO and other members of corporate executive management. The programme was changed to a variable performance system in 2016. As of 2018, the LTI scheme was further expanded to include management groups in the business areas, as well as key positions. The LTI programme represents a maximum of 30 per cent of the fixed salary for the CEO and 25 per cent for the rest of the group management, 15 per cent for the management groups in the business areas and 10 per cent for key positions. The rationale is to be competitive with comparable companies. A more detailed description of the scheme is provided in Note 28 of the annual financial statements for 2019.

Conditions

Remuneration to corporate executive management and the Board is described in Notes 28 and 29 to the consolidated financial statements for 2019.

13 INFORMATION AND COMMUNICATION

Annual Report and Directors' Report – interim reporting

The Group usually presents preliminary annual accounts in February. "The Annual Report and Sustainability Report" are sent to shareholders and other stakeholders in March/April. Beyond this, the Group presents its accounts on a quarterly basis. Other information linked to sustainability and corporate social responsibility can be found on the Group's website. The Group's Financial Calendar is published via a stock exchange announcement, on the Group's website and in the Annual Report.

Other market information

Open investor presentations are conducted in connection with the Group's annual and quarterly reports. Here the CEO, assisted by the CFO, reviews the results and comments on markets and future prospects. Other members of the Group's management participate as needed. An annual Capital Markets Day is usually held in which business area directors will participate. The entire Group management is normally present at this Capital Markets Day.

The annual and quarterly reports will be available on www.newsweb.no (Oslo Stock Exchange) and on the Group's website, along with presentation of the results. The annual and quarterly results are also available via video transmission. Beyond this, the Group conducts an ongoing dialogue with and makes presentations to analysts and investors.

Informing owners and investors about the Group's progress and economic and financial status is considered to be of great importance. Attention is also devoted to ensuring that the equity market gets the same information at the same time. The prudence principle is applied to guarantee impartial distribution of information when communicating with shareholders and analysts.

The Group has directives concerning communication with the investor market and handling of insider information. Emphasis is given to equal treatment of all shareholders.

14 TAKE-OVERS

There are no defence mechanisms against take-over bids in the Group's Articles of Association, nor have other measures been implemented to limit the opportunity to acquire shares in the company. The Norwegian government owns 50.001 per cent of the shares. The marketability of these shares is subject to parliamentary discretion. The Board's instructions contain an item that refers to the guiding principles for how the Board shall react in the event of any take-over bid. The Board is responsible for ensuring that KONGSBERG's shareholders are treated equally and that operations are not disrupted unnecessarily.

Where a bid is made for the entirety or parts of the company, the Board shall draw up a statement containing a well-founded evaluation of the bid and, if need be, provide an independent third-party assessment. The evaluation shall specify how, for example, a take-over would affect long-term value creation at KONGSBERG.

If a bid is made for the Company's shares, the Company will not limit others from presenting similar bids for the Company's shares, unless this is clearly justified as being in the Company's and shareholders' common interest. In the event of a bid for the Company's shares, the Company will publish the required disclosures pursuant to legislation and regulations for companies listed on the Oslo Stock Exchange.

15 AUDITOR

The auditor's relationship to the Board

The Group's auditor is elected by the General Meeting. A summary of the main aspects of the work planned by the auditor shall be presented to the Audit Committee once a year.

The auditor is always present at the Board's discussions of the annual accounts. At that meeting, the Board is briefed on the financial statements and any other issues of particular concern to the auditor, including any points of disagreement between the auditor and management. The auditor normally also participates in the Audit Committee's meetings.

The Audit Committee arranges annual meetings with the auditor to review the report from the auditor that addresses the Group's accounting policy, risk areas and internal control routines.

At least one meeting a year will be held between the auditor, the Audit Committee and the Board without the presence of the CEO or other members of executive management.

The auditor has presented a written declaration to the Board concerning the fulfilment of fixed independence requirements between the auditor and the Group pursuant to the Accountancy Act. The Board has dealt with the guidelines for the business relationship between the auditor and the Group.

Ernst & Young AS is the Group auditor. Some smaller companies within the Group use other audit firms. Some foreign companies do not have auditors as this is not a part of the local requirements. In addition to ordinary auditing, the auditing company has provided consultancy services related to accounting. For further information, see Note 30 of the Group's financial statements.

At regular intervals, the Board evaluates whether the auditor exercises a satisfactory level of control and assesses the auditor's competitiveness otherwise.

16 MANAGEMENT AND INTERNAL PROCEDURES

The Group's subsidiaries have their own Boards, which are comprised of internal managers and employees. The managing director of the holding company or a person authorised by the managing director will chair the Board of the subsidiaries. Appointments of the Boards and the Board work in subsidiaries are handled pursuant to the Group's principles for good corporate governance.

Guidelines for share trading

The company has laid down internal guidelines, aimed primarily at the company's primary insiders, for trading in the company's shares. These guidelines are updated regularly to maintain compliance with the legislation and regulations that apply at any given time. The guidelines require primary insiders to secure internal clearance from the CEO before KONGSBERG shares are bought or sold.

05

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

Directors' Report 2019

Kongsberg Gruppen (KONGSBERG) is an international technology group that delivers advanced and reliable solutions that improve safety, security and performance in complex operations and under extreme conditions. KONGSBERG has customers in the global defence, maritime, oil and gas, fisheries and aerospace sectors.

2019 proved to be an eventful year for KONGSBERG. The company completed two key acquisitions, achieved a record high order intake, delivered growth in all business areas and launched new products and systems. Kongsberg Maritime (KM) made an excellent start integrating the new area of Commercial Marine (CM). This is the largest integration ever carried out within KONGSBERG and the area has delivered a positive underlying EBITDA in all quarters since the acquisition was completed. Kongsberg Defence & Aerospace (KDA) doubled its order backlog during the year, and signed the single largest contract in KONGSBERG's history, for the NASAMS air defence system. The acquisition of Aerospace Industrial Maintenance Norway (AIM) strongly positions KDA as a key strategic partner for the Norwegian Armed Forces, including maintenance services. During the year, Kongsberg Digital (KDI) achieved two important breakthroughs. The launch of the Vessel Insight concept and a contract for and delivery of a dynamic digital twin for the Nyhamna process plant are proof that KONGSBERG is well positioned within the field of digitalisation.

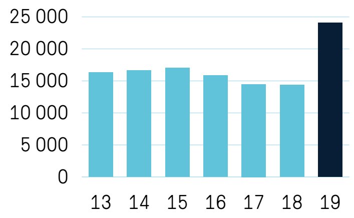
Operating revenues rose by 67 per cent to MNOK 24,081 compared to 2018. Adjusted for the effect of acquired companies, revenues increased by 16 per cent. KM recorded an increase of 113 per cent (18 per cent adjusted for the effect of acquired companies), whilst KDA recorded an increase of 19 per cent. Both business areas had a strong increase in order intake, with an increase of MNOK 6,585 for KM and MNOK 9,175 for KDA compared to 2018. Adjusted for the effect of acquired companies, KM increased its order intake by MNOK 146. The total order intake for the Group ended at MNOK 32,452, up from MNOK 16,574 in 2018. EBITDA increased by MNOK 462 to MNOK 1,856 in 2019, excluding IFRS16 effects. Including IFRS16 effects, EBITDA increased to MNOK 2,279.

Profit for the year after tax amounted to MNOK 717 (MNOK 704 in 2018), corresponding to NOK 3.89 per share (NOK 5.58). The Group had a negative cash flow of MNOK 4,426 in 2019 (positive MNOK 7,057 for 2018) and had a net interest-bearing

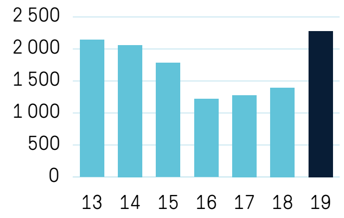
KONGSBERG

Headquarter	Kongsberg
Number of employees	10 793
Share of employees outside Norway	40%
Number of locations, countries	40
Share of revenues outside Norway	82%

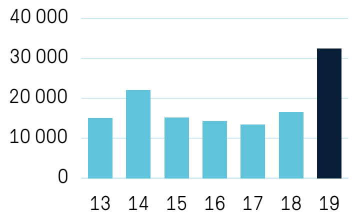
Operating revenues
MNOK



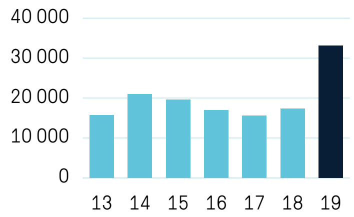
EBITDA
MNOK



New orders
MNOK



Backlog of orders
MNOK



debt of MNOK -1,565 (MNOK -5,706) at the end of the year. At the end of the year Group's equity was MNOK 12,810 (MNOK 12,626). KONGSBERG has a solid financial position, and the Board therefore recommends an ordinary dividend for the 2019 financial year of MNOK 450, equivalent to NOK 2.50 per share (NOK 2.50). A share buy-back programme is also proposed regarding treasury shares for up to MNOK 500, equivalent to approximately NOK 2.77 per share. The board will requests the annual general meeting (AGM) for an authorisation to pay out additional dividend up to MNOK 1,800, corresponding to NOK 10.00 per share. The total proposed dividend represent up to 314 per cent (64 per cent) of the ordinary profit for the year.

The acquisition of Rolls-Royce Commercial Marine reinforces KONGSBERG's position as a holistic supplier to the maritime industry.

TWO KEY ACQUISITIONS COMPLETED

Acquisition of Rolls-Royce Commercial Marine

On 6 July 2018, KONGSBERG entered into an agreement to acquire Rolls-Royce Commercial Marine (RRCM) from Rolls-Royce Plc. The acquisition was completed on 1 April 2019. The final payment for the company, exclusive cash, was MNOK 4,865. The acquisition of RRCM makes KONGSBERG a more holistic supplier to the maritime industry.

RRCM is a technology enterprise that supplies equipment and maintenance services to most segments within offshore and merchant vessels. The company is considered to be the leading supplier of propulsion systems for offshore vessels, which is also its largest product group. RRCM also supplies deck equipment, stabilising systems, ship design, electrical engineering, automation and control systems, and invests in digital technologies of the future, within e.g. autonomous vessels. RRCM is hereinafter referred to as Commercial Marine (CM).

Acquisition of Aerospace Industrial Maintenance Norway AS

In December 2018, KONGSBERG, through KDA, signed an agreement with the Ministry of Defence to acquire Aerospace Industrial Maintenance Norway AS (AIM). The acquisition was completed on 29 May 2019. AIM was the Norwegian Armed Forces' organisation that performed maintenance, overhaul and upgrading of the Norwegian Air Force's planes and helicopters. KONGSBERG also signed an agreement with Patria for shared ownership of AIM in order to further boost delivery capacity and expertise. KONGSBERG is the majority owner with 50.1 per cent, with Patria owning the remaining shares. The acquisition of AIM strengthens KONGSBERG's role as a strategic partner for the Norwegian Armed Forces' operational needs, and consolidates KONGSBERG's position within Maintenance, Repair and Overhaul (MRO). Following the takeover from KONGSBERG, AIM has been renamed Kongsberg Aviation Maintenance Services (KAMS).

The acquisition of AIM strengthens KONGSBERG's role as a strategic partner for the Norwegian Armed Forces' operational needs, and consolidates KONGSBERG's position within Maintenance, Repair and Overhaul (MRO).

THE BUSINESS AREAS

Kongsberg Defence & Aerospace

MNOK	*2019[1)]*	*2018[1)]*
Operating revenues	7 245	6 104
EBITDA	1 157	863
EBITDA margin	16,0 %	14,1 %
Order intake	16 060	6 885
Order backlog	20 146	10 744

1) IFRS16 effects are included in 2019, but not in 2018.

KDA had operating revenues of MNOK 7,245 in 2019, which is MNOK 1,141 higher than in 2018. The Missiles, Aerostructures and Integrated Defence Systems divisions contributed the most growth in 2019. The EBITDA margin ended at 16.0 per cent (13.7 per cent excluding IFRS16) compared to 14.1 per cent in 2018. Profitability improved in most divisions, with the exception of Patria, where the share of net income fell from MNOK 80 in 2018 to negative MNOK 35 in 2019. Adjusted for the contribution from Patria, the EBITDA margin in 2019 was 14.1 per cent (excluding IFRS16) compared to 12.8 per cent in 2018.

The order backlog increased from NOK 10,744 at the end of 2018 to NOK 20,146 at the end of 2019, with an export share of over 90 per cent. This provides a good starting point for positive development of operating revenues in the future.

The Missiles division increased operating revenues considerably in 2019. This is the result of the increase in activity linked to both the Naval Strike Missile (NSM) and the Joint Strike Missile (JSM), which are the division's main products. These long-range high-precision missiles are world leading with their fifth generation low-signature design.

In addition to an increase in production in connection with the contract with Malaysia, which was signed in 2018, and the US OTH "Over the Horizon" programme, there has been an increase in activity linked to JSM. The first delivery contracts for JSM were signed in 2019 with Japan. At the same time, activity levels are high, partly as a result of the production of test missiles linked to Norway's JSM integration programme for the F-35. Over the coming years, further increases in activity levels are anticipated within both JSM and NSM as a result of demand for this type of capacity from many countries.

The USA has long been an important customer for KDA. The U.S. Army chose KONGSBERG's Protector system as its standard remote weapon station in 2007. Since then, KONGSBERG has delivered over 15,000 systems to

KAMS stood out during the year, partly by signing a major maintenance contract for NH90 helicopters, and the KAMS-Patria combination is now making the company a "one-stop shop" as regards helicopter maintenance.

the USA, partly through the CROWS programme, which has been used for deliveries to the U.S. Navy, the U.S. Air Force and the U.S. Marine Corps. In September 2018, KDA signed a framework agreement with a value of up to MUSD 498 for the next five-year period of the CROWS programme. Over 80 per cent of this framework has already been ordered and the Protech Systems division's order intake in 2019 was at its highest level since 2011. The number of nations using remote weapon stations across the world increased to 23 during 2019. Of particular interest was Germany, which will use a modified version of 'drone protection'.

In 2008, KONGSBERG opened a new factory to produce aircraft components from advanced composite and titanium for the new F-35 combat aircraft, and since 2008, volumes have increased continually year on year. From producing a few parts kits during the early years, production amounted to 160 parts kits in 2019 and is now running at full capacity. A key objective for KONGSBERG is to deliver on time without any quality deviations in the F-35 programme. This puts us in a strong position on a programme that will generate revenues for the Group over the next 20–30 years. In 2019, the Aerostructures division recorded operating revenues in excess of NOK 1 billion for the first time. Kongsberg Aviation Maintenance Services (KAMS), formerly AIM Norway, is now also part of the Aerostructures division. The company was formally taken over on 29 May 2019 and KAMS has now been successfully integrated. KAMS stood out during the year, partly by signing a major maintenance contract for NH90 helicopters, and the KAMS-Patria combination is now making the company a "one-stop shop" as regards helicopter maintenance. Increased maintenance activity is anticipated within KAMS through the strategic collaboration agreement which was signed with the Norwegian Armed Forces in 2019.

Amongst other things, the Integrated Defence Systems (IDS) area supplies the NASAMS air defence system, combat systems for submarines and digital solutions for vehicles used by the Army. The division's operating revenues exceeded MNOK 2,000 for the first time in 2019. The increase in turnover was driven by strong order intake in recent years and an increase in ongoing deliveries to Lithuania, Indonesia, Australia and Qatar. The latter two contracts were signed in 2019 and are worth MNOK 1,600 for Australia and MNOK 5,600 for Qatar respectively. The contract with Qatar is the single largest contract ever signed in the history of KONGSBERG. Kta naval systems was established in 2018. Kta is a joint venture between KONGSBERG, German ThyssenKrupp Marine Systems (tkMS) and Atlas Elektronik. The company is expected to play a major role in connection with equipment for the new German-Norwegian submarines which has been announced will be ordered. Kta has an exclusive agreement to supply combat systems for all future submarines built by German company tkMS.

KONGSBERG is the largest aerospace industry company in the Nordic region, and the activity within this segment is increasing.

Through Kongsberg Satellite Services (KSAT), KONGSBERG is a world leader in the downloading and distribution of satellite data. KSAT also provides services within areas such as environmental, security and climate monitoring based on satellite data both from the traditional space programmes and from satellite constellations within the New Space segment. KONGSBERG supplies extremely advanced products within major space programmes such as Copernicus and Galileo, as well as supplier to other commercial players within the space industry. KONGSBERG also sees substantial synergies between space and the defence, and will focus on developing solutions with applications in this area going forward.

Investing in defence programmes is an extensive and time-consuming process. The customers for large defence systems are national authorities in the respective countries. These customers consider national security and domestic economic development as significant factors, in addition to price and performance, when purchasing defence equipment. National budgets and policies will therefore have a strong impact on whether and when any contract can be entered into with KONGSBERG. The market is not subject to international free trade agreements and is often characterised more by national protectionism than is seen in most other industries. Predictability in the export regulations with respect to defence material and the application of the regulations is therefore an important framework condition for KONGSBERG.

It is important for the Norwegian defence industry that the Norwegian authorities' emphasis is on repurchase agreements and agreements that secure market access in connection with purchase of defence equipment from abroad. When the Norwegian Armed Forces make significant investments through foreign suppliers, this often ties up a significant proportion of the defence budget. To ensure that military supplies are well adapted to Norwegian conditions and to guarantee a sustainable and competitive Norwegian defence industry, we emphasise the importance of Norwegian participation in such programmes. Both the Government and the Parliament have stressed the importance of industrial participation for Norwegian industry, and that this is in line with international practice. KONGSBERG will continue to emphasise partnerships with major defence contractors and continue to support the local industry in the business area's markets further. KONGSBERG's position as an attractive defence supplier in the international market will continue to be based on close cooperation with the Norwegian Armed Forces. This cooperation forms the platform for the development of leading products that are essential for any modern defence system. This also means increased activity for many of the business area's approximately 1,500 Norwegian subcontractors, based all over the country.

Kongsberg Maritime

MNOK	*2019[1)]*	*2018[1)]*
Operating revenues	16 038	7 545
EBITDA	1 151	594
EBITDA margin	7,2 %	7,9 %
Order intake	15 469	8 884
Order backlog	12 095	5 739

1) IFRS16 effects are included in 2019, but not in 2018.

In 2019, operating revenues amounted to MNOK 16,038, up from MNOK 7,545 in 2018. Growth in the "former KM" amounts to approximately 18 per cent. Commercial Marine (CM) has accumulated operating revenues of MNOK 7,134 (Q2 to Q4), an increase of approximately 10 per cent compared with 2018. EBITDA in 2019 amounted to MNOK 1,151, while the EBITDA margin was 7.2 per cent compared with MNOK 594 (7.9 per cent) in 2018. Excluding IFRS16 effects, the EBITDA is MNOK 855, while the EBITDA margin is 5.3 per cent. In 2019, a total of MNOK 416 in integration and restructuring costs was recognised linked to the integration of CM. A gain of MNOK 107 was also recognised relating to the sale of Kongsberg Evotec. As part of the acquisition of CM, a broad profitability improvement programme was initiated, with the aim of realising annual cost savings totalling MNOK 500 compared with 2018. Throughout 2019, cost savings of MNOK 260 was achieved, which is considerably more than the original schedule of MNOK 200 (adjusted to MNOK 250 in connection with the 2019 Capital Markets Day). The added savings stem from additional identified measures as well as faster-than-anticipated realisation. The target for realising MNOK 500 in annual cost savings is being brought forward by two years relative to the original schedule, from 2022 to 2020. The savings will be made through a raft of measures,

The target to realise MNOK 500 in annual cost savings linked to the integration of Commercial Marine is being brought forward by two years relative to the original schedule.

2019 saw high capacity utilisation and increasing activity levels in aftermarket. KM has a well-established network which supports more than 30,000 vessels fitted with KM equipment.

including the restructuring of loss-making entities, the merging of locations, consolidation of delivery functions, optimisation of product portfolios and technological initiatives, as well as reductions in overheads.

Order intake during 2019 amounted to MNOK 15,469, equivalent to a book-to-bill ratio of 0.96. The "former KM" had an order intake of MNOK 9,030, a book-to-bill ratio of 1.01, compared with MNOK 8,884 in 2018. CM had an order intake in 2019 of MNOK 8,412 (pro forma for Q1), compared with MNOK 9,901 (pro forma) in 2018.

Order intake and activity levels are strong for the Sensors & Robotics division, particularly within the area of Marine Robotics, where Hugin Superior was launched in 2019. This new autonomous underwater vessel (AUV) offers substantial improvements over previous versions as regards working depth, precision and capacity. AUVs are used for both civilian and military purposes, including seabed surveys, underwater installation inspection and naval minesweeping. KM signed three contracts for Hugin Superior in 2019, all with a value of approximately MUSD 10. On 4 February 2020, KONGSBERG announced that Hydroid Inc. was to be sold to US company Huntington Ingalls Industries for MUSD 350 on a cash- and debt-free basis. The sale is expected to be completed during the first half of 2020. In 2019, Hydroid contributed with operating revenues of MNOK 862 and an EBITDA of MNOK 133 in the Sensors & Robotics division.

2019 saw high capacity utilisation and increasing activity levels in the aftermarket. KM has a well-established network which supports more than 30,000 vessels fitted with KM equipment. Aftermarket accounts for almost half of KM's turnover. KM's aftermarket revenues are largely excluded from the order backlog. The competitive situation in traditional vessel solutions has been intensive in recent years, as a consequence of generally low contracts for deliveries. This, combined with the fact that major integrated vessel systems, which include high proportions of third-party deliveries generally result in lower contributions, means that the aftermarket is extremely important for securing increased activity levels and higher profitability in KM.

The contracting of new vessels was at a historically low level in 2019, particularly during the second half of the year. This is also apparent within KM, and the order intake from the new-build market was sluggish in most segments in 2019. One market that stood out in a positive direction in 2019 was LNG. This is a market where KM has traditionally held a strong position. New contracting in this market is at around the same level as in 2018, when the contracting of LNG Carriers reached a historically high level.

Despite generally sluggish activity in the new-build market, some important contracts were signed in 2019, including:

- Awilco 2 – MNOK 350 delivery which includes a broad system delivery consisting of systems from both the "former KM" and CM.
- Three new coastguard ships which are to be built by Vard – MNOK 280 for deliveries primarily from the Propulsion & Engines division.

With the introduction of new rules from IMO2020 and a much stronger focus on ESG (Environmental, Social and Governance) in the market generally, demand for environmentally friendly solutions is rising. KM's system and propulsion deliveries largely comprise systems which contribute to safer and more efficient operations. This reduces both emissions and risk. An example of such a delivery during 2019 was the upgrade of two Golden Energy offshore vessels. A "SAVe Energy Battery System" and a vessel performance management system from KONGSBERG were installed. In a DP2 operation, this reduces the running times of engines by 50 per cent and cuts fuel consumption by approximately 20 per cent. This is equivalent to

In addition to the traditional offshore market, KM supplies products and services to other associated markets, and many of these have shown positive development. Examples are fisheries, research, marine robotics and passenger ships.

a reduction of 300 tonnes of CO_2 and one tonne of NOx emissions.

For a number of years, KM's strategy has been to expand the delivery scope for every single vessel. A concept for integrated vessel solutions was launched in 2015, and with the acquisition of Commercial Marine, KM can now expand the concepts further. KM's deliveries include solutions from bridge to propeller, in addition to deck machinery, which facilitates significant integrated vessel solutions.

In addition to the traditional offshore market, KM supplies products and services to other associated markets, and many of these have shown positive development. Examples are fisheries, research, marine robotics and passenger ships. There has been a positive development in relation to the delivery of modern low-emission and energy-efficient solutions in a number of vessel segments. The strong order intake and underlying improvement in profitability (both in acquired and previous businesses) in 2019 confirms that KM is able to adjust to challenging market conditions.

The Norwegian maritime and offshore industry is important for the export industry. The Board therefore emphasises the need for a governmental industrial policy promoting growth and development in this sector, including competitive conditions and financing solutions.

Other activities

Other activities consist of Kongsberg Digital (KDI), real property, group functions and eliminations between the business areas.

KDI was established in 2016 as an important step for development of the next generation of digitalised products and services within our core areas. KDI took important steps during 2019, both with the launch of the new "Vessel Insight" concept and the breakthrough contract for a dynamic digital twin of the process plant at Nyhamna, which was signed and delivered during the final quarter of the year. The sector is of great strategic importance to KONGSBERG and is an important investment in relation to both the development and the digitalisation that the company sees as being within its core sectors. KDI's operating revenues rose by 25 per cent during 2019. Profitability has also improved as a result of increased volumes and cost improvements.

COMMENTS TO THE FINANCIAL STATEMENTS

Operating revenues

The Group's operating revenues in 2019 amounted to MNOK 24,081, up 67 per cent from MNOK 14,381 in 2018. Adjusted for acquired companies, growth in operating revenues amounted to 16 per cent in 2019. KM recorded operating revenues of MNOK 16,038, while KDA recorded corresponding revenues of MNOK 7,245 in 2019.

EBITDA development

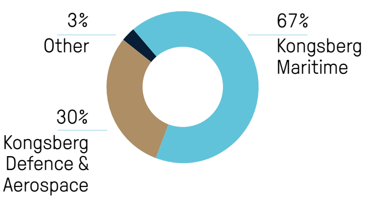
EBITDA amounted to MNOK 2,279 (MNOK 1,856 excluding IFRS16) compared with MNOK 1,394 in 2018, giving an EBITDA margin of 9.5 per cent. EBITDA was affected by MNOK 273 in integration costs and MNOK 143 in restructuring costs linked to the acquisition of RRCM. EBITDA in 2019 also includes a gain of MNOK 107 linked to the sale of Kongsberg Evotec. In 2018, EBITDA was negatively affected by MNOK 110 in integration costs. KDA increased its EBITDA from MNOK 863 to MNOK 1,157 (MNOK 990 excluding IFRS16) from 2018 to 2019, whilst KM's EBITDA increased from MNOK 594 to MNOK 1,151 (MNOK 855 excluding IFRS16).

Profit

Profit before tax was MNOK 967, compared to MNOK 844 in 2018. Profit after tax was MNOK 717, equivalent to NOK 3.89 per share in 2019, compared to MNOK 704 in 2018. Return on average capital employed (ROACE) was 10.0 per cent in 2019 (12.5 per cent in 2018).

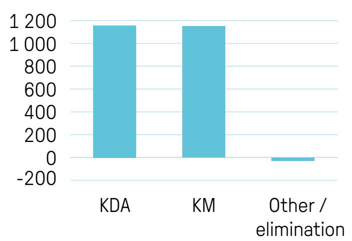
Distribution of revenue

Per cent



Distribution of EBITDA

MNOK



KONGSBERG's dividend policy states that the dividend over time shall constitute between 40 per cent and 50 per cent of the company's profit for the year. The Board proposes an ordinary dividend for the financial year 2019 at the same total level as for the financial year 2018: MNOK 450. This corresponds to NOK 2.50 per share (2.50), as well as a programme for buy-back of treasury shares for up to MNOK 500. In addition, the board will requests the AGM for an authorisation to pay out additional dividend of up to MNOK 1,800, corresponding to NOK10.00 per share. The number of outstanding shares as of 31 December 2019 was 179,990,065.

Cash flow

KONGSBERG had a positive cash flow from operational activities of MNOK 2,006 (MNOK 2,189) in 2019. This primarily consists of an EBITDA of MNOK 2,279, adjusted for changes in net current assets, current liabilities, net changes in investments in associated companies and joint ventures, other accruals and paid taxes.

In 2019, there was a negative cash flow related to investment activities of MNOK 5,174 (MNOK 382). Of this, MNOK 4,464 was linked to the purchase and sale of enterprises, primarily the settlement for Rolls-Royce Commercial Marine. Of this amount, MNOK 534 was related to the net purchase/sale of property, plant and equipment, while MNOK 173 related to capitalised research and development. Cash flow from financing activities is negative in the amount of MNOK 1,258, primarily linked to the repayment of debt, the payment of dividends and interest expenses.

Net change in cash and cash equivalents, after the effect of exchange rate changes, was MNOK 4,384 (MNOK 7,082).

Capital structure

In 2019, KONGSBERG revised its financial policy, and established the key priority for capital allocation of always having a healthy balance through ensuring that net debt is on a par with EBITDA as a long-term mean, subject to the condition that net debt does not exceed twice the EBITDA. This ensures a balance between creditor and shareholder, and offers security for KONGSBERG's suppliers and customers. This is

MNOK		*KONGSBERG consolidated*	*Kongsberg Defence & Aerospace*	*Kongsberg Maritime*	*Other/ eliminations*
Operating revenues	2019	24 081	7 245	16 038	798
	2018	14 381	6 104	7 545	732
EBITDA	2019	2 279	1 157	1 151	(29)
	2018	1 394	863	594	(63)
EBITDA margin	2019	9.5%	13.7%	7.2%	(3.6%)
	2018	9.7%	14.1%	7.9%	(8.6%)
New orders	2019	32 452	16 060	15 469	923
	2018	16 574	6 885	8 884	805

important because KONGSBERG is involved in deliveries which extend over many years.

The priorities as regards capital allocation also take into account the company's dividend policy, and are explained in more detail in Note 5 in the annual report. As of 31 December 2019, KONGSBERG's ratio for net debt/ EBITDA was -0.69.

The Group's equity as of 31 December 2019 was MNOK 12,810, which represents 32.5 per cent of total assets. The Group's net interest-bearing debt (cash less interest-bearing debt) was MNOK -1,565. At the year-end, long-term interest-bearing debt mainly consisted of five long-term bonds totalling MNOK 3,450. The Group also had a bond of MNOK 550 maturing in March 2020. As of 2019, the Group's revolving credit facility of MNOK 2,300 was unused. This facility runs until 15 March 2023.

KONGSBERG has historically experienced substantial fluctuations in working capital due to different payment structures for major projects in KDA. This situation is expected to continue.

Foreign currency

The Group's financial policy means that important contracts must be hedged against fluctuations in exchange rates upon establishment. These contracts are largely hedged using forward currency exchange contracts (fair value hedges). In special cases, the Group uses forward contracts as cash flow hedges, e.g. in the case of large tenders where there is a very high probability of winning the contract. The Group uses hedge accounting for established forward contracts, which means that changes in the value of hedging instruments and objects are capitalised. At the end of 2019, the balance of forward contracts related to fair value hedges was MNOK 15,122 measured at the agreed rates. These forward contracts had a net negative fair value of MNOK 60. In addition, the Group held MNOK 229 in cash flow hedges measured at agreed rates, consisting of forward contracts. At the year-end, these forward contracts had a net positive fair value of MNOK 11.

OUTLOOK FOR 2020

KONGSBERG entered 2020 with solid positions and a healthy balance. The order intake was strong during 2019, and the order backlog when entering 2020 was MNOK 33,129, representing a doubling from previous year. Approximately MNOK 7,000 of the increase came from acquired companies.

In the beginning of 2020 the world experienced an outbreak of a new virus, COVID-19. The outbreak started in Asia and have now spread to the rest of the world. Norway and several other countries have implemented a series of initiatives to both prevent the spread of the virus and to protect the industry and commerce. Among the initiatives in Norway were closing of all schools and universities, introduction of severe travel restrictions and other initiatives which restrict the people and corporates ability to operate "as normal". There have also been introduced several initiatives to assist the industry through a challenging situation, that for the majority of the industry will be very demanding. KONGSBERG will also be affected by this situation. The restrictions which so far have been implemented, makes especially the part of the business requiring travel challenging to accomplish. This especially affects the aftermarket operations in KM. At the same time, restrictions that limit people's ability to freely move around, closing of schools requiring parents' assisting homebased tuition, employees in quarantine, among others, makes the work/home situation challenging. KONGSBERG has implemented initiatives to protect own employees and business partners to secure as normal operations as possible and. It is still too early to predict the financial consequences caused by the virus outbreak, but it seems likely that KONGSBERG's activity and results will be affected by this going forward.

Specific consequences of the virus outbreak for the markets that KONGSBERG operates in, are challenging to predict. The defence market has been solid over the recent years and the demand of KONGSBERG's products and services has been good. Several parts of the maritime market have been challenging in 2019 and the vessel contracting ended at a historical low level. The competition for available projects is high. As a consequence of the ongoing virus outbreak, contracting of new vessels have been low the first months of 2020. Despite this situation, KONGSBERG has good order intake in the beginning of the year. The orders are mainly booked in the division Sensors & Robotics and from the aftermarket, where KONGSBERG has an equipment installed base of over 30,000 vessels.

Of the solid order backlog, approximately half of this or MNOK 16,700 are planned for delivery this year. The order intake from the aftermarket is normally not a part of the order backlog and will come in addition.

FUTURE STRATEGY AND PRIORITIES IN 2020

KONGSBERG is a global technology company that supplies systems and solutions with extreme performance for extreme conditions. KONGSBERG's deliveries are often of strategic importance for our customers, and contribute to the satisfaction of important societal needs and development trends within sectors such as safety, energy, transport and climate. Our technology makes critical operations for sustainable future solutions possible.

KONGSBERG's focus is to ensure increased competitiveness, while also laying the foundations for sustainable and profitable growth. Growth will come through a combination of organic growth and acquisitions. Organic growth is based on development and expansion of existing products, services and market positions as well as developing or putting together new products for new markets. KONGSBERG is continually investing in product and system development and aims to maintain a leading position with regard to innovation and technology development within the Group's core areas.

KONGSBERG has world-leading products and systems for the international defence market. The main focus for KDA is to secure strategically important contracts and achieve growth in selected geographical areas, both through our own activities and in collaboration with partners. KONGSBERG is aiming to continue to be a strategic partner for Norway, to become a leading defence supplier in Northern Europe and to strengthen our position in the USA. Through strong alliances with partners in the US, KONGSBERG has made important breakthroughs with, among other things, missiles and air defence systems in the US market. It is important to consolidate and develop these alliances further. KONGSBERG has a good and long-lasting cooperation with the Norwegian Armed Forces, which is important for continued international success.

KONGSBERG has leading positions in the marine market.

THE BUSINESS AREAS' PRIORITIES IN 2020

Kongsberg Defence & Aerospace

- Ensure good implementation of the major ongoing defence programmes.
- Take up a leading position as a defence supplier in Northern Europe.
- Further strengthen existing positions in the USA.
- Consolidate strategically important contracts.
- Further develop cooperation with Patria, and together with KAMS develop into a strong, international player within military maintenance.
- Ensure international market opportunities and industrial co-operation related to Norwegian defence investments.

Kongsberg Maritime

- Continue to work on the harmonisation of products and the extraction of further synergies from the acquisition of RRCM.
- Improve profitability.
- Secure and take new market positions, both within new and established main segments.

Kongsberg Digital

- Continue to invest in digitalisation of the maritime market through "Vessel Insight".
- Ensure further development of the sector through order intake from priority areas such as "Dynamic Digital Twin".
- Contribute to innovation and digital transformation of the cloud-based platform "Kognifai" through collaboration with partners.
- Ensure that KDI has the necessary resources at its disposal to take up strong positions within priority sectors.

The price of the KONGSBERG share rose from NOK 117.60 at the end of 2018 to NOK 138.00 at the end of 2019. This gives a market value at the end of 2019 of MNOK 24,840.

Through the acquisition of Rolls-Royce Commercial Marine, KM has expanded its leading position within integrated, advanced maritime solutions, and further strengthened its international sales and service network. Following a successful start to the extraction of synergies in 2019, KM will continue its efforts to extract further synergies. KM has identified two key focus areas: (i) Green shipping, (ii) Intelligent vessels, where our technologies are global leaders and contribute to more effective and more sustainable solutions for the maritime sector.

KDI is well-positioned to become a key player within the digital transformation. In 2019, KDI achieved two important breakthroughs: (i) The launch of "Vessel Insight", an advanced system for digitally connecting a vessel to shore through the "Kognifai" digital platform (processing of data from the equipment onboard developed for the maritime industry). (ii) Delivery of a "Dynamic Digital Twin" of Nyhamna to Shell. An important area of focus for KONGSBERG is to ensure that KDI has the necessary resources and capacity to take up a strong position within these key sectors.

KONGSBERG SHARES AND SHAREHOLDERS

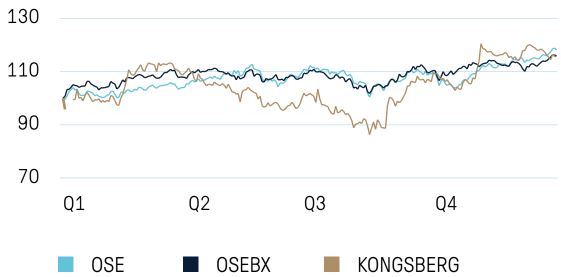
KONGSBERG shall provide the equity market with relevant, comprehensive information as the basis for a balanced, correct valuation of the shares. The Group emphasises maintaining an open dialogue with the equity market and media.

The price of the KONGSBERG share rose from NOK 117.60 at the end of 2018 to NOK 138.00 at the end of 2019. This gives a market value at the end of 2019 of MNOK 24,840. Including a dividend of NOK 2.50 per share, the return in 2019 amounted to 19.7 per cent. The benchmark index on the Oslo Stock Exchange (OSEBX) rose by 16.5 per cent during the same period. As of 31 December 2019, KONGSBERG had 12,680 shareholders (11,594). The Group had 895 (902) foreign shareholders, who collectively owned 19.78 per cent (17.37 per cent) of the shares. The Norwegian State, represented by the Ministry of Trade, Industry and Fisheries, is the largest shareholder with 50.001 per cent of the shares. At the end of the year, the ten largest shareholders held a total of 70.79 per cent (71.34) of the shares. The number of shares outstanding is 179.99 million, each with a nominal value of NOK 1.25. By the end of 2019, KONGSBERG held a total of 16,779 (19,869) treasury shares.

KONGSBERG has paid dividends to its shareholders every year since the company was listed in 1993, except for in 2000 and 2001. The dividend policy stipulates that dividend over time shall constitute between 40 per cent and 50 per cent of the company's profit after tax for the year. In

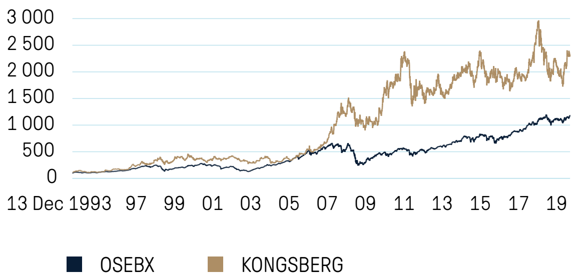
Share price development in 2019

NOK (Indexed at NOK 100 per 1 January 2019)



Share price development since listing on the Oslo Stock Exchange

NOK (Indexed at NOK 100 – 31 December 1993)



determining the size of dividends, the expected future capital requirements shall be considered.

At the Annual General Meeting on 14 May 2019, an ordinary dividend of NOK 2.50 per share for 2018 was approved.

For the 2019 financial year, the Board proposes paying an ordinary dividend totalling MNOK 450 (MNOK 450), equivalent to NOK 2.50 per share (NOK 2.50 per share), in addition to request the AGM of an authorisation to pay an additional dividend of up to MNOK 1,800, equivalent to NOK 10.00 per share. The dividend represents up to 314 per cent (64.2 per cent) of the profit for the year. The Board will also request the General Meeting an authority to execute a share buy-back programme up to MNOK 500, with purpose of cancelling the shares. Both authorisations are valid until the next Annual General Meeting. In total, including the buy-back programme, it is proposed that up to MNOK 2,750 be returned to the shareholders.

In 2019, a total of 30.3 million (48.9 million) KONGSBERG shares were traded in 146,762 (237,274) transactions. The company works actively to promote interest in the share through activities within the investor markets. KONGSBERG is regularly represented at road shows, meetings and conferences both in Norway and abroad. The goal for 2020 is to maintain the high activity against the investor market. Investor presentations are held in connection with each quarterly report.

The Board believes that employee share ownership is positive. Employees can buy shares in the company through the annual share programme. During the spring of 2019, the Group's annual share programme for employees was carried out for the 23rd time. Shares are sold to employees with a 20 per cent discount to the market price.

In 2019, employees were offered shares for up to NOK 30,000 after discount. A total of 875,151 (446,868) shares were sold at a price of NOK 98.40 (20 per cent discount on the market price of 115.90). 3,225 (2,269) employees took advantage of the offer.

RISK FACTORS AND RISK MANAGEMENT

KONGSBERG is exposed to various forms of risk, which the Board monitors by considering individual matters and reporting risk to the Board. The Board is of the opinion that there is a healthy balance between the overall risk and the Group's capacity to deal with risk. The administration prepares monthly operating reports and quarterly risk reports which are considered by the Board. The administration carries out annual assessments of risk which are more general in nature and are presented to the Board. The administration conducts risk analyses in connection with major investments and customer contacts, strategic initiatives and the acquisition and sale of activity. The Audit Committee is a preparatory body for the Board, dealing with the financial statements and relevant assessment issues, compliance issues, and the evaluation of internal control and risk management within the Group. The Audit Committee meets, as a minimum, in connection with the issue of annual and interim financial statements.

The Group's activities are international with delivery of high-tech systems and solutions, primarily to customers in the offshore-, merchant marine- and defence market. Market risk could therefore vary somewhat within these different segments. A strong international presence and global dependency means the Group is vulnerable to factors which impact on international trade and

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Through the acquisition of Rolls-Royce Commercial Marine, the Group has expanded KM's delivery scope, thus reducing the risk of marginalisation.

the global economy generally. The outbreak of the new COVID-19 virus in Asia at the beginning of 2020, followed by the spread of the virus throughout the world, is impacting on industry and trade globally. KONGSBERG will also be affected, but it is still too early to predict the outcome of the virus outbreak. Writing this, as of March 2020, Norway and many other countries have implemented severe travel restrictions, schools and kindergartens are closed, a large part of the industry, commerce and public service experience restrictions. The amount of infected people are increasing, and all people are encouraged avoid physical contact, trying to avoid spreading of the virus. KONGSBERG's operations will also be affected by this situation. Less activity in the after sales market is hence expected. The risk of postponements in projects have increased significantly, both because of temporary close-downs and lack of input factors. A large portion of the customers are influenced, hence there is also a risk of delayed or absence of payments. KONGSBERG has implemented and, are continuously implementing, initiatives to protect own employees and business partners, to the largest degree as possible secure normal operations.

The offshore market comprises exploration, development, production and transport of oil and gas. There are also support functions such as supply services, operational support, as well as maintenance and service on platforms and vessels. KONGSBERG is a supplier of products and services for all these segments. The demand for energy and oil price development will impact the willingness to invest in this market. Investment levels can also vary between the various geographical areas depending on, for example, oil reserves and the level of exploration and production activities. Despite strong development in individual segments such as LNG, there has generally been a negative trend in the oil and gas and offshore markets in recent years. persistent weak market, in which markets that have been strong over the past year are also being affected, will increase the Group's risk and impact on its activity levels.

The merchant marine market includes all types of vessels from simple dry cargo ships to advanced tankers. Passenger ships in cruise and ferry traffic are also an important part of the market. Contracting of new ships is closely linked with the expected development in transport demand. Global economy development influences the demand for water transport of people, energy, raw materials and manufactured products. The type of ship and geographical areas also influence the market. Within a number of segments, the market for new-build vessels is at a low level compared with previous years, and there is considerable uncertainty linked to further development.

Lower shipbuilding activity has led to increased competition and this involves a risk for KM to be marginalised. More challenging oil and gas fields and increased focus on costs in the industry in general create new niches in the market, which in turn creates the need for new technological solutions. Through the acquisition of RRCM, the Group has expanded KM's delivery scope, thus reducing the risk of marginalisation.

The acquisition of RRCM in 2019 was a significant transaction for the Group, and it has been crucial to integrate the business into KM successfully and quickly. KONGSBERG has so far achieved this and we are ahead of schedule as regards the integration and restructuring of the company. In the opinion of the Board, the risk linked to the acquisition has been well-managed.

Products and systems are delivered for land-, air- and sea-based defence in the defence market.

Due to strict security requirements and protection of various countries' own defence industry, it is often difficult for defence suppliers to win defence contracts outside their home country. There is a significant degree of protectionism in Europe and the U.S. as well as for the defence market in general. However, there are still opportunities through long-term relationships and niche products, and this is partially safeguarded through KONGSBERG's relationships with major foreign defence companies.

Generally speaking, KONGSBERG operates in markets that are highly susceptible to technological developments, ones that may affect KONGSBERG's leading position with regards to technology. Cyclical fluctuations will also influence these markets to various degrees and at different points in time. Export control regulations and sanctions may result in uncertainty about market opportunities.

The Group's value creation primarily comprises delivery of systems and solutions of high technological complexity, and deliveries are typically organised as projects. Effective project management is therefore a key success factor in reducing operating risk. KONGSBERG has established project management goals based on internal and external "best practices", and project managers attend an internal training programme. The projects' revenues are based on contracts, and the uncertainty is largely related to estimating the remaining costs and determining the percentage of completion, but also counterparty risk and warranty obligations. The Group has established principles for categorising projects in terms of technological complexity and development content. This forms the basis for an assessment of implementation risk and recognition of revenue in the projects.

KONGSBERG is exposed to financial risks such as currency risk, interest risk, credit risk and liquidity risk. The aim is to reduce the financial risk elements in order to improve predictability within the Group. KONGSBERG's financial risk is managed centrally by guidelines for financial risk management adopted by the Board and included in the Group's financial policy. The Group's financial risk management is described in Note 5 to the financial statements, "Management of capital and financial risks". The Group has a diversified customer base, mainly comprising public sector institutions and larger private companies in numerous countries. Historically, the Group has had low losses on receivables. Measures to limit the risk exposure are implemented continuously where necessary. The Group's liquidity risk is managed centrally by requiring loans to be renewed well in advance of maturity, and by the use of liquidity forecasts.

With a high proportion of contracts in different currencies, the Group's revenues are affected by fluctuations in exchange rates. KONGSBERG's financial policy means that important contracts must be hedged against fluctuations in exchange rates upon establishment, and these are largely hedged using forward currency exchange contracts (fair value hedges). In special cases, the Group uses forward contracts as cash flow hedges, e.g. in the case of large tenders where there is a very high probability of winning the contract.

KONGSBERG has recognised substantial book values in the balance sheet which are justified by future cash flows. Any reduction in cash flows may affect the value of the assets. In 2016, KONGSBERG purchased 49.9 per cent of the shares in Finnish company Patria, which has a book value of MNOK 2.656. Patria's financial performance has deteriorated since the acquisition. Persistently weak results from Patria may make it challenging to justify these values.

KONGSBERG has for several years established and developed compliance functions. Regulations, as well as monitoring and reporting systems, are established for managing risks related to areas such as anti-corruption, export controls and sanctions, supply chains and whistle-blowing. Training within the area of ethics and compliance is carried out in the entire organisation, both in Norway and abroad.

We conduct periodic evaluations of our compliance and anti-corruption programme. The most recent was an external evaluation of Kongsberg Gruppen ASA (parent company) in 2017. In 2017 and 2018, our business areas performed internal audits against the relevant criteria. The evaluations confirm that the programme complies with national and international laws, while providing important input to our work on continuous improvement. A new evaluation will be carried out in 2020.

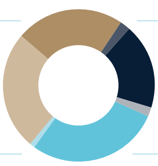
The Board considers KONGSBERG's compliance programme to be of a good level.

As a high-tech company, KONGSBERG is constantly exposed to external threats associated with data security and is under constant pressure from different external players. In essence, it is at risk of virus attacks, attempts at hacking, social engineering and phishing scams. Executive management prioritises and focuses on monitoring and measures to prevent attacks. The main focus of the work relating to cyber attacks is on monitoring and preventive measures, where advanced technology is used. This, together with providing employees with information and training, helps to ensure that the Group continuously improves its ability to withstand these threats.

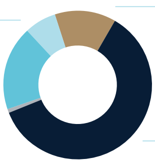
TECHNOLOGY, RESEARCH AND DEVELOPMENT

A significant portion of the value created by KONGSBERG consists of developing high-tech solutions for domestic and international markets. KONGSBERG's technology platform has been systematically built up through many years and is an important factor for our competitiveness. Technology transfer between the different parts of the Group is significant. Future-proof technological expertise within digitalisation is being built up in KDI. We are also working with our main technology partners to further develop our technology platform. KONGSBERG continuously invests in product and system development, both internally financed and through customer-funded programmes. Over time, the total costs of product development account for about 10 per cent of operating revenues.

Geographical distribution of revenues



Geographical distribution of employees



CORPORATE SOCIAL RESPONSIBILITY

KONGSBERG shall represent sustainable development characterised by a sound balance between economic performance, value creation and social responsibility. Sustainability and corporate social responsibility are integrated into the Group's strategy processes. Sustainable technological innovation is a central element in contributing towards solving the major global challenges the world faces. For KONGSBERG, this means business opportunities in several markets viewed in the light of our broad technological and skills platform. We are conscious of the risk associated with our "licence to operate", both in terms of compliance with laws and regulations, as well as development in terms of resource scarcity, world turmoil, development in global megatrends, etc. KONGSBERG has, and will continue to have, a great focus on anti-corruption and corporate social responsibility in its supplier network, as well as on the follow-up of human and workers' rights, both in our own organisation and with our business partners. Reference is made to the chapter on corporate responsibility for a more detailed description of the Group's corporate social responsibility efforts.

HEALTH, SAFETY AND THE ENVIRONMENT

The Board believes that health, safety and environment must be managed in a way that promotes job satisfaction and a sound working environment. Health, safety and the environment is important for KONGSBERG and is part of our licence to operate. One basic principle is that HSE work should be preventive. The Board is closely monitoring the work by reviewing HSE reports quarterly. In 2019, nine common "KONGSBERG Life-Saving Rules" were introduced as a principal theme for the joint "Global HSE Day" campaign. During the year, various training initiatives and campaigns were carried out which, based on risk analyses and incidents that have occurred, are helping to prevent further incidents and promote a strong HSE culture. Risk analyses are carried out regularly and form an important part of the preventive HSE work.

The number of occupational incidents with and without absence ("TRI") rose from 1.6 in 2018 to 2.3 in 2019 The number of registered incidents which resulted in absence shows an increase from 17 in 2018 to 30 in 2019. These increases are linked to the integration of Commercial Marine in KONGSBERG, which is exposed to somewhat higher risks from an HSE perspective as a result of its activities and operations. Absence due to illness remains low within the Group at 2.6 per cent (the same level as in 2018). For activities in Norway, absence due to illness stands at 3.1 per cent, compared with 3.0 per cent in 2018. There is systematic follow-up of employees on sick leave, with particular focus on getting long-term absentees back to work. Further details about key sustainable figures for HSE are found in the Group's report on sustainability, page 88.

All employees in Norway have access to company health services.

This varies in accordance with local practices and legislation in our foreign business activities. At the end of 2019, 40 per cent of KONGSBERG's employees were based outside Norway. This requires additional attention and insight with respect to HSE issues in the countries in which we operate.

The integration of the new companies within the Group has also been afforded considerable attention. Through the exchange of experience, good, shared knowledge has been established concerning the various HSE risk areas of the entities concerned.

CLIMATE AND ENVIRONMENT

The climate and environmental statement provides an overview of KONGSBERG's consumption of energy, CO_2 emissions and waste processing. The Group's most significant positive contribution to the climate challenges is that an increasing number of our products and solutions are contributing in various ways to reduced emissions. This is central to our business strategy.

A detailed overview of the climate and environmental statement for 2019 can be found in the Group's 2019 sustainability report (see the chapter on climate).

The Group has adopted a target of reducing annual CO_2 greenhouse gas emissions by 20 per cent relative to turnover by the end of 2020, with the baseline in figures as of 31 December 2015.

KONGSBERG has changed significantly during 2019, with the acquisition and integration of Commercial Marine and AIM Norway. This significantly changes the climate reporting, and complicates the comparison with previous years.

Compared with 2015 we have not been able to reduce the emissions in absolute figures or relative to revenue. Emission from the Group, excluding acquired companies is on approximately the same level in 2019 as 2015.

The direct and indirect emmision related to energy usage shows a reduction both when comparing to revenue and number of employees. The same goes for the emission related to shipping of goods. Emission related to flights show a slight increase relative to revenue/employees. This is mainly due to increased customer support activity in KM as a result of the acquisition of Commercial Marine. This is an organisation with high travel activity.

No serious incidents related to environmental pollution were reported in 2019.

PERSONNEL AND ORGANISATION

Number of employees	*31 Dec 19*	*31 Dec 18*
Kongsberg Defence & Aerospace	2 917	2 448
Kongsberg Maritime	7 212	3 794
Other	664	600
Total in the Group	**10 793**	**6 842**
Proportion outside Norway	40%	34%

KONGSBERG has a unique and strong culture that has been developed over several years. Individuals and teams who comply with our values and demonstrate good behaviour are to be appreciated. This culture will help us to attract people with the right skills and behaviour to address the technical challenges of tomorrow in a sustainable manner. Cooperation is fundamental to our business. In 2019, the "Collaboration Award" was given for the second time, recognising teams and projects whose value has been crucial in achieving successful results.

Leadership in KONGSBERG is about creating value and achieving results through people. The key to success lies in the combination of good management and dedicated employees. Managers shall exercise their leadership based on our values, the Corporate Code of Ethics and management principles. Our managers must create an environment in which our employees will prosper and succeed in meeting the strategic priorities of customer satisfaction, innovation and operational excellence. On the basis of this, we have implemented a management development programme, Leadership@KONGSBERG, that will contribute to clarifying and quality-assuring processes for goal-setting, follow-up and evaluation.

An important condition for long-term success is that KONGSBERG properly manages employee competences. The Group is aiming to increase the exchange of knowledge and staff between the business areas.

An important condition for long-term success is that KONGSBERG properly manages employee competences. The Group is aiming to increase the exchange of knowledge and staff between the business areas. Good work processes and development opportunities are important incentives in recruiting and retaining good employees.KONGSBERG places emphasis on strengthening competences and is continuously working to develop its employees. 54 per cent of KONGSBERG's employees have college or university level education.

The Group educates skilled workers within several disciplines in cooperation with the education company Kongsberg Technology Training Centre AS, partly owned by KONGSBERG. During 2019, there were 71 apprentices in total. In addition, the company facilitates and stimulates employees to acquire apprenticeship completion certificates as private candidates, known as practice candidates.

Cooperation with employee unions and organisations through established cooperation and representation arrangements are well functioning and constitutes valuable contributions to meeting the Group's challenges in a constructive manner.

DIVERSITY

Diversity and gender equality add value and increased competitiveness. They expand the mindset and have a positive influence on the company's strategy and management. We are therefore working systematically to recruit, develop and keep people of different ethnicity, national origin, skin colour, language, religion, life stance, age and gender.

A total of 1,615 (18.7 per cent) of employees are women, and two of five shareholder-elected directors on the Board are women. As of 31 December 2019, the corporate management team included two women. The company considers it important to promote gender equality and prevent discrimination in conflict with the Gender Equality Act. Long- and short-term goals have been established to help increase the percentage of women in the Group, both in terms of employment and in terms of management positions. As far as is possible, KONGSBERG tries to adapt working conditions so that individuals with diminished functional abilities can work for the Group. The Board Compensation Committee has a particular responsibility for follow-up on diversity. In the opinion of the Board, the Group complies with current regulations.

CORPORATE GOVERNANCE

KONGSBERG's objective is to secure and increase stakeholder value through profitable and growth-oriented industrial development with a long-term, sustainable and international perspective. Good corporate governance and corporate management shall reduce business-related risk, while the company's resources shall be utilised in an effective and sustainable manner. Values created should benefit shareholders, employees, customers and society in general.

The Board considers it important to review and update the Group's corporate governance documents annually to comply with the "Norwegian Code of Practice for Corporate Governance" (NUES).

According to Section 3-3b of the Accounting Act, the company shall prepare a statement on corporate governance. The statement will, pursuant to Section 5-6 of the Public Limited Companies Act, be discussed at the Annual General Meeting. The description in chapter 4 of the annual report is based on the latest revised version of the Norwegian Code of Practice for Corporate Governance of 17 October 2018.

REMUNERATION TO EXECUTIVE MANAGEMENT

The Board has a separate Compensation Committee which deals with all significant matters related to wages and other remuneration to senior executives prior to formal discussion and decision by the Board. In line with the Norwegian Companies Act, the Board has also prepared a statement on the remuneration of the Group CEO and Executive Management included in Note 28 to the consolidated financial statements.

PROFIT FOR THE YEAR AND ALLOCATION OF NET PROFIT

The parent company Kongsberg Gruppen ASA made a net profit of MNOK -4 in 2019. The Board proposes the following allocation of profit for the year in Kongsberg Gruppen ASA:

Dividend	MNOK	450
From equity	MNOK	(454)
Total available	MNOK	(4)

The proposed dividend constitutes 63 per cent of the Group's ordinary profit for the year.

GOING CONCERN

In compliance with Section 3-3a of the Norwegian Accounting Act, it is confirmed that the going concern assumptions continue to apply. This is based on forecasts for future profits and the Group's long-term strategic prognoses. The Group is in a healthy economic and financial position.

Kongsberg, 19 March 2019

Eivind Reiten
Chairman

Per A. Sørlie
Director

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Deputy chairman

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
President and CEO

Financial Statements and Notes

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KONGSBERG (GROUP)

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KONGSBERG GRUPPEN ASA

Consolidated statement of income 1 January–31 December

KONGSBERG (GROUP)

MNOK	*Note*	*2019*	*2018*
Operating revenues	7, 8	24 081	14 381
Total revenues		**24 081**	**14 381**
Material cost	10	(9 328)	(4 297)
Personnel expenses	11, 12	(8 764)	(5 929)
Other operating expenses	30	(3 731)	(2 942)
Share of net income from joint arrangements and associated companies	9	21	181
Earnings before interest taxes depreciation and amortisation (EBITDA)	7, 33	**2 279**	**1 394**
Depreciation	7, 13	(440)	(350)
Depreciation, leasing assets	14	(348)	-
Impairment of property, plant and equipment	7, 13	(18)	(6)
Amortisation	7, 15	(290)	(93)
Earnings before interest and taxes (EBIT)	7, 33	**1 183**	**945**
Financial income	17	140	69
Financial expenses	17	(225)	(170)
Interest on leasing liability	14, 17	(131)	-
Earnings before tax		**967**	**844**
Income tax expense	18	(250)	(140)
Earnings after tax		**717**	**704**
Attributable to			
Equity holders of the parent		700	701
Non-controlling interests		17	3
Earnings per share in NOK			
- ordinary earnings per share / diluted earnings per share	19	3,89	5,58

Consolidated statement of comprehensive income for the period 1 January–31 December

KONGSBERG (GROUP)

MNOK	*Note*	*2019*	*2018*
Earnings after tax		**717**	**704**
Specification of other comprehensive income			
Items to be reclassified to profit or loss in subsequent periods			
Change in fair value:			
– Cash flow hedges, currency	22C	(159)	86
– Interest rate swap / basis swaps	22C	42	(21)
Income tax effect in cash flow hedges and interest rate swaps	18	26	(16)
Translation differences, currency		108	70
Total items to be reclassified to profit or loss in subsequent periods		**17**	**119**
Items not to be reclassified to profit or loss			
Actuarial gain/loss on pension expense	12	(112)	54
Tax effect on actuarial gain/loss on pension	18	15	(12)
Total items not to be reclassified to profit or loss		**(97)**	**42**
Other comprehensive income for the period		**(80)**	**161**
Comprehensive income for the period		**637**	**865**
Attributable to			
Equity holders of the parent		620	862
Non-controlling interests		17	3

Consolidated statement of financial position as of 31 December

KONGSBERG (GROUP)

MNOK	*Note*	*2019*	*2018*
Assets			
Non-current assets			
Property, plant and equipment	13	3 924	2 531
Leasing assets	14	2 141	-
Goodwill	15, 16	4 272	2 011
Other intangible assets	15	2 215	878
Deferred tax asset	18	167	-
Shares in joint arrangements and associated companies	9	3 247	3 400
Other non-current assets	20	213	188
Total non-current assets		**16 179**	**9 008**
Current assets			
Inventories	10	3 964	2 174
Trade receivables	21	6 363	2 802
Other short-term receivables	21	998	460
Customer contracts, assets	8	5 888	2 994
Derivatives	22A	376	182
Cash and cash equivalents	23	5 654	10 038
Total current assets		**23 243**	**18 650**
Total assets		**39 422**	**27 658**
Equity, liabilities and provisions			
Equity			
Issued capital		5 933	5933
Other reserves		571	554
Retained earnings		6 249	6 119
Equity attributable to owners of the parent		**12 753**	**12 606**
Non-controlling interests		57	20
Total equity	24	**12 810**	**12 626**
Non-current liabilities and provisions			
Non-current interest-bearing loans	22D	3 469	4 020
Long-term leasing liabilities	14	1 850	-
Pension liabilities	12	974	538
Provisions	25	122	128
Deferred tax liability	18	1 350	1 293
Other non-current liabilities		36	11
Total non-current liabilities and provisions		**7 801**	**5 990**
Current liabilities and provisions			
Customer contracts, liabilities	8	10 481	5 157
Derivatives	22A	493	580
Provisions	25	1 513	515
Short-term interest-bearing loans	22D	620	312
Current leasing liabilities	14	348	-
Other current liabilities	26	5 356	2 478
Total current liabilities and provisions		**18 811**	**9 042**
Total liabilities and provisions		**26 612**	**15 032**
Total equity, liabilities and provisions		**39 422**	**27 658**

Kongsberg,
19 March 2020

Eivind Reiten
Chairman

Per A. Sørlie
Director

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Deputy chair

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
Chief Executive Officer

Consolidated statement of changes in equity 1 January–31 December

KONGSBERG (GROUP)

		Equity holders of the parent						Non-controlling interests	Total equity
		Issued capital		Other reserves		Retained earnings	Total		
MNOK	*Note*	*Share capital*	*Other issued capital*	*Hedging reserve*	*Translation difference*				
Equity as of 1 January 2018		150	832	(124)	559	5 914	7 331	34	7 365
Earnings after tax						701	701	3	704
Other comprehensive income				49	70	42	161		161
Transactions with treasury shares						(3)	(3)		(3)
Dividends paid	24					(450)	(450)		(450)
Capital increase	24	75	4 922				4 997		4 997
Net costs related to the capital increase (reduced for tax effect)			(46)				(46)		(46)
Purchase/sale, non-controlling interests						(85)	(85)	(12)	(97)
Dividends, non-controlling interests							-	(5)	(5)
Equity as of 31 December 2018		225	5 708	(75)	629	6 119	12 606	20	12 626
Equity as of 1 January 2019		225	5 708	(75)	629	6 119	12 606	20	12 626
Earnings after tax						700	700	17	717
Other comprehensive income				(91)	108	(97)	(80)		(80)
Transactions with treasury shares						(3)	(3)		(3)
Dividends paid	24					(450)	(450)		(450)
Purchase/sale, non-controlling interests						(20)	(20)	20	-
Dividends, non-controlling interests							-		-
Equity as of 31 December 2019		225	5 708	(166)	737	6 249	12 753	57	12 810

Consolidated statement of cash flow 1 January–31 December

KONGSBERG (GROUP)

MNOK	*Note*	*2019*	*2018*
Earnings after tax		**717**	**704**
Depreciation/impairment of property, plant and equipment	13	458	356
Depreciation, leasing assets	14	348	-
Amortisation/impairment of intangible assets	15	290	93
Net finance items	17	216	101
Income tax expense	18	250	140
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**2 279**	**1 394**
Adjusted for			
Change in customer contracts, assets		(1 100)	575
Change in customer contracts, liabilities		4 807	874
Changes in other current liabilities		(732)	59
Changes in inventories		(140)	(301)
Change in trade receivables		(2 466)	(78)
Changes in other current receivables		(546)	(102)
Changes in provisions and other accruals		63	(113)
Income tax paid	18	(159)	(119)
Change in net current assets and other operations-related items		**(273)**	**795**
Net cash flows from operating activities		**2 006**	**2 189**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment	13	10	19
Purchase of property, plant and equipment	13	(544)	(230)
Capitalised internal developed intangible assets (R&D)	15	(176)	(130)
Purchase of intangible assets	15	-	(11)
Proceeds from acquiring subsidiaries and associated companies	6	(3 625)	(30)
Repayment of debt in acquired companies	6	(1 000)	-
Proceeds from sale of business		161	-
Net cash flow used in investing activities		**(5 174)**	**(382)**
Cash flow from financing activities			
Proceeds from interest-bearing loans	22D	-	1 000
Repayment of interest bearing loans	22D	(238)	(4)
Payment of principal portion of lease liabilities	14	(292)	-
Capital increase		-	4 997
Costs related to the capital increase (before tax effect)		-	(60)
Interest paid		(122)	(100)
Interest paid on leasing liabilities	14	(131)	-
Transactions with treasury shares		(27)	(20)
Transactions with non-controlling interests		-	(115)
Dividends paid	24	(448)	(448)
Net cash flow from financing activities		**(1 258)**	**5 250**
Total cash flow		(4 426)	7 057
Effect of changes in exchange rates on cash and cash equivalents		42	25
Net change in cash and cash equivalents		(4 384)	7 082
Cash and cash equivalents at the beginning of the period		10 038	2 956
Cash and cash equivalents at the end of the period	23	5 654	10 038

Notes

KONGSBERG (GROUP)

1 GENERAL INFORMATION

Kongsberg Gruppen ASA is a public limited company headquartered in Kongsberg, Norway. The company's shares are traded on the Oslo Stock Exchange. The Board approved KONGSBERG's consolidated financial statements for the accounting year 2019 at its meeting on 19 March 2020. The consolidated financial statements for 2019 include the parent company and subsidiaries (collectively referred to as "KONGSBERG" or "the Group"), as well as the Group's investments in associates and jointly arrangements.

2 BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are presented in Norwegian kroner (NOK), and all figures have been rounded to the nearest million, except when otherwise indicated.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and related interpretations, as well as the Norwegian disclosure requirements according to the Accounting Act applicable. The consolidated financial statements have been prepared on a historical cost basis except for the following assets and liabilities:

- Financial derivatives (forward exchange contracts, currency options and interest swap agreements), measured at fair value
- Certain financial assets measured at fair value

Significant accounting judgements, estimates and assumptions

During the preparation of the financial statements, the company's management has applied its best estimates and assumptions considered to be realistic based on experience and market conditions. Situations can arise which alter the estimates and assumptions, which will affect the company's assets, liabilities, revenues and expenses. The estimates are reviewed on an ongoing basis and are recognised in the period in which they occur. In the preparation of the consolidated financial statements, management has made some significant judgements relating to the application of accounting policies.

For more detailed information about estimation uncertainty and areas for application of judgement that could have a significant impact on the amounts recognised in the following financial period, please see the following notes:

- Note 3 C "Summary of significant accounting policies – Revenue recognition of customer contracts"
- Note 3 F "Summary of significant accounting policies – Intangible assets" and Note 15 "Intangible assets"
- Note 3 H "Summary of significant accounting policies – Leases"
- Note 3 J "Summary of significant accounting policies – Financial Instruments" and Note 22 "Financial Instruments"
- Note 8 "Customer contracts"
- Note 12 "Pensions"
- Note 16 "Impairment testing of goodwill"
- Note 21 "Receivables and credit risk"
- Note 25 "Provisions"

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Basis of consolidation

Subsidiaries
Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its influence on the entity. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary.

On initial recognition, subsidiaries are measured at their fair value on the date of acquisition. Fair value is allocated to the identified assets, liabilities and contingent liabilities. Added value that cannot be allocated to identified assets is recognised as goodwill. When new subsidiaries are acquired, the results, assets and liabilities are recognised in the consolidated accounts from date of acquisition. The date of acquisition is the date when KONGSBERG obtains control of the acquired company. Normally, control will be achieved when all the terms of the agreement are satisfied. Examples of terms include approval of the Board, the General Meeting or approval from the competition authorities. For business combinations achieved in stages, the financial statements are based on the values at the time when the Group obtained control. Goodwill is calculated at the date control is obtained.

Contingent considerations to be disbursed at a later date when certain conditions of the acquisition are met are recognised at fair value on the date of the acquisition. Subsequent changes in the fair value of contingent considerations are recognised in profit or loss. Transaction costs related to business combination are expensed as they accrue.

Companies that constitute the Group are listed in Note 31 "List of Group Companies".

Joint arrangements
According to IFRS 11 investments in joint arrangements should be classified as either joint operational arrangements or joint ventures, depending on the contractual rights and obligations of each investor. KONGSBERG has assessed its joint arrangements and concluded that they are joint ventures. Joint ventures are entered in the accounts using the equity method.

Associates
Associates are entities in which the Group has significant influence, but not control over financial and operating policies (typically a stake from 20 to 50 per cent). Significant influence is the power to participate in the financial and operating policy decisions of the company, but where KONGSBERG does not have control or joint control over those policies. Where the stake is less than 20 per cent, it must be clearly demonstrated that significant influence exists, for example, through shareholder agreements. The consolidated financial statement includes the Group's percentage of the profit/loss from associates using the equity method of accounting from the date on which significant influence is achieved and until such influence ceases. When the Group's percentage of a loss exceeds the value of the investment, the carrying amount of the investment is reduced to zero and no further losses are recognised. The exceptions are cases where the Group has an obligation to cover the losses.

Elimination of transactions
All purchases, sales, balances and unrealised gains arising through transactions between Group companies, associated companies and joint arrangements are eliminated upon consolidation. Unrealised losses are eliminated correspondingly, unless they are related to impairment requiring recognition in the consolidated financial statements.

Non-controlling interests
Non-controlling interests are included in the Group's equity as a separate line item. Its portion of the result is included in the profit for the year. Non-controlling interests include the portion of the fair value of the subsidiary, including its share of identified excess value on the date of acquisition. When enterprises are acquired and there are non-controlling interests, goodwill mainly is limited to KONGSBERG's proportionate share. The portion of the total comprehensive income is attributed to the non-controlling interest even if that results in a negative balance.

B) Foreign currency

The Group's consolidated financial statements are presented in NOK (Norwegian kroner), which is also the parent company's functional currency. Each entity in the Group determines its own functional currency, and all transactions in the accounts of the individual entities are measured at their functional currency. Foreign currency transactions are measured in the functional currency on the date of the transaction. Customer contracts are hedged and recognised on the basis of the hedged exchange rate. Trade receivables, other receivables, accounts payable and other liabilities in foreign currencies are translated at the exchange rate at the balance sheet date, and currency differences are recognised in the income statement. Differences that arise at the translation of cash flow hedges and meet the criteria for hedge accounting are recognised as a change in fair value on cash flow hedges in the statement of comprehensive income (OCI). The effect is reflected in the annual result upon realisation of the cash flow hedges. See also 3J "Financial instruments".

Gains and losses related to foreign exchange items in the normal operating cycle are included in the operating profit before depreciation and amortisation. Other gains and losses related to items in foreign currency are classified as financial income or costs.

Translation – foreign subsidiaries
Assets and liabilities in foreign operations applying functional currencies other than NOK are translated into NOK at the rate of exchange prevailing at the balance sheet date. Revenues and expenses in foreign currencies are translated into NOK at the average exchange rates on a monthly basis. Foreign currency translation differences are recognised in other comprehensive income. When a foreign entity is disposed of with the result that KONGSBERG no longer has control, the accumulated translation differences are recognised in the income statement and reversed at the same time in other comprehensive income.

C) Revenue recognition of customer contracts

IFRS 15 consists of 5 steps that must be assessed to determine the correct revenue recognition of customer contracts.
Step 1: Identifying customer contracts
Step 2: Identifying separate performance obligations
Step 3: Determining the transaction price
Step 4: Allocating the transaction price
Step 5: Recognition when the performance obligation is fulfilled

Step 1: Identifying customer contracts
The first step in the evaluation model specifies main criteria for the existence of a customer contract. The contract must have commercial substance, and key terms of delivery must be agreed between the parties (the parties' rights and obligations, terms of payment etc.). It must also be probable that KONGSBERG will receive settlement for the delivery. In principle, a customer contract does not have to be in writing, but KONGSBERG has established this as a requirement.

Step 2: Identifying separate performance obligations
The accounting standard also requires that an assessment must be made for all goods and services that the seller is committed to by the contract, in relation to those that are processed as separate performance obligations or reported together in connection with revenue recognition. The assessments consider whether or not goods and services in the agreement are suitable for separate delivery, and whether or not the contract gives the customer a stand-alone value for individual goods and services. The latter is assessed on the basis of specific contractual conditions. A series of more or less identical deliveries in the same contract is considered as a single performance obligation.

Examples of contracts that are normally divided into parts are various products in a single contract that are used by the customer independently of one another, goods with service agreements, licences and services. Certain areas in KONGSBERG use the latter type of contract. This does not represent a significant proportion of KONGSBERG's turnover.

Kongsberg Maritime (KM) supplies integrated solutions within a single contract where the deliverable consists of a number of KM's products that must function together and be approved collectively upon handover to the customer. Through the acquisition of CM, KM also has a significant proportion of equipment deliveries. The equipment deliveries are independent and are treated as separate performance obligations.

Kongsberg Defence & Aerospace (KDA)'s deliveries are often development projects, where the end project consists of many components and sub-systems integrated into a single system. The contracts therefore typically consist of a single performance obligation, which is the integrated system approved by the customer through final testing.

KDA also has a series of identical deliveries that are covered by a single contract. These are treated as a single performance obligation.

Both KM and KDA supply equipment and services to the after-market. These deliveries are treated as separate delivery obligations.

Step 3: Determining the transaction price
The third step is to determine the transaction price, which is equivalent to the expected consideration from the customer. This amount will in most cases be easy to determine as KONGSBERG's customer contracts often apply fixed prices. However, there are certain cases which need to be assessed. This largely applies to different forms of discounts and incentive schemes, financing items in the contracts and options. The latter two are the most relevant for KONGSBERG. For contracts with a significant financing item, the interest component will be separated out from the contract revenue. There may also be cases involving income reduction as a result of financial penalties for delays. When determining the transaction price, these must only be taken into consideration if it is highly likely that they will occur.

Step 4: Allocating the transaction price
When the transaction price has been determined, it will be allocated to each individual performance obligation as identified under step 2, based on the stand-alone selling price. The stand-alone selling price is normally the price of the product when it is sold separately, less any discounts that are to be distributed. If this price cannot be observed directly, it must be estimated. This will often apply to the allocation of revenues between licences and services, but also to the distribution of revenues between different products that are supplied as an integrated solution. Integrated solutions are mainly considered as a single performance obligation under step 2. This is because the systems operate together and because the delivery is usually approved as a whole. Nevertheless, a performance obligation can be allocated different prices for different parts of the customer contract. This is done according to the stand-alone principles described above. This means that the level of earning in different phases of a customer contract may vary depending on which parts are to be transferred to the customer's control.

Step 5: Recognition when the performance obligation is fulfilled
The final step of the model states when revenue is to be recognised, where performance obligations that are recognised at a point in time are distinguished from those that are recognised over time. In KONGSBERG, revenue recognition is often based on the progress of the projects. The principle stated in IFRS 15 is that control over the asset will then be transferred to the customer before KONGSBERG can recognise revenue. Control normally means that the customer can use an asset directly, is able to achieve most of the remaining benefits of an asset and is able to prevent other parties from using or achieving benefits of an asset. This is considered for each individual performance obligation. Furthermore, IFRS 15 specifies three cases where the seller is to recognise revenue over time:
a) The seller produces an asset that is controlled by the customer, for example if the seller builds an asset on the customer's property.
b) The customer receives and consumes goods/services from the seller under a performance obligation over time. This will apply to most services.
c) The seller develops an asset that doesn't have an alternative area of use for the seller, and the seller is contractually entitled to be paid for work up to a point in time (costs incurred plus margin). In relation to alternative areas of use, it is the end product that is to be considered.

As stated in the above items, transfer of control does not have to be physical (items a and b) but can also be contractually based (item c). Most of KONGSBERG's contracts are recognised according to level of progress (over time) in category c, where the physical handover of the products is not done on an ongoing basis, but when the products are completed and often towards the end of the contract period. Assessments are based on different criteria depending on the product and project. However, the most important ones are:
- Various degrees of customer-specific adaptations
- There is a limited market for similar products
- The systems are installed/integrated on the customer's property on an ongoing basis or at the end of the project, and
- Remanufacturing the products for another customer requires considerable work

KONGSBERG has contracts that give KONGSBERG a legal right to coverage of costs incurred plus a margin in the event that the customer terminates the contract without sufficient reasons.

"Customer contracts, assets", and "customer contracts, liabilities"

On the line "Customer contracts, assets", KONGSBERG has collected all asset items associated with customer contracts, except trade receivables. This includes accrued, non-invoiced revenue, prepayments to subcontractors, goods which have been purchased or allocated to customer contracts, but which have not been altered or led to progress being made on the project, and work in progress for projects that are recognised upon delivery.

The carrying value of customer contracts in the statement of financial position is based on an assessment of the financial status of each individual customer contract. The classification is determined on a contract-to-contract basis unless netting has been agreed. If this is the case, the contracts can be considered together. In the consolidated financial statement, all balances are netted for each customer contract in the Group accounts and presented on one line in the statement of financial position, with the exception of trade receivables (presented on the line "Receivables"). Individual customer contracts are then presented as either "customer contracts, assets" or "customer contracts, liabilities".

Most of KONGSBERG's customer projects that are recognised over time apply cost-to-cost as a measure of progress. Some areas use cost-to-cost-like approaches and this may give positive inventories in the projects. This normally happens when production has commenced without revenue being recognised because production has not been allocated to a concrete order (anonymous production), or when revenue, due to significance, is only recognised when each component is completed. The reason for this is that goods are often moved from inventories to projects without any transfer of control to the customer taking place. Alternative measures of progress might then be necessary, such as hours incurred, as a cost-to-cost approach. KONGSBERG has significant positive project inventories in its balance sheet. These inventories mainly consist of performed work that has not been invoiced and components that have been removed from inventory but not installed in the projects (anonymous production) and balances with subcontractors.

In some cases, advances are received from customers or customers are invoiced before control is transferred. This is presented as a "customer contract, liability". "Customer contract, liability" will also arise as a result of cost accruals performed during the fulfilment of the customer contracts. With the exception of trade payables, all liabilities relating to customer contracts are collected together on this line. In the same way as with assets, balance sheet items for customer contracts that are recognised according to progress are presented together with assets that are recognised upon delivery.

Recognised accrued contract profit is a proportional share of the estimated total contract profit based on the percentage of completion. If the profit on a contract cannot be estimated reliably, the project will be recognised without a profit until reliable estimates are available. Recognised accrued contract profit is classified as "customer contracts, assets" in the balance sheet.

In special cases, work on projects will commence and expenses incurred before a contract has been signed with the customer. This requires a high probability that the contract will be signed. Capitalised costs of this kind are classified as inventories until a contract has been signed.

When a customer contract is expected to result in a loss, the loss is recognised in its entirety immediately. A customer contract is expected to result in a loss when expected costs exceed expected revenues in the contract. Net allocated provision for onerous contracts are classified in the statement of financial position as "customer contracts, liabilities".

D) Taxes

Income tax expense in the financial statements includes tax payable and the change in deferred tax for the period. Assets and liabilities from deferred tax are calculated by taking a starting point in the temporary differences between the accounting and tax balance sheet values at period end (liability method). Deferred tax is calculated on net tax-increasing temporary differences between the values used for accounting purposes and those used for taxation purposes, adjusted for deductible temporary tax-reducing differences and tax losses carried forward if this satisfies the requirements in IAS 12.71.

Revenue from customer contracts that is recognised over time is not recognised for tax purposes until the control and risk have been transferred to the customer, and KONGSBERG is entitled to the consideration in the contract. Due to KONGSBERG's volume of large, long-term contracts, there are considerable temporary differences. Deferred tax assets are only recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets are assessed for each period and will be derecognised if it is no longer probable that the deferred tax asset will be utilised.

Deferred tax are recognised net within the same tax regime.

E) Financial income and expenses

Financial income consists of interest income, dividends, currency gains, gain on realisation of "Assets at fair value through profit and loss" and other financial income. Interest income is recognised as it accrues using effective interest, while dividends are recognised on the date when the Annual General Meeting approves them.

Financial expenses consists of interest expenses, including interest on leasing liabilities (see Note 14), foreign currency losses, currency gains, losses on realisation of "Assets at fair value through profit and loss" and other financial costs. Interest expenses are recognised as they accrue using effective interest.

F) Intangible assets

Goodwill

Goodwill arises at the acquisition of a business (business combination) and is not depreciated. Goodwill is recognised in the statement of financial position at acquisition cost less any accumulated impairment losses. Goodwill does not generate cash flows independent of other assets or groups of assets, and is allocated to the cash-generating units that are expected to gain financial benefits from the synergies that arise from the business combination from which the goodwill is derived. Cash-generating units that are allocated goodwill are tested for impairment (loss) annually at the end of the year, or more frequently if there is any indication of impairment.

Goodwill is tested for impairment by estimating the recoverable amount for the individual cash-generating unit or group of cash-generating units that are allocated goodwill and followed up by management. The group of cash-generating units is nevertheless not larger than an operating segment as defined by IFRS 8 Operating segments.

Impairment is calculated by comparing the recoverable amount with the individual cash-generating unit's carrying amount. The recoverable amount is the higher of the value in use or net realisable value. The Group uses the value in use to determine the recoverable amount of the cash-generating units. In determining the value in use, the expected future cash flows are discounted to net present value using a discount rate before tax that reflects the market's target for a return on investments for the cash-generating unit in question. If the value in use of the cash-generating unit is less than the carrying amount, impairment reduces the carrying value of goodwill and then the carrying value of the unit's other assets on a pro rata basis, based on the carrying value of the individual assets. Impairment on goodwill is not reversed in a subsequent reporting period even if the recoverable amount of the cash-generating unit increases. Any impairment will be recognised through profit and loss in the financial statements. Impairment of goodwill is described in Note 16 "Impairment testing of goodwill".

See also Note 3 I "Summary of significant accounting policies – Impairment of non-financial assets".

Development

Costs related to development activities, including projects in the development phase, are recognised in the statement of financial position if the development activities or project meet the defined criteria for capitalisation. Development comprises activities related to planning or designing the manufacturing of new or significantly improved materials, devices, products, processes, systems or services before being placed in commercial production or use. When assessing whether a project constitutes the development of a new system, functionality or module, the object being developed must be able to operate independently of existing systems/products that are sold. KONGSBERG has considered the criteria for significant improvements to be an increase of more than 20 per cent in value from before being developed or in relation to the replacement cost of the system. Balance sheet recognition requires development costs to be measured reliably, that the product or process is technically and commercially feasible, that future economic benefits are likely and that KONGSBERG intends, and has sufficient resources, to complete the development and to use or sell the asset. Other development costs are expensed as they are incurred.

When the criteria for balance sheet recognition are met, accrued costs are recognised in the balance sheet. Costs include raw materials, direct payroll expenses and a portion of indirect costs that are directly attributable to the development.

Capitalised development costs are recognised at cost less accumulated amortisation and impairment losses in the statement of financial position. Amortisation is based on the expected useful life. The principle is linear amortisation. The remaining expected useful life and expected residual value are reviewed annually.

The calculation of financial benefits is based on the same principles and methods as for the impairment testing. The calculation is based on long-term budgets approved by the Board. Note 16 "Impairment testing of goodwill" has more details on the calculation.

Assessments of the fulfilment of the criteria for capitalising development costs are made on an ongoing basis throughout the completion of the development projects. Based on technical success and market assessments, a decision is made whether to complete development and start recognition in the statement of financial position.

Maintenance

Maintenance is the work that must be performed on products or systems to secure their expected useful life. If a significant improvement is made on the product or system that could result in a prolonged life cycle, or if the customer is willing to pay more for the improvement, this is to be considered as development and must be included in the presentation of financial position. Costs related to maintenance are expensed as incurred.

Technology and other intangible assets

Technology and other purchased intangible assets with determined useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is based on the expected useful life, according to the principle of linear amortisation. The expected useful life and the determination of the amortisation rate are reviewed during each period.

G) Property, plant and equipment

Property, plant and equipment are recognised at acquisition cost, net of accumulated depreciation and/or any accumulated impairment losses. Such cost includes expenses that are directly attributable to the acquisition of the assets. Property, plant and equipment are depreciated on a straight-line basis over their expected useful life. When individual parts of a property, a plant or equipment have different useful lives, and the cost is significant in relation to total cost, these are depreciated separately. Any expected residual value is taken into account when stipulating the depreciation schedule.

The remaining expected useful life and expected residual value are reviewed annually. Gains or losses on the disposal of property, plant and equipment are the difference between the sales price and the carrying amount of the unit, and recognised to net value in the income statement. Expenses incurred after the asset is in use, e.g., day-to-day maintenance costs, are expensed as they are incurred. Other expenses expected to result in future economic benefits and that can be reliably measured, are recognised in the statement of financial position.

H) Leases

KONGSBERG recognises the value of leases as leasing assets and leasing liabilities if it is considered that the lease contains a right to control the use of the asset. The Group applies a single recognition and measurement approach for all leases, except in the case of short-term leases and leases where the underlying assets is of low value. KONGSBERG applies the recognition exemption to leases that have a lease term of less than 12 months and leases of low value assets. Other performances in the leases such as shared costs related to leasing of property or service agreements concerning vehicles and leases concerning intangible assets are not recognised in accordance with the rules in IFRS 16.

Leasing asset

Leasing assets are recognised from the date the underlying assets are made available for use to KONGSBERG. Leasing assets are recognised at cost less accumulated depreciation and impairment losses and are also adjusted for any remeasurements of the leasing liability. Cost includes recognised leasing liabilities, lease payments made before commencement day, cost related to restoring the underlying asset to the condition required by the terms and condition of the lease and initial direct costs. Initial direct costs are expenses which the company would not have incurred if the lease had not been established. Leasing assets are depreciated on a straight line basis over the shorter of the lease term and the estimated useful life of the asset. The depreciation period is as follows:

- Property 1-21 years
- Vehicles, machinery and equipment 1-5 years

Leasing assets are considered for impairment according to the principles described in Note 3 I.

Leasing liabilities

Leasing liabilities are recognised from the date the underlying assets are made available for use to KONGSBERG. Leasing liabilities are measured at the present value of the agreed lease payments.
Lease payments can include:

- Fixed payments
- Variable lease payments that depend on an index or interest rate
- Payments for withdrawing from the lease, if it its reasonably certain that KONGSBERG will terminate the agreement

The present value is calculated by discounting the lease payments using the interest rate implicit in the lease at the commencement date if this is readily determinable. This is not normally readily determinable and the incremental borrowing rate for loans with similar risk is then used or yield for property leases. After the commencement date, the leasing liability is increased to reflect the accretion of interest and reduced for the lease payments made. The leasing liability is remeasured if there is a change in the lease term, changes to future payments resulting from a change in an index or a change in the assessment of an option to purchase the underlying asset.

The lease term includes the non-cancellable period of a lease. In addition periods covered by extension options are also included if it is reasonably certain that KONGSBERG will exercise the option.

Short-term leases and leases of low- value assets

KONGSBERG applies the recognition exemption to leases that have a lease term of less than 12 months for property, machinery, vehicles and equipment. KONGSBERG applies the recognition exemption to leases of low-value assets primarily on office equipment. Lease payments related to the abovementioned leases are recognised as expense on a straight-line basis over the lease term and are therefore not recognised in the consolidated statement of financial position.

KONGSBERG as a lessor

The Group is a lessor of some property. These leases are classified as operating leases because the Group does not transfer substantially all the risks and rewards incidental to ownership of the property. Rental income is recognised in the income statement on a straight-line basis.

Sale and leaseback transactions

KONGSBERG has some sale and leaseback transactions related to property. In the event of the sale of a property, the asset is derecognised and a leasing asset and a leasing liability are recognised, along with a gain or loss on the transferred rights for use of the asset.

I) Impairment of non-financial assets

All non-financial assets are reviewed for each reporting period to determine whether there are any indications of impairment. If this is the case, recoverable amounts are calculated.

The recoverable amount of an asset or cash-generating unit is the higher of its value in use or fair value less net costs to sell. Value in use is calculated as the net present value of future cash flows.

The calculation of net present value is based on a discount rate before tax and reflects current market assessments of the time value of money and the risks specific to the asset. The pre-tax discount rate has been calculated using an iterative method.

Impairment is recognised if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group that generates a cash inflow that is largely independent of other assets or groups. Impairment related to cash-generating units primarily reduces the carrying amount of any goodwill allocated to the unit and then the carrying amount of the other assets in the unit on a pro rata basis. These assets normally constitute property, plant and equipment, and other intangible assets. In the event that an individual asset does not generate independent cash inflows, the asset is grouped with other assets that generate independent cash inflows.

Non-financial assets subject to impairment losses are reviewed during each period to determine whether there are indications that the impairment loss has been reduced or no longer exists. Reversals of previous impairment are limited to the carrying value the asset would have had after depreciation and amortisation, if no impairment loss had been recognised.

J) Financial instruments

Financial assets and liabilities

Financial assets and liabilities consist of derivatives, investments in shares, accounts receivable and other receivables, customer contracts in progress, cash and cash equivalents, interest-bearing loans, accounts payable and other liabilities. A financial instrument is recognised when the Group becomes party to the instrument's contractual provisions. Upon initial recognition, financial assets and liabilities are assessed at fair value plus directly attributable expenses. The exception is financial instruments, where changes in fair value are recognised through profit and loss or through other comprehensive income, and attributable costs are expensed directly or through other comprehensive income. An ordinary purchase or sale of financial assets is recognised and derecognised from the time an agreement is signed. Financial assets are derecognised when the Group's contractual rights to receive cash flows from the assets expire, or when the Group transfers the asset to another party and transfers all risks and rewards associated with the asset. Financial liabilities are derecognised when the Group's contractual obligation has been satisfied, discharged or cancelled.

Classification

The Group classifies assets and liabilities upon initial recognition based on the type of instrument and the intended purpose of the instrument. These are classified in the following categories:

I. Fair value through profit and loss
II. Financial assets measured at amortised cost
III. Derivatives earmarked as hedging instruments measured at fair value
IV. Financial liabilities measured at amortised cost

Financial assets at fair value with changes in value in the profit and loss statement

Except for investments in subsidiaries, joint ventures or associated companies in the balance sheet, all shares are defined as fair value in the income statement. Note 4 "Fair value" has a more detailed description of how fair value is measured for financial assets and liabilities.

Financial assets measured at amortised cost

The Group measures financial assets at amortised cost provided the following conditions have been met:

- The financial asset is part of a business model where the intention is to receive contractual cash flows, and
- the contractual terms for the financial asset give rise to cash flows solely consisting of the payment of principal and interest on given dates.

Subsequent measurement of financial assets measured at amortised cost is performed using the effective interest method and is subject to loss provisions. Profits and losses are recognised when the asset has been de-recognised, modified or written down.

Receivables related to operations are measured at their amortised cost, which in practice implies their nominal value and provision for expected losses.

Derivatives earmarked as hedging instruments measured at fair value

Derivatives are recognised in the balance sheet at fair value. Changes in the value of cash flow hedges are recognised as comprehensive income, while changes in the value of fair value hedges are recognised against foreign currency assets or liabilities in the balance sheet.

Financial liabilities measured at amortised cost

The company's financial liabilities are recognised at amortised cost, except for financial derivatives, which are recognised at fair value through comprehensive income.

Impairment of financial assets

KONGSBERG makes provision for expected credit losses on all debt instruments not classified as fair value through profit and loss. Expected credit loss is calculated based on the present value of all cash flows over the remaining expected useful life, i.e. the difference between the contractual cash flows and the cash flow that the Group expects to receive, discounted by the effective interest rate applicable to the instrument. The expected cash flows shall include cash flows from the sale of collateral or other credit enhancements integrated into the contract terms.

The Group uses the simplified method to calculate loss provisions for accounts receivable and contract assets. The Group thus measures loss provision based on expected credit loss over the lifetime of each reporting period. The Group has created a provision matrix based on historical credit losses, adjusted for future customer-specific factors and the general economic situation.

Derivatives

Derivatives in KONGSBERG comprise of forward currency exchange contracts. Currency options, interest and currency swap agreements (basis swaps) are used to a lesser extent. Upon initial recognition, derivatives are measured at fair value, and identifiable transaction costs are recognised through profit and loss as incurred. KONGSBERG applies the rules for hedge accounting to the extent that the requirements of IFRS 9 are fulfilled. Changes in the fair value of derivatives are recognised through profit and loss if they do not qualify for hedge accounting.

Hedging

The Group's financial policy states that material contracts must be hedged upon establishment, and these are primarily hedged using currency forward exchange contracts (fair value hedges). In special cases, the Group uses forward contracts as cash flow hedges, e.g. in connection with large tenders where there is a high probability of winning the contract.

Before hedge accounting can be used, KONGSBERG documents all qualification criteria for the use of hedge accounting. These include the identification of hedging instruments and objects, the risk to be hedged, and how the Group will assess whether the hedging arrangement meets the requirements for hedging efficiency. Hedging efficiency requirements are listed below:

- There is an economic relationship between the hedged object and the hedging instrument.
- The effect of credit risk does not have a dominant effect on the changes in value of the hedging instrument and the hedged object included in the hedging relationship.
- The relationship between the volume of the hedging instrument and the volume of the hedged object (hedge ratio) corresponds to the actual volumes used by the Group in risk management.

KONGSBERG determines whether a derivative (or another financial instrument) should be used to:

I. Hedge the fair value of an unrecognised firm commitment (fair value hedges)
II. Hedge a future cash flow of a recognised asset or liability, or an identified highly probable future transaction (cash flow hedges)

(i) Fair value hedges

The change in fair value of fair value hedges is recognised against the hedged items. For currency hedges of future contractual transactions, this implies that the changes in value of the future transaction due to changes in the exchange rate are recognised in the balance sheet. Since the hedging instrument is also recognised at fair value, this entails symmetrical recognition of the hedged item and the hedging instrument. For customer contracts, this implies that revenue is recognised at the hedged exchange rate.

Hedge accounting is ended in the event that:

a) The hedging instrument expires, or is terminated, exercised or sold, or
b) The hedge no longer satisfies the above-mentioned hedge accounting criteria

In connection with fair value hedges of financial assets or liabilities recognised at amortised cost, the change in the value of the hedging instrument is amortised during the remaining period up to maturity of the hedged item.

(ii) Cash flow hedges

Cash flow hedges are hedges of highly probable future cash flows. Changes in fair value are recognised via comprehensive income.

When a hedged transaction occurs, the accumulated change in value of the hedging instrument is transferred from other comprehensive income to profit for the year. If hedging of the transaction leads to recognition of an asset or liability, the hedging instrument is accrued in line with the hedged transaction.

In connection with hedges of future customer contracts, the hedges are allocated to contracts upon signing and are rolled forward from cash flow hedges to fair value hedges. Gains and losses that have previously been included in other comprehensive income are recognised in the income statement in line with the contract progress. This means that customer contracts that are hedged before signing are recognised at the originally hedged exchange rate.

If a hedging instrument expires without having been rolled forward or if the hedge relationship is discontinued, the accumulated gains and losses are recognised directly through profit and loss when the hedged transaction takes place. In the event that the hedged transaction is no longer expected to occur, the accumulated unrealised gains or losses on the hedging instrument previously recognised in other comprehensive income (OCI) will be transferred to profit and loss.

(iii) Hedging of a net investment in a foreign entity (equity hedging)
Hedging of a net investment in a foreign entity is recognised in an equivalent way as cash flow hedges. Profit or loss on the hedging instrument related to the effective share of the hedging that has been recognised against the comprehensive income as a part of the translation difference, shall be included in the result by realisation of the foreign entity.

Follow-up of hedging effectiveness
The forward exchange contracts are expected to be effective throughout the entire period. KONGSBERG rolls forward exchange contracts from cash flow to fair value hedges at the time of the contract entry. In addition, forward exchange contracts are rolled forward in cases where receipts/payments occur later (or earlier) than originally anticipated. At shorter time differences between the maturity of the forward contracts and the receipts/payments, KONGSBERG uses bank accounts in foreign currency. As a result, the exchange of foreign currency from the foreign currency bank account takes place in the same period as the final maturity of the forward contract or the receipts/payments. Hedging effectiveness will therefore be very high throughout the entire contractual period.

K) Classification

Assets related to normal operating cycles for goods and services or are due within 12 months are classified as current assets. Other assets are classified as non-current. Correspondingly, liabilities related to normal operating cycles for goods and services or that are due within 12 months are classified as current liabilities. Other liabilities are classified as non-current. Derivatives that are used to ensure currency flows according to Group policy, see Note 3 J, Financial instruments – hedging, are related to the Group's operating cycles and are therefore classified as short-term assets and liabilities even if the derivatives mature more than 12 months forward in time.

L) Inventories

Goods are defined by KONGSBERG as inventories of raw materials, work in progress and finished products that are not related to specific customer contracts. Inventories are measured at the lower of acquisition cost and net realisable value. For raw materials and work in progress, net realisable value is calculated as the estimated selling price in ordinary operations of finished products less remaining production costs and the costs of the sale. For finished goods, net realisable value is the estimated selling price in ordinary operations less estimated costs of completion of the sale. For work in progress and finished products, the acquisition cost is calculated as direct and indirect costs. Inventories are valued based on the average acquisition cost.

M) Receivables

Trade receivables and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are measured at amortised cost using the effective interest method, but due to the brief term to maturity, accounts receivable and other receivables will in practice be recognised at their nominal values less impairment. Trade receivable in foreign currencies are recognised at the exchange rates at the balance sheet date.

N) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise bank deposits and short-term liquid investments that can be immediately converted into a given sum of money, with a maturity of three months or less.

O) Equity

i. Treasury shares
When treasury shares are reacquired, the cost including direct attributable costs is recognised as changes in equity. Treasury shares are presented as a reduction in equity. Any gain or loss on treasury share transactions is not recognised in profit and loss.

ii. Costs related to equity transactions
Transaction costs directly related to an equity transaction and the tax effect on the equity transaction are recognised directly in equity net of tax.

iii. Hedge reserves
Hedge reserves include accumulated net changes in fair value for financial instruments used as cash flow hedges, which are recognised in other comprehensive income on an ongoing basis.

iv. Translation differences
Foreign currency translation differences are recognised in other comprehensive income. Upon the disposal of all or part of a foreign entity resulting in discontinued control, the accumulated translation differences are recognised in other comprehensive income, including the accompanying reversal.

See also Note 3 B "Summary of significant accounting policies – Foreign currency".

P) Provisions

Provisions are recognised when the Group has an obligation as a result of a past event, and when it is probable that there will be a financial settlement as a result of this obligation and the amount can be reliably measured. Estimates should be based on the basis of historical data and a weighting of results against their probability. When historical information is not available, other sources are used to estimate the provisions. If the time value is material, provisions are determined at the net present value of the liability.

Warranty
Provisions for warranty costs are recognised upon delivery of the underlying products or services. The provisions are based on historical data on warranties when available, and on a weighting of possible outcomes against the probability that they will occur. Warranty costs are expensed concurrently with the percentage of completion of the projects, and reclassified as provisions for warranty upon delivery.

Restructuring
Provisions for restructuring related to downsizing are recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring plan has been announced to the parties concerned. Restructuring costs consist of salary and social security tax when the employment relationship is terminated (including severance pay and gratuity). In addition to this are rent and other related costs and any

one-off payments in the event of the premature termination of tenancy agreements for premises that are vacated.

Onerous contracts
An onerous contract is defined as a contract where unavoidable costs in connection with the fulfilment of the contract exceed the economic benefits that are expected to be received, which means that there must be an actual loss rather than just a reduction in profit. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Q) Employee benefits

Defined contribution pension schemes
The Group introduced a defined contribution pension scheme for all employees in Norway under the age of 52 as of 1 January 2008. Employees with defined benefit plans, aged 52 or older at the time of the transition, stayed with that plan. Most of KONGSBERG's companies abroad have defined contribution pension schemes. Contributions are recognised as expenses as they occur and are shown in the personnel expenses in the profit and loss statement.

Defined benefit pension plans
Pension benefits depend on the number of years of service and salary level when reaching retirement age. There are also early retirement plans for some executives. To ensure a uniform calculation of KONGSBERG's pension liabilities, all corporate entities have used the same actuary for the calculations. In the income statement, the year's net pension expenses, after a deduction for the net interest cost of the liability and the expected return on pension plan assets, have been recognised as "personnel expenses". The statement of financial position shows net pension liabilities including social security contributions. The financial and actuarial assumptions are subject to annual review. The discount rate is stipulated on the basis of the covered bond interest rate, plus a supplement that reflects the duration of the pension liability. Risk coverage is described in Note 12 "Pension". Actuarial gains or losses related to changes in the basis data, estimates and changes in assumptions are recognised in other comprehensive income.

Share transactions with employees
For a number of years, the Group has been conducting a share programme for all employees, i.e. offering shares at a discounted price. Discounts on shares are recognised as payroll expenses. The Group also has a share programme for leading employees. See the description in Note 28 "Statement on remuneration of the Group CEO and Executive Management".

Compensation to employees as selling shareholders in connection with acquisitions
When enterprises are acquired, the compensation to selling shareholders that are also employed in the acquired company shall be recognised as salary if one of the conditions for the payment is to maintain the employment. In such instances, the compensation shall be accrued as a salary expense over the required period.

R) Earnings per share

The Group presents annual earnings per share and diluted earnings per share. Annual earnings per share are calculated as the ratio of net profit/(loss) attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding.

The diluted earnings per share is the profit attributable to the ordinary shareholders, and the weighted number of shares outstanding, adjusted for all diluting effects related to share options.

S) Changed standards in IFRS that have not yet been implemented

IASB has clarified the definition of a business which means that acquisition of a set of assets and liabilities must be recognised according to IFRS 3 Business Combinations. When the definition of business is not met, the transaction will be recognised according to the relevant standards, e.g. for inventories or fixed assets. The standard applies from 2020 and must be applied to transactions which take place after this date and will thus not be of significance for the financial statements which have already been prepared as of the transition date.

IASB has revised the definition of 'materiality' in IAS 1 and IAS 8, to ensure that there is a consistent definition across the various IFRS standards. The new definition makes it clear that information in the financial statements will be material if the omission, mis-statement or concealment of information could be expected to influence decisions that the primary users make based on the financial statements. The change applies from 2020 inclusive, but is not expected to have any significant effect on the financial statements.

There are no other standards or interpretations that are not yet effective that would be expected to have a material impact on the consolidated statement.

T) IFRS standards implemented with effect from 1 January 2019

IFRS 16 Leases
In 2016, IASB adopted a new standard for leasing, with implementation from 1 January 2019. KONGSBERG has used the modified retrospective method for the transition to IFRS 16, which means that the comparative figures for 2018 have not been restated. According to the standard, the lessee must recognise the value of material leases with a duration of more than 12 months in its statement of financial position as a leasing asset and leasing liability. The leasing asset reflects the value of right of use for the underlying asset, while the leasing liability reflects the obligation related to future payments. The assets are written off over the lease term and the rent amount is reclassified as the repayment of debt and interest according to the annuity method. Lease of property and buildings is substantial for KONGSBERG. In addition, there is some lease of production facilities and vehicles. According to IAS 17, these were classified as operational lease agreements. With effect from 1 January 2019, leases are recognised in the balance sheet.

In isolation, the implementation of IFRS 16 results in a substantial earnings before interest, taxes, depreciation and amortisation. (EBITDA), because lease costs are no longer included and lease contracts are now reflected through depreciation and interest expenses in the income statement. This results in an increase in earnings before interest and taxes (EBIT), while profit before tax is reduced. This is because the interest element on the leasing liability is high at the start of the lease term. In subsequent leasing periods, the interest expense decline as the leasing liability is reduced. Cash flow is affected by the fact that the lease payment which represents the repayment of the principal is classified as cash flow from financing activities.

The leasing period for recognised contracts as of 1 January 2019 is in the range 1-12 years. The weighted average discount rate for the leasing liabilities was 5.85 per cent.

KONGSBERG has chosen not to re-evaluate whether existing service deliveries include a lease. This means that although the old evaluations under the rules of IAS 17 and IFRIC 4 are maintained, the accounting of these leases has been reworked in accordance with IFRS 16.

KONGSBERG applies the recognition exemption to leases that have a lease term of less than 12 months and leases of low value assets.

The implementation of IFRS 16 has the following effects on the opening balance as of 1 January 2019:

IFRS 16 effects on the statement of financial position and performance:

MNOK	*1 Jan 19*
Non-current assets	
Leasing assets	1 615
Total non-current assets	**1 615**
Equity	
Effects on retained earnings:	-
Non-current liabilities and provisions	
Non-current leasing liability	1 362
Total non-current liabilities and provisions	**1 362**
Current liabilities and provisions	
Current leasing liability	253
Total current liabilities and provisions	**253**
Total equity, liabilities and provisions	**1 615**

MNOK	*2019*
Reversed lease costs previously included in EBITDA	(423)
Increased EBITDA	**423**
Depreciation on leases	348
Increased EBIT	**75**
Interest expense on leasing liabilities during the period	(131)
Reduced EBT	**(56)**

IFRIC 23

IFRIC 23 clarifies how uncertain tax positions should be reflected in the statement. Uncertain tax positions arise when it is unclear how current tax law is to be interpreted for a specific transaction or event and when it is uncertain whether the tax authorities will approve a company's tax arrangement.

Implementation of the standard has not had any significant effect on KONGSBERG's financial statements.

4 FAIR VALUE

KONGSBERG's accounting principles and disclosures require the measurement of fair value on certain financial and non-financial assets and liabilities. For both measurement and disclosure purposes, fair value has been estimated as described in the disclosures below. Where relevant, further disclosures will be provided in the notes regarding the assumptions used to calculate fair value on the individual assets and liabilities.

Intangible assets

The fair value of intangible assets, e.g., technology, software and customer relations acquired through acquisitions, is calculated at the net present value of the estimated future cash flow from the asset, discounted by a risk-adjusted discount rate.

Brand names are calculated at the net present value of the estimated savings of royalty costs by using the brand name.

The fair value of customer relations is based on the discounted net excess earnings on the related asset.

Property, plant and equipment

At acquisitions, KONGSBERG measures property, plant and equipment at fair value. The fair value is equivalent to its market value. The market value of property is based on what the property could be sold for on the day of valuation agreed by a willing buyer and seller in an "arm's length transaction". The market value of the plant and equipment is based on assessments obtained from independent appraisers.

Leases

Leases are recognised at fair value at the time the agreement is signed. When aquistion of businesses lease contracts are measured at fair value on the date of aqusition. The market value is determined using the implicit interest rate in the lease contract or the incremental borrowing rate. For lease of property yield obtained from external parties is used.

Inventories

The fair value of inventories acquired through acquisitions is based on an estimated selling price for ordinary operations less selling costs and a reasonable profit for the sales efforts.

Derivatives

The fair value of forward exchange contracts is based on observable data. KONGSBERG uses prices from Reuters for the various forward exchange contracts. In turn, these are based on a number of market players. Where no listed price is available, fair value is calculated by discounting the difference between the agreed forward contract price and the current forward contract price for the remainder of the contract using the Norwegian government bond interest rate. The fair value of any interest rate swap agreements, basis swaps and currency options are assessed on the basis of prices from Reuters or updated valuations from the transaction counterparty.

Non-current liabilities

Fair value of interest-bearing loans, see Note 22 F "Financial instruments – Summary of financial assets and liabilities", is calculated using estimates of the interest curve and credit margin at the balance sheet date. Estimated cash flows are discounted by the interest rate expected for comparable loans as of the date of the balance sheet. The market interest rate, before the credit mark-up, is based on NIBOR, the money market interest rate. The credit mark-up is then estimated for KONGSBERG for each length.

5 MANAGEMENT OF CAPITAL AND FINANCIAL RISKS

KONGSBERG has a centralised treasury department responsible for the Group's financing, capital structure, currency risk, interest rate risk, credit risk, liquidity management, trade finance, guaranties issued and insurance schemes. The Group's subsidiaries have limited opportunities to establish independent funding or assume financial risk. The Board has adopted guidelines for financial risk management which have been included in the Group's financial policy.

Funding and capital management

In 2019, KONGSBERG revised its financial policy, which amongst other things comprised specification of the company's capital allocation priorities. KONGSBERG's policy is to allocate capital according to the following principles and sequence, and is explained in more detail below:

1. Maintain a solid statement of financial position
2. Invest for organic growth
3. Ensure competitive direct returns for shareholders
4. Active management of the company's business portfolio

1. A solid statement of financial position is important for KONGSBERG. The working capital requirement can vary considerably, which imposes requirements regarding good liquidity and predictable access to capital. The Group must therefore be considered to have good creditworthiness by investors and customers, which will ensure secure access to the debt capital market. The Group has set a target for net debt/EBITDA over time to fall within the range 1.0x +/- 1.0x, and around the centre of the range as a long-term average. Varying working capital as a result of large projects within the defence sector is the principal reason for the span in the range, amongst other as a result of different payment structures in the projects. Net working capital is also expected to continue to vary in the future. As of 31 December 2019, KONGSBERG's net debt/EBITDA ratio was -0.84.
2. A high proportion of KONGSBERG's value creation consists of the development of high-technology solutions. KONGSBERG's technology platforms have been built up over many years and are a prerequisite for maintaining the competitiveness. In recent years, the Group has invested 4-7 per cent of its turnover in research and development, and in order to maintain its competitiveness, the Group must continue to allocate capital to this and other essential investments.
3. KONGSBERG aims to generate a competitive direct return for its shareholders. When determining the magnitude of the ordinary dividend, the management and board will take into account future capital requirements. The dividend policy stipulates that annual dividends must amount to between 40 and 50 per cent of the company's ordinary earnings after tax. In addition to the ordinary dividend, KONGSBERG will consider extraordinary distributions or the buy-back of treasury shares as possible supplements.
4. KONGSBERG shall actively manage its business portfolio. Active management entails the acquisition, sale and restructuring of businesses, and KONGSBERG has carried out a number of acquisitions in recent years. The Groups businesses are primarily assessed for their capacity to generate value, but also for the way in which they fit in with KONGSBERG's strategy, their ability to maintain leading market positions, and the potential for synergies across the Group.

The capital structure of the Group consists of interest-bearing debt and equity which is primarily attributable to the shareholders of Kongsberg Gruppen ASA. The Group's equity as of 31 December 2019 was MNOK 12,810, which corresponds to 33 per cent of total assets. The Group's net interest-bearing debt (cash less interest-bearing debt) at the year-end was MNOK –1,565.

The Group primarily uses debt instruments in the Norwegian capital market as a debt financing source. The Group considers that it has satisfactory access to capital. See also the reference to interest rate risk below.

Interest rate risk

KONGSBERG is primarily exposed to interest rate changes as a result of the financing of the business and the management of liquidity in different currencies. Most loans are in Norwegian kroner, while most deposits are in Norwegian kroner, US dollars, euro and Swedish kronor. Deposits are subject to floating interest rates, while loans are issued with both floating and fixed interest rates.

The need for interest rate swap agreements for issued debt is assessed on an ongoing basis. As of the year-end, the Group had no interest rate swap agreements, and 64 per cent of issued debt had floating interest, while the remaining 36 per cent had fixed interest.

The Group aims to ensure that the term to maturity of issued long-term loans is at least two years. As of 31 December 2019, the weighted average term to maturity was 3.2 years for bond loans issued as long-term loans. Note 22 D "Financial instruments – interest rate risk" provides more information.

Liquidity risk

Liquidity risk is the risk that is related to the Group's solvency with respect to its financial liabilities as they fall due for payment. For KONGSBERG, this means having a financial framework and liquidity that is adapted to the operating and investment plans at all times. The centralised treasury department bears the responsibility for managing the Group's liquidity risk.

Short-term liquidity requirements are covered by bank deposits. Any additional liquidity requirements can be covered within the framework of the syndicated and committed loan facility of MNOK 2,300 and an overdraft facility of MNOK 500. KONGSBERG has Group cash pool systems to which most subsidiaries are connected. These systems increase availability and flexibility in terms of liquidity management.

The Group's liquidity trend is routinely monitored through monthly carry-forwards of liquidity forecasts from the most material units, as well as budgets and reporting by segment for major investments.

Currency risk

KONGSBERG has a global presence with subsidiaries in many countries. The Group receives a high proportion of its revenue from contracts in currencies other than Norwegian kroner, with a relatively low proportion of procurement in the same currency. The individual business areas identify exposure for each contract, whilst the central financial function offers instruments that reduce currency risk.

The Group's financial policy stipulates that significant contracts must be hedged upon establishment, and these are largely hedged using currency forward exchange contracts (fair value hedges). In special cases, the Group uses forward contracts as cash flow hedges, e.g. in connection with large tenders where there is a high probability of winning the contract. The Group will normally have some open currency exposure related to minor contracts, as well as other revenues and costs in foreign currency. This exposure is reduced as far as possible through spot transactions and/or forward contracts, and the exposure period is normally short. Cash holdings in currency which are considered to be part of the businesses' working capital are not normally hedged. KONGSBERG has the highest exposure to the US dollar and euro, but it also has exposure to many other currencies.

Currency options are used only to a limited extent. Currency accounts in the cash pool systems are used for the natural hedging of smaller amounts with short terms to maturity.

In addition to the use of financial instruments, the entities and the centralised finance function implement operational measures, such as ensuring that costs incurred are in the same currency as the sales contract, in order to reduce foreign currency exposure. KONGSBERG uses a known Treasury Management System and a specific trading platform for managing currency transactions.

See Note 22 B "Financial instruments - Currency risk and hedging of currency" for more information.

Credit/Counterparty risk

Counterparty risk is the risk that KONGSBERG's contractual counterparty will be unable to meet its obligations to KONGSBERG or settle its forward currency contracts, interest rate contracts and monetary investments. The Group's financial policy requires financial institutions to have a certain credit rating before KONGSBERG can engage in financial contracts with them. The company's core banks, which are a counterparty in most derivative transactions and in which most of KONGSBERG's operating liquidity is placed, have credit ratings from A to AA- (Standard & Poor's).

Credit risk is related to trade receivables, and the business areas are responsible for their own credit risk. The receivables carry varying degrees of risk depending on the customer, term to maturity and whether any payment guarantees have been provided. For major, long-term projects, credit risk related to customers and subcontracts is assessed from the start and throughout the contract period. These projects are monitored in accordance with agreed milestones. Historically, KONGSBERG has had a relatively low percentage of bad debts.

The business in KONGSBERG which has the greatest exposure to credit risk is Kongsberg Maritime. KM primarily has customers from the private sector and the market in which it operates is cyclical. Credit insurance is used only to a limited extent, but is considered in certain cases. Kongsberg Defence & Aerospace has mostly government customers and is therefore exposed to credit risk to a lesser degree.

The Group strives to maintain a responsible balance between increasing sales with strong margins and the risk of losses. In addition, large parts of the Group operate on the basis of specially adapted credit manuals including routines for debt collection. See Note 21 "Receivables and credit risk" for more information.

6 ACQUISITIONS

Rolls-Royce Commercial Marine

On 6 July 2018, KONGSBERG entered into an agreement concerning the acquisition of Rolls-Royce Commercial Marine (RRCM) from Rolls-Royce Plc. The acquisition was completed on 1 April 2019 and the business is recognised as part of Kongsberg Maritime's segment reporting from Q2 2019. See Note 31 "List of Group companies" for an overview of the companies that have been acquired.

RRCM is a technology enterprise within maritime operations that supplies equipment and maintenance services to most segments within offshore and merchant vessels. The acquisition of RRCM makes KONGSBERG a more holistic supplier to the maritime industry, as the two companies have largely complementary products, solutions and expertise. The acquisition strengthens KONGSBERG's strategic position amongst ship owners, shipyards and other customers, and is in line with KONGSBERG's ambition to grow as a world-leading technology supplier. The acquired business is hereinafter referred to as Commercial Marine (CM).

The negotiations with Rolls-Royce over a final purchase price were concluded in October 2019 and resulted in the cost price being reduced by MNOK 320. The preliminary net outgoing cash flow of MNOK 5,145 stated in Q1 2019 included MNOK 40, which was reclassified in Q4 as covering of costs. The net reduction of the preliminary net outgoing cash flow is thus MNOK 280 and the final net outgoing cash flow amounted to MNOK 4,865.

KONSGBERG has made updated the assessments of assets and liabilities acquired through the acquisition. This has led to changes in the allocation of added value. The final allocation of added value will be presented in the Q1 2020 report.

Estimated goodwill in the preliminary added value allocation is MNOK 2,272 and includes the following:

- Expectations of market improvement
- Leading market position
- Capacity to tender large-scale projects
- Workforce
- Technical expertise
- Access to future customers and products
- Geographic presence
- References

Preliminary added value allocation for the acquisition of Rolls-Royce Commercial Marine

MNOK	*Incorporated values upon takeover*	*Adjustment of fair value*	*Book value prior to acquisition*
Intangible assets	-	(146)	146
Customer relations	616	616	-
Trademark	66	66	-
Technology	769	769	-
Total intangible assets exclusive goodwill	**1 451**	**1 305**	**146**
Property, plant and equipment	1 253	(223)	1 476
Leasing assets	471	-	471
Deferred tax assets[1]	-	(79)	79
Current assets exclusive cash and cash equivalents	4 605	(199)	4 804
Cash and cash equivalents	2 320	(2)	2 322
Total assets exclusive goodwill	**10 100**	**801**	**9 298**
Pension liabilities	(309)	-	(309)
Long-term leasing liabilities	(384)	-	(384)
Short-term leasing liabilities	(87)	-	(87)
Provisions	(531)	(213)	(318)
Other current liabilities	(4 876)	22	(4 898)
Total liabilities	**(6 187)**	**(191)**	**(5 996)**
Net identifiable assets and liabilities	**3 913**	**611**	**3 302**
Goodwill at time of acquisition	2 272		
Remuneration	**6 185**		
Cash and cash equivalents acquired	(2 320)		
Remuneration, exclusive cash and cash equivalents	**3 865**		
Repayment of liabilities at acquisition	1 000		
Net outgoing cash flow for the acquisition	**4 865**		

1) Deferred tax on added value is recognised against the deferred tax asset concerning the carryforward loss. The unrecognised deferred tax asset at the time of acquisition is approximately MNOK 600.

If the acquisition had been implemented on 1 January 2019, KONGSBERG's operating revenues would have increased by MNOK 1,871 and EBITDA would have been reduced by MNOK 80 (including an estimate for integration and restructuring costs of MNOK 47). During the period of ownership, MNOK 7,134 in operating revenues and MNOK 32 in EBITDA have been included from CM. The overall effect on KONGSBERG's operating revenues and EBITDA if the acquisition had taken place on 1 January 2019 would have been MNOK 9,005 and MNOK -48 respectively.

Aerospace Industrial Maintenance Norway AS

On 13 December 2018, KONGSBERG announced an agreement with the Ministry of Defence for the acquisition of Aerospace Industrial Maintenance Norway (AIM). The acquisition was completed on 29 May 2019 and the agreement concerning shared ownership with Patria was concluded on the same day. KONGSBERG is the majority shareholder with 50.1 per cent, whilst Patria owns 49.9 per cent of the shares in AIM. KONGSBERG owns 49.9 per cent of Patria.

The company is the Norwegian Armed Forces' business that support the maintenance, repair and overhaul of the Norwegian Air Force's planes and helicopters. The acquisition of AIM strengthens KONGSBERG's role as a strategic partner for the Norwegian Armed Forces' operational requirements, and will strengthen KONGSBERG's position within Maintenance, Repair and Overhaul (MRO).

The parties agreed on an enterprise value of MNOK 151 on a cash and debt-free basis, and with normalised working capital. Among other things, the agreed value reflects the fact that AIM is committed to investing around MNOK 540 in a new engine depot for the F-35 at Rygge over the next 2–3 years.

The preliminary added value allocation showing an expected consideration of MNOK 3.3 is presented below. Amongst other things, this consideration includes earn-outs related to EBITDA 2019 and strategic collaboration. In June, AIM was renamed to Kongsberg Aviation Maintenance Services AS (KAMS).

Preliminary added value allocation for the acquisition of Aerospace Industrial Maintenance Norway AS

MNOK	*Incorporated values upon takeover*	*Adjustment of fair value*	*Book value prior to acquisition*
Intangible assets	2	-	2
Total intangible assets exclusive goodwill	**2**	**-**	**2**
Assets held for sale	199	7	192
Property, plant and equipment	42	(176)	218
Leasing assets	172	-	172
Deferred tax assets	156	40	117
Current assets exclusive cash and cash equivalents	192		192
Cash and cash equivalents	210	-	210
Total assets exclusive goodwill	**973**	**(129)**	**1 103**
Pension liabilities	(125)	-	(125)
Non-current liabilities	(380)	(5)	(375)
Long-term leasing liabilities	(138)	-	(138)
Short-term leasing liabilities	(34)	-	(34)
Provisions	-		
Other current liabilities	(294)	(19)	(275)
Total liabilities	**(971)**	**(24)**	**(947)**
Net identifiable assets and liabilities	**3**	**(152)**	**156**
Goodwill at time of acquisition	-		
Remuneration	**3**		
Cash and cash equivalents acquired	(210)		
Remuneration, exclusive cash and cash equivalents	**(207)**		
Net ingoing cash flow for the acquisition	**(207)**		

If the acquisition had been completed on 1 January 2019, KONGSBERG's operating revenues would have increased by MNOK 197, while EBITDA would have been reduced by MNOK 2. During the period of ownership, MNOK 275 in operating revenues and MNOK 38 in EBITDA have been included from AIM. The overall effect on KONGSBERG's operating revenues and EBITDA if the acquisition had taken place on 1 January 2019 would have been MNOK 472 and MNOK 36.

7 OPERATING SEGMENTS

For management purposes, the Group is organised into business areas based on the industries in which the Group operates. As of 31 December 2019, reporting requirements apply to the following two operating segments:

Kongsberg Maritime (KM) consists of five divisions that supply solutions, systems, products and services to various maritime markets and most maritime vessel segments. Integrated Solutions develops and supplies solutions and systems for bridge and control systems, which primarily encompass dynamic positioning, propulsion control and navigation, as well as automation systems for safety, control and monitoring of processes onboard merchant and offshore vessels and cruise ships. The division also supplies energy solutions and ship design services in the same segments. Propulsion & Engines produces and supplies propellers, thrusters, water jet systems and systems for offshore manoeuvring of maritime vessels. The Deck Machinery and Motion Control division produces and supplies deck equipment such as winches for mooring, anchor handling and special systems for offshore vessels, tugs, marine vessels and many other classes of vessel, as well as cranes. The Sensors & Robotics division is a major player within hydroacoustics and supplies autonomous underwater vessels, solutions for autonomous maritime vessels, a wide variety of products related to fisheries, systems for underwater mapping, and sensors and solutions for specialist vessels. Global Customer Support primarily provides services, spare parts and upgrades related to the business area's deliveries. Revenues are distributed with 22 per cent within Marine Services, 22 per cent within Sensor & Robotics, 20 per cent Integrated Solutions, 14 per cent within Global Customer Support, 13 per cent Propulsion & Engines and 9 per cent within Systems & Deck Machinery.

In 2019, **Kongsberg Defence & Aerospace (KDA)** was divided into six divisions, which primarily supply various systems and services to the defence industry. The Integrated Solutions division develops and supplies air defence systems, combat systems, sonars and navigation for marine vessels and submarines, as well as integrated command and control systems. The division also develops remote tower solutions for airports. Protech Systems develops and supplies remote control weapon stations for land-based vehicles and marine vessels. Defense Communications develops and supplies products for military tactical communication. Missile Systems develops and supplies naval strike missiles and air-to-surface missiles. Aerostructures produces and supplies advanced lightweight composite and titanium components for F-35 combat aircraft, as well as Maintenance, Repair & Overhaul (MRO) services. The Space & Surveillance division supplies components and services to the space industry, as well as port monitoring systems. From 1 January 2020, the Protech Systems and Defense Communications divisions will be merged to form a single division: Land Systems. For KDA, 14 per cent of the operating revenues are related to Missile Systems, 27 per cent to Integrated Defence Systems, 20 per cent to Protech Systems, 14 per cent to Space and Surveillance, 17 per cent to Aerostructures and 8 per cent to Defence Communications.

Other

Other activities consist of Kongsberg Digital (KDI), real property, group functions and eliminations between the business areas.

KDI is focused on taking up new and strengthening existing positions related to digitalisation within the oil and gas, wind and merchant marine markets.

Funding of the Group is based on evaluations for the Group as a whole. Consequently, financial items, net interest-bearing debt and cash are not assigned to segments. The same applies to tax expenses and balance sheet items associated with tax, as these items are influenced by tax-related transfers between the business areas.

Management monitors the operating segments' EBITDAs on a regular basis and uses this information to analyse the various operating segments' performance and to make decisions regarding allocation of resources. The operating segments' performance is assessed based on EBITDA and return on capital employed.

Information on the Group's operating segments that are required to report is presented below.

Operating segment data

MNOK	*Kongsberg Maritime*	*Kongsberg Defence & Aerospace*	*Other*	*Eliminations*	*Consolidated*
2019					
Operating revenue from external customers	16 018	7 237	826	-	24 081
Revenue from Group companies	20	8	542	(570)	-
Total revenues	**16 038**	**7 245**	**1 368**	**(570)**	**24 081**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**1 151**	**1 157**	**(29)**	**-**	**2 279**
Depreciation	(193)	(186)	(61)	-	(440)
Depreciation IFRS16	(243)	(146)	41[1]	-	(348)
Impairment of property, plant and equipment	(18)	-	-	-	(18)
Amortisation	(209)	(65)	(16)	-	(290)
Earnings before interest and taxes (EBIT)	**488**	**760**	**(65)**	**-**	**1 183**
Segment assets[2]	19 351	11 886	1910	(224)	32 923
Segment investments[3]	5 129	459	153	-	5 741
Current segment liabilities and provisions[4]	9 288	7 272	488	(174)	16 874
2018					
Operating revenue from external customers	7 537	6 090	754	-	14 381
Revenue from Group companies	8	14	466	(488)	-
Total revenues	**7 545**	**6 104**	**1 220**	**(488)**	**14 381**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**594**	**863**	**(63)**	**-**	**1 394**
Depreciation	(118)	(170)	(62)	-	(350)
Impairment of property, plant and equipment	(5)	(1)	-	-	(6)
Amortisation	(18)	(71)	(4)	-	(93)
Earnings before interest and taxes (EBIT)	**453**	**621**	**(129)**	**-**	**945**
Segment assets[1]	6 970	8 520	1790	(158)	17 122
Segment investments[2]	80	199	92	-	371
Current segment liabilities and provisions[3]	3 221	4 380	639	(117)	8 123

1) Internal elimination of depreciation related to IFRS 16 is included in the amount.
2) The segment assets does not include derivatives and cash and cash equivalents, as these assets are managed by the Group's central treasury department.
3) Investments comprise acquired property, plant and equipment, intangible assets and goodwill, excluding IFRS 16.
4) Segment liabilities do not include deferred tax liabilities, taxes payable, interest-bearing liabilities, other non-current liabilities or provisions and derivatives, as these liabilities are controlled by the Group's corporate treasury unit.

There are no differences between the measurement methods used at the segment level and those applied to the consolidated financial statements. The different operating segments' EBITs include income and expenses from transactions with other operating segments within the Group. Transactions between the segments are based on market prices. Intra-group transactions between the different segments are eliminated upon consolidation.

Reconciliation of assets

MNOK	*2019*	*2018*
Segment assets	**32 923**	**17 122**
Derivatives	376	182
Fair value adjustments related to financial instruments	302	316
Cash and cash equivalents	5 654	10 038
Total assets	**39 255**	**27 658**

Reconciliation of current liabilities and provisions

MNOK	*2019*	*2018*
Current segment liabilities and provisions	**16 874**	**8 123**
Short-term interest-bearing loans	968	312
Derivatives	493	580
Fair value adjustments related to financial instruments	399	8
Calculated income tax payable	77	19
Total current liabilities and provisions	**18 811**	**9 042**

Geographical information

In presenting information by geographical segments, earnings are distributed based on the customers' geographical location, while the data on fixed assets are based on the location of the physical investment or relationship to the relevant acquisition. The Group's activities are generally divided into Norway, the rest of Europe, America and Asia. Fixed assets include property, plant and equipment, intangible assets and goodwill. (Financial instruments, deferred tax benefits, pension funds and rights following from insurance agreements are not included.)

MNOK	*Norway*	*Europe*	*North America*	*South America*	*Asia*	*Australia*	*Africa*	***Total***
2019								
Operating revenue from external customers	4 348	6 761	6 022	328	5 638	403	581	**24 081**
Operating revenues as % of the total	18%	28%	25%	1%	24%	2%	2%	
Fixed assets[1]	10 315	948	859	27	393	9	1	**12 552**
2018								
Operating revenue from external customers	2 779	3 812	4 074	190	2 760	158	608	**14 381**
Operating revenues as % of the total	19%	27%	28%	1%	19%	1%	4%	
Fixed assets[1]	4 218	115	783	15	289	-	-	**5 420**

1) Fixed assets in this report comprises of property, plant and equipment, goodwill and other intangible assets.

8 CUSTOMER CONTRACTS

MNOK	*Kongsberg Maritime*	*Kongsberg Defence & Aerospace*	*Other*	*Total*
2019				
Accrual of revenue recognition				
Revenue recognition based on progress in the projects (over time)	5 230	5 828	519	11 577
Revenue recognition upon delivery of goods and services	3 796	282	247	4 325
Aftermarket activities[1] which are recognised as income upon delivery	6 841	1 127	(4)	7 964
Revenue from rental of property, plant and equipment	44		62	106
Total external revenues from customer contracts	**15 911**	**7 237**	**824**	**23 972**
Gains from sale of property, plant and equipment	-	-	2	2
Gains from sale of business	107	-	-	107
Total external revenues	**16 018**	**7 237**	**826**	**24 081**
2018				
Accrual of revenue recognition				
Revenue recognition based on progress in the projects (over time)	3 737	4 644	386	8 767
Revenue recognition upon delivery of goods and services	897	468	157	1 522
Aftermarket activities[1] which are recognised as income upon delivery	2 850	978	133	3 961
Revenue from rental of property, plant and equipment	44	-	78	122
Total external revenues from customer contracts	**7 528**	**6 090**	**754**	**14 372**
Gains from sale of property, plant and equipment	9	-	-	9
Total external revenues	**7 537**	**6 090**	**754**	**14 381**

1) Aftermarket includes revenues from service, maintenance, upgrades, spare parts, accessories/other deliveries and training linked to previously-delivered systems and vessels that are not classed as new builds. Aftermarket activities are not reflected in the order backlog and are thus also not included in the summary of revenues for future periods; see the table below.

The table shows the anticipated date on which unsettled/unstarted performance obligations as of 31 December 2019 are recognised as income:

	2019 *Date of revenue recognition*				2018 *Date of revenue recognition*		
MNOK	*Order backlog 31 Dec 19*	*2020*	*2021*	*2022 and later*	*Order backlog 31 Dec 18*	*2019*	*2020 and later*
Kongsberg Defence & Aerospace	20 146	7 178	6 383	6 585	10 734	5 576	5 168
Kongsberg Maritime	12 095	8 904	2 332	859	5 739	4 268	1 471
Other/elimination	888	518	224	146	800	512	288
Total	**33 129**	**16 600**	**8 939**	**7 590**	**17 283**	**10 356**	**6 927**

Kongsberg Maritime (KM)

Many of KM's divisions have deliveries that are combined in a system that must operate together. This primarily applies to deliveries by the Sensor & Robotics and Integrated Solutions divisions, where the deliveries are recognised as revenue according to level of progress made over time. This is because the deliveries are extensively customised and have no alternative area of use for KM. In most cases, the measures of progress used in connection with revenue recognition over time is "cost to cost", but hours can also be used.

KM also has a significant proportion of deliveries where the revenues are recognised upon delivery. This particularly applies to the business acquired via the acquisition of Commercial Marine, such as Systems & Deck Machinery and Propulsion & Engines, but it also applies to certain areas of Sensor & Robotics and Integrated Solutions. Equipment deliveries are largely assessed as being independent and have a short time horizon; and the revenue is therefore recognised as income upon delivery. For a more detailed description of what the various divisions supply, see Note 7 "Operating segments".

Over 36 per cent of KM's revenues are within aftermarket. Most of these contracts are recognised upon the delivery of hours/equipment and are often of short duration. There are also cases where this type of contract is recognised over time, but it is then assumed that the contract is large and will extend over a number of accounting periods.

Customer contracts have different payment terms, depending on the product, market and negotiations with the customer. Many customer contracts that are recognised over time include an advance paid by the customer upon contract signing, followed by payments as milestones are achieved. There are considerable differences between the contracts. For goods and service deliveries, including aftermarket deliveries, customers are primarily invoiced upon delivery and payment takes place after an agreed credit period, which depends on the individual agreement.

Kongsberg Defence & Aerospace (KDA)
KDA's customer contracts primarily concern deliveries that are combined in a system and must operate together. Most customer contracts in the business area are recognised as revenue according to progress over time. This is because the deliveries are extensively customised and have no alternative area of use for KDA. Customer contracts are normally long-term and large. KDA is entitled to payment for work performed to date. "Cost to cost" is primarily used as a measure of progress, but accrued hours, progress made by subcontractors and, in some cases, milestones are also used. Deliveries of this type are air defence systems, missile systems, command and control systems and monitoring systems.

Series of identical units within the same contract are recognised as revenue over time. These are then treated as a single delivery obligation. The condition is that they would have individually qualified for revenue recognition over time. Revenue measures for such contracts could be delivery/withdrawals from inventories to customers, as this represents the progress that has been made, because the manufacturing period is relatively short. Many of the contracts concerning weapons stations are recognised as revenue according to these principles. The same applies to contracts related to the F-35 programme.

KDA makes little use of revenue recognition upon delivery, but this method is used in connection with the delivery of communication equipment and equipment for the space industry.

KDA also has deliveries of service and maintenance. Most of these deliveries are activities which are covered by the term 'aftermarket' in KONGSBERG. These services are primarily recognised as revenue as the hours/goods are delivered.

For a more detailed description of the divisions and deliveries in KDA, see Note 7 "Operating segments".

KDA would be entitled to reimbursement for accrued costs plus a margin if the customer were to cancel a contract without sufficient reasons to do so. Customer contracts have different payment terms, depending on the product, market and negotiations with the customer. For customer contracts recognised over time, many contracts will include an advance paid by the customer upon contract establishment, followed by payment as milestones are achieved. There are considerable differences between the contracts. For goods and service deliveries, including aftermarket deliveries, customers are primarily invoiced upon delivery and payment takes place after an agreed credit period, which depends on the individual agreement.

MNOK	*2019*	*2018[1)]*
Divisions		
Customer & Services	3 708	
Sensors & Robotics	3 693	2 875
Integrated Solutions	3 468	2 957
Global Customer Support (KM)	2 396	2 327
Propulsion & Engines (P&E)	2 244	
Systems & Deck Machinery	1 523	
Other/elimination	(994)	(614)
Kongsberg Maritime	**16 038**	**7 545**
Integrated Defence Systems	2 116	1 694
Protech Systems	1 562	1 699
Aerostructures	1301	888
Missile Systems	1147	728
Space & Surveillance	664	625
Defence Communications	635	680
Other/elimination	(180)	(210)
Kongsberg Defence & Aerospace	**7 245**	**6 104**
Other/elimination	**798**	**732**
Total revenue from contracts with customers	**24 081**	**14 381**

1) The comparison for KM has changed due to the composition of the divisions

For a more detailed description of the various divisions and their deliveries, see Note 7 "Operating segments".

MNOK	Kongsberg Maritime	Kongsberg Defence & Aerospace	Other	Total
2019				
Geographic distribution of external revenues from customer contracts				
Norway	2 586	1 428	334	4 348
Europe	5 193	1 405	163	6 761
America	2 802	3 036	184	6 022
South America	276	7	45	328
Asia	4 813	769	56	5 638
Africa	101	470	10	581
Australia	247	122	34	403
Total external revenues from customer contracts	**16 018**	**7 237**	**826**	**24 081**
2018				
Geographic distribution of external revenues from customer contracts				
Norway	1 495	948	336	2 779
Europe	2 133	1 526	153	3 812
America	1 248	2 667	159	4 074
South America	146	32	12	190
Asia	2 297	394	69	2 760
Africa	158	443	7	608
Australia	60	80	18	158
Total external revenues from customer contracts	**7 537**	**6 090**	**754**	**14 381**

Contract balances

Specification of net contract balances[1]

MNOK	Note	31 Dec 19	31 Dec 18
Customer contracts in progress	21	3 701	2 653
Prepayments received from customers		(9 334)	(4 834)
Accrued assets, customer contracts		4 326	2 016
Accrued liabilities, customer contracts		(3 286)	(1 998)
Net contract balances		**(4 593)**	**(2 163)**

MNOK	31 Dec 19	31 Dec 18
Customer contracts, assets	5 888	2 994
Customer contracts, liabilities	(10 481)	(5 157)
Net contract balances	**(4 593)**	**(2 163)**

1) The table on the left shows the gross amounts before netting. The table on the right shows balance sheet items for each customer contract, with the exception of trade receivables netted and presented on the corresponding balance sheet line.

Contract balances
"Customer contracts, assets"
"Customer contracts, assets" primarily consists of completed, non-invoiced work and accrued assets related to customer contracts. Accrued assets include components which are to be used in customer contracts, but which have not yet been installed in the projects, prepayments to suppliers and cost accruals. The closing balance as of 31 December 2019 includes just over MNOK 1,500 from companies acquired through the acquisition of Commercial Marine in the Kongsberg Maritime business area and partly explains the increase in net "customer contracts, assets".

"Customer contracts, liabilities"
For many customer contracts, advances are agreed with customers or invoicing takes place in accordance with a payment schedule before control is transferred to the customer. This is presented as an advance from the customer and is recognised under "Customer contracts, liabilities". "Customer contracts, liabilities" will also arise as a result of cost accruals under the contracts. Included in the cost accrual are provisions for onerous contracts.

The business area Kongsberg Defence & Aerospace has the largest advances. During 2019, Kongsberg Defence & Aerospace received new advances amounting to just over NOK 3 billion. At the year-end, an advance in Kongsberg Defence & Aerospace was registered of just under NOK 1.5 billion.

At the close of the year, this advance had not been paid, so the corresponding amount is recognised under trade receivables. This advance is paid after year end.

In Kongsberg Maritime, formal advances are rare, but they have payment schedules which generate accrued income on the liability side.

Advances totalling almost NOK 3 billion registered in the opening balance were recognised as income during the 2019 financial year.

The acquired companies Commercial Marine and AIM also contribute to an increase in the closing balance on the balance line "Customer contracts, liabilities".

Revenue recognition from customer contracts includes:

MNOK	*31 Dec 19*	*31 Dec 18*
Prepayments from customers included in customer contracts, obligations at the beginning of the year and which are recognised as income in the fiscal year	2 917	3 056
Revenue from performance obligations completed before the financial year	(4)	67

Estimate uncertainty related to customer contracts

The recognition of customer contracts is associated with uncertainty as regards the determination of the type of performance obligation and the transaction price. The type of performance obligation will impact on the timing of revenue recognition, while in cases where the transaction price must be estimated, estimates will impact on the size of the consideration that is to be recognised as revenue. Contract revenue is normally in accordance with the agreement. Variable considerations and financial penalties for delays can impact on the transaction price, but are rare. Uncertainty related to the probability that variable considerations or financial penalties for delays will occur and also regards the estimation of the magnitude of these.

For performance obligations that are recognised as revenue over time, revenue recognition will take place in line with estimated progress.

Progress of completion is normally calculated on the basis of costs incurred compared to total expected costs or incurred hours measured against the expected time consumption. Expected total costs are estimated, based on a combination of experience-based estimates, systematic estimation procedures and follow-up of efficiency metrics and good judgement. Normally, a high proportion of the total costs will relate to the number of hours remaining that employees must spend developing or completing the project. Uncertainty in the estimates is affected by the project's duration and technical complexity. Principles have been established for categorising projects in terms of technological complexity and degree of development. This forms the basis for an assessment of risk and recognition of revenue in the projects.

9 SHARES IN JOINT ARRANGEMENTS AND ASSOCIATED COMPANIES

Specification of movement in the balance line "Shares in joint arrangements and associated companies" 1 January – 31 December:

MNOK	*Business office*	*Share*	*Net holding 1 Jan 19*	*Acquisitions during the period*	*Dividends received*	*Profit or loss during the period[1)]*	*Comprehensive income during the period[2)]*	*Net holding 31 Dec 19*
Patria Oyj	Helsinki, Finland	49.90%	2 807	(31)[3)]	(68)	(35)	(18)	2 656
Kongsberg Satellite Services AS	Tromsø, Norway	50.00%	437		(55)	112	(2)	492
Other associated companies			156		(1)	(56)		100
Total			**3 400**	**(31)**	**(123)**	**21**	**(20)**	**3 247**

1) Profit or loss during the period from companies that are separate tax entities, such as private limited companies, is recognised after tax and amortisation of excess values.
2) Comprehensive income concerns translation differences and changes in estimates. Parts of the investment in Patria are hedged in basic swaps. See Note 22 B "Financial instruments - Currency risk and hedging of currency".
3) Cost adjustment according to the sales agreement.

Share of net income in Patria during the period of ownership

	1 Jan 19–31 Dec 19		1 Jan 18–31 Dec 18	
	MEUR	*MNOK*	*MEUR*	*MNOK*
Earnings after tax in Patria (100%)	4.5		29	
Adjusted for share of net income in KAMS[1]	(1.1)			
Minority interests Millog	(5.0)		(4)	
Earnings after tax in Patria (100%), majority	**(1.5)**	**(15.2)**	**25**	**245**
KONGSBERG's share (49.9%)[2]		(7.6)		122
Amortisation of added value after tax		(27.2)		(42)
Share of net income in the period		(34.8)		80

1) The net income from Kongsberg Aviation Maintenance Services (KAMS), of which KONGSBERG owns 50.1 per cent and Patria owns 49.9 per cent, has been deducted (KAMS is consolidated 100 per cent into KONGSBERG).
2) Share of Patria's profit after tax, adjustment for non-controlling interests and net income from KAMS.

10 INVENTORIES

The Group's total inventories include the following:

MNOK	*31 Dec 19*	*31 Dec 18*
Raw materials	2 156	925
Work in progress	405	265
Finished products	1 403	984
Total	**3 964**	**2 174**
Recognised changes in value for inventories	**67**	**35**
Total cost of goods in year amounts to	**9 328**	**4 297**

Estimation uncertainty

Inventories are measured at the lowest of acquisition cost and net realisable value. Judgement is used when assessing net sales value. Market conditions and technical condition are taken into consideration, amongst other things, for the assessments.

11 PERSONNEL EXPENSES

Salaries and other personnel expenses represent expenses associated with the remuneration of personnel employed by the Group.

MNOK	*Note*	*2019*	*2018*
Salaries		6 908	4 638
Employer's National Insurance contributions on salaries[1]		936	642
Pension expenses, defined benefit plan	12	17	35
Pension expenses, defined contribution pension schemes	12	540	374
Other benefits[1]		364	240
Total personnel expenses		**8 764**	**5 929**
Average no. of FTEs (full-time equivalents)[1]		**9 645**	**6 750**

1) The figure for 2018 has been adjusted.

12 PENSIONS

KONGSBERG has a service pension plan that complies with legislation, and consists of a defined contribution plan and a closed defined benefit plan. The service pension plans include all employees of the Group in Norway. As of 31 December 2019, approximately 6,475 employees in Norway are covered by the plan. KONGSBERG aims to ensure that as many of its employees as possible outside Norway are also covered by service pension plans.

Defined contribution pension scheme (ITP)

The Group introduced a defined contribution pension scheme for all employees under the age of 52 as of 1 January 2008. The contribution rates are 0 per cent of salary up to 1G, 5 per cent of salary between 1G and 7.1G, and 11 per cent of salary from 7.1G up to 12G. From 2020, the contribution rate will be 5 per cent of the entire base salary under 7.1 G. The employees can influence the way the funds are managed by choosing between three investment options; with either 30, 50 or 80 per cent of their shares in the portfolio. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The Group's deposits in this plan is 18 per cent of the portion of the base salary that exceeds 12G, up to a ceiling of 15G. Special terms and conditions apply for executives. This is described in Note 28 "Statement on the Group CEO and Executive Management remuneration". The unfunded scheme has been closed for new members since 2015. The supplementary plan has the same investment choices as the main plan. KONGSBERG's companies abroad generally have defined contribution plans. As of 31 December 2019, approximately 6,200 employees in Norway and the majority of the employees abroad were covered by these plans. The contributions are expensed as incurred.

The defined benefit plan (YTP)

In connection with the transition to the defined contribution plan on 1 January 2008, employees aged 52 or more remained in the defined benefit plan. The pension plan is insured through DNB Life Insurance. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. Pension costs are distributed over the employee's accrual period. Given a calculated state pension based on the Norwegian National Insurance Scheme's rules before 1 January 2011 and full earning, the scheme provides approx. 65 per cent of the final salary including National Insurance benefits until the age of 77, after which the service pension section is reduced by 50 per cent for the remaining lifetime. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The collective, unfunded benefits plan corresponds to about 60 per cent of the share of the base salary that exceeds 12G until the age of 77, and then the benefit is reduced by 50 per cent for the remaining lifetime. Special terms and conditions apply for executives. This is described in Note 28 "Statement on the Group CEO and Executive management remuneration". These supplementary plans were discontinued in connection with the transition to defined contribution pension schemes.

Risk coverage

Disability pension from the Group was changed on 1 January 2016 and will provide an addition to the estimated disability benefits from national insurance. National insurance will cover 66 per cent of the pension basis up to 6G, while the Group plan covers 66 per cent of the pension basis between 6G and 12G. The Group plan also provides an additional 3 per cent of the pension basis from 0G to 12G, a pay increase of 25 per cent of G and any child supplement of 4 per cent per child (maximum 3 children). From 1 January 2016, KONGSBERG has decided to terminate the paid-up policy accrual for disability pensions as part of the adaptation to the new regulations. The employees have been issued individual paid-up policies for the already earned paid-up policy rights. The new scheme is a one-year risk cover and the premiums will be expensed as they accrue. Starting on 1 January 2013, the risk pensions are unfunded for the share of salary that exceeds 12G. In practice this implies that KONGSBERG is self-insurer for the risk pension for future periods. The unfunded scheme has been closed for new members since 2015.

Early retirement

A few years ago, it was decided that the Group would no longer offer early retirement schemes for senior executives. The Group still has outstanding obligations related to such early retirement pension agreements for a few people.

Pension assumptions

The calculation of future pensions in the benefits plan is based on the following assumptions:

Economic assumptions	*31 Dec 19*	*31 Dec 18*
Discount rate, Norway	2.10–2.20%	2.70%
Discount rate, Sweden	1.30%	
Wage adjustment	1.50%	2.00%
Pension base level (G) adjustment	2.00%	2.50%
Pension adjustment	1.25%	1.75%

Other Norwegian assumptions	*31 Dec 19*	*31 Dec 18*
Mortality	K2013	K2013
Disability	IR 73	IR 73
Voluntary turnover	4.5% for all ages	4.5% for all ages

The year's pension costs were calculated as follows:

MNOK	*2019*	*2018*
Costs, defined benefit plans	17	35
Costs of defined contribution plans in Norway	411	335
Costs of defined contribution plans abroad	129	39

Net interests costs are classified as finance expenses.
Costs for defined benefit plans include a gain on the pension scheme settlement of MNOK 34 (9)

Change in net pension liabilities recognised in the statement of financial position

	2019			2018		
MNOK	*Funded*	*Unfunded*	*Total*	*Funded*	*Unfunded*	*Total*
Changes in gross pension liabilities						
Gross pension liabilities as of 1 January	1 613	334	1 947	1 637	388	2 025
Additions through acquisition	461	309	770	-	-	-
Present value of current year's contribution	18	15	33	14	13	27
Interest expenses on pension liabilities	48	10	58	35	6	41
Actuarial losses/gains	15	52	67	47	(21)	26
Settlement of pension scheme	(30)		(30)	(8)	-	(8)
Payments of pensions/paid-up policies	(113)	(51)	(164)	(107)	(44)	(151)
Net change in social security expenses	11	(2)	9	(5)	(8)	(13)
Gross pension liabilities as of 31 December	**2 023**	**667**	**2 690**	**1 613**	**334**	**1 947**
Changes in gross pension fund assets						
Fair value, pension plan assets as of 1 January	1 409	-	1 409	1 378	-	1 378
Additions through acquisition	358	-	358	-	-	-
Expected return on pension funds	42	-	42	30	-	30
Actuarial losses/gains	(37)	-	(37)	74	-	74
Premium payments	64	-	64	41	-	41
Payments of pensions/paid-up policies	(120)	-	(120)	(114)	-	(114)
Fair value, pension plan assets as of 31 December	**1 716**	**-**	**1 716**	**1 409**	**-**	**1 409**
Net capitalised pension liabilities as of 31 December	**(307)**	**(667)**	**(974)**	**(204)**	**(334)**	**(538)**

The secured pension scheme is insured through an insurance company, and the Group's pension funds are thereby regulated by an insurance policy. The insurance policy cannot be traded, and the value is determined in accordance with the legislation on insurance businesses. The insurance has an interest guarantee, implying that the insurance company carries the risk for the return on the pension funds. The funds have primarily been invested in bonds, with some being invested in shares and property.

Historical information

MNOK	*2019*	*2018*	*2017*	*2016*	*2015*
Gross pension liabilities as of 31 December	2 690	1 947	2 025	1 958	2 003
Fair value, pension plan assets as of 31 December	1 716	1 409	1 378	1 491	1 506
Net pension liabilities as of 31 December	**(974)**	**(538)**	**(647)**	**(467)**	**(497)**
Actuarial gains/losses pension liabilities as of 31 December	67	26	(24)	4	(211)
Actuarial gains/losses pension assets as of 31 December	(37)	74	(90)	22	11
Accumulated estimated gains/losses recognised in the statement of comprehensive income after tax	**(1 428)**	**(1 331)**	**(1 374)**	**(1 316)**	**(1 331)**
Of which, constitutes experience deviations	(926)	(881)	(928)	(943)	(898)

Contractual early retirement plan

The Group's general contractual early retirement plan gives a life-long supplement to the ordinary pension. Employees can choose to draw on the new plan from the age of 62, even if they continue to work. The new plan is a defined benefit multi-employer pension plan, and it is funded through premiums established as a percentage of wages. For the moment, there is no reliable measurement or allocation of liabilities and funding as regards the plan. For accounting purposes, the plan is therefore considered to be a defined contribution pension scheme in which premium payments are expensed against income on an ongoing basis, and no provisions are made in the financial statements. A premium is paid to the new plan of the total payments made between 1G and 7.1G to the Group's employees. For 2019, the premium was 2.5 per cent, and the same rate is set for 2020 (estimated at MNOK 110). There is no accumulation of capital in the plan and further increases in the premium level are expected over the coming years.

Other

Pension benefits depend on the number of years of service and salary level when reaching retirement age. Net pension liabilities are determined on the basis of actuarial estimates made on assumptions related to the discount rate, future wage growth, pension adjustments, expected return on pension fund assets and employee turnover. These assumptions are updated annually. The discount rate is stipulated on the basis of the covered bond interest rate, which reflects the time frame for paying out on the pension liabilities for the benefit plan. In KONGSBERG's opinion, the market for covered bonds is sufficiently deep and shows reliable pricing.

The balance sheet shows net pension liabilities including social security.

Expected pension payments within the defined benefit pension scheme are as follows:

	MNOK
2020	142
2021	150
2022	154
2023	155
2024	148
Next 5 years	666

13 PROPERTY, PLANT AND EQUIPMENT

MNOK	*Land*	*Buildings and other real property*	*Machinery and plant*	*Equipment and vehicles*	*Plant in progress*	*Total*
Acquisition cost						
1 January 2018	304	2 248	1 566	2 046	148	6 312
Reclassification	-	21	-	-	(21)	-
Additions	5	18	128	84	(5)	230
Disposals	-	(30)	(84)	(13)	-	(127)
Translation differences	1	21	1	11	-	34
Acquisition cost as of 31 December 2018	**310**	**2 278**	**1 611**	**2 128**	**122**	**6 449**
Reclassification	(2)	1		12	(2)	9
Additions through acquisition	16	862	80	274	63	1 295
Additions	12	51	110	152	219	544
Disposals	(1)	(21)	(14)	(38)	(14)	(88)
Translation differences	-	37	7	13	-	57
Acquisition cost as of 31 December 2019	**335**	**3 208**	**1 794**	**2 541**	**388**	**8 266**
Accumulated depreciation and impairment						
1 January 2018	-	1 040	948	1 660	6	3 654
Reclassification	-	-	-	-	-	-
Depreciation for the year	-	87	123	140	-	350
Impairment for the year	-	5	1	-	-	6
Accumulated depreciation through disposal	-	(23)	(73)	(12)	-	(108)
Translation differences	-	8	1	7	-	16
Total accumulated depreciation and impairment as of 31 December 18	**-**	**1 117**	**1 000**	**1 795**	**6**	**3 918**
Depreciation for the year	-	74	146	220	-	440
Impairment for the year	-	1	-	17	-	18
Accumulated depreciation through disposal	-	(6)	(11)	(36)	-	(53)
Translation differences	-	3	7	9	-	19
Accumulated depreciation and impairment as of 31 December 2019	**-**	**1 189**	**1 142**	**2 005**	**6**	**4 342**
Carrying amount as of 31 December 2018	**310**	**1 161**	**611**	**333**	**116**	**2 531**
Carrying amount as of 31 December 2019	**335**	**2 019**	**652**	**536**	**382**	**3 924**
Useful life	**N/A**	**10-33 years**	**1-10 years**	**1-10 years**		

Estimation uncertainty

For property, plant and equipment, there is estimation uncertainty with regards to the determination of estimated remaining useful life and expected residual value. These factors are assessed by judgement annually.

14 LEASES

KONGSBERG has leases which are primarily related to land and buildings, as well as leases for machinery, vehicles and equipment. The leases are hedged with the underlying asset. Many of the leases include extension options. These are included if it is reasonably certain that KONGSBERG will exercise the option. The lease conditions do not include variable rent except if the rent is dependent on any index or interest rate. The Group applies the recognition exemption to short-term leases and to leases with assets of low value. The former exemption is used for all types of leases, while the latter is primarily used for office equipment and small equipment.

MNOK	*Property*	*Vehicles, machinery and equipment*	*Total*
Opening balance	**1 605**	**10**	**1 615**
Additions through acquisition	674	21	695
Additions	179	-	179
Depreciation for the year	(337)	(11)	(348)
Impairment for the year			-
Carrying amount as of 31 December 2019	**2 121**	**20**	**2 141**
Lease term	1–21 years	1–5 years	

Leasing liabilities

MNOK	*2019*
Opening balance	1 615
Additions through acquisition	695
Additions	179
Interest on leasing liabilities	131
Lease payments	(423)
Carrying amount as of 31 December 2019	**2 198**
Current leasing liabilities	348
Long-term leasing liabilities	1 850

See Note 25 "Provisions" regarding non-current liabilities associated with properties that have been sold and leased back.

The total outgoing cash flows for leases was MNOK 492 in 2019.

Recognised in the income statement

MNOK	*2019*
Depreciation on leases during the year	348
Interest expense on leasing liabilities	131
Costs related to short-term leases and leases of assets of low value	69
Total recognised in profit/loss	**548**

For information on due dates for lease payments, see Note 22 E).

KONGSBERG has a number of leases which include extension options. These options have been negotiated to secure flexibility as regards the handling of the lease portfolio according to KONGSBERG's ongoing needs. The options are included if it is reasonably certain that KONGSBERG will exercise the option.

15 INTANGIBLE ASSETS

MNOK	*Goodwill*	*Technology*	*Capitalised internal development*	*Other intangible assets[1)]*	*Total*
Acquisition cost					
1 January 2018	2 893	656	1 139	101	4 789
Additions through acquisition	-	-	8	-	8
Additions	11	4	130	7	152
Disposals	-	-	(2)	-	(2)
Translation differences	19	9	-	1	29
Acquisition cost as of 31 December 2018	**2 923**	**669**	**1 275**	**109**	**4 976**
Additions through acquisition	2 272	769	-	684	3 725
Additions	-	-	173	1	174
Disposals	(29)	-	(1)		(30)
Translation differences	9	14	-	1	24
Acquisition cost as of 31 December 2019	**5 175**	**1 452**	**1 447**	**795**	**8 869**
Accumulated amortisation and impairment					
1 January 2018	912	635	344	95	1 986
Amortisation	-	21	67	5	93
Disposals	-	-	-	-	-
Translation differences	-	8		-	8
Total accumulated amortisation and impairment as of 31 December 2018	**912**	**664**	**411**	**100**	**2 087**
Amortisation	-	58	83	149	290
Disposals	(9)	-	(1)	-	(10)
Translation differences	-	15	-	-	15
Total accumulated amortisation and impairment as of 31 December 2019	**903**	**737**	**493**	**249**	**2 382**
Carrying amount as of 31 December 2018	**2 011**	**5**	**864**	**9**	**2 889**
Carrying amount as of 31 December 2019	**4 272**	**715**	**954**	**546**	**6 487**
Useful life		**1–10 years**	**1-10 years**	**1–10 years**	

1) Additions through acquisitions in the group "Other intangible assets" consist primarily of customer relations amounted to MNOK 616 and trademarks amounted to MNOK 66. See Note 6 "Acquisitions" for further information.

With the exception of goodwill, which cannot be amortised, the amortisation of intangible assets is linear with useful life. The amortisation starts when the intangible asset is available for use.

Product maintenance, research and development recognised in profit and loss

	2019			2018		
MNOK	*Product maintenance*	*Research and develop-ment costs*	*Total*	*Product maintenance*	*Research and develop-ment costs*	*Total*
Kongsberg Maritime	398	691	1 089	220	499	719
Kongsberg Defence & Aerospace	39	92	131	35	98	133
Other	23	67	90	25	68	93
Total	**460**	**850**	**1 310**	**280**	**665**	**945**

Capitalisation of development projects

Development projects financed by customers are not capitalised, but KONGSBERG seeks to obtain ownership rights to the developed products. During the development phase in an internally financed project, the decision is taken whether to complete development and begin capitalisation based on technical success and market conditions.

Internally financed development projects at Kongsberg Maritime mainly contain many projects with limited total scope and, to a great extent, the development of existing technology. Many of these development projects are not considered to be eligible for capitalisation. Several of the projects also entail considerable uncertainty about whether they are technologically feasible and how the final solution will turn out. Normally, the criteria for capitalisation will not be satisfied until fairly late in the development project.

The business area Kongsberg Defence & Aerospace has the largest share of capitalised internal development projects in KONGSBERG. Just over MNOK 700 of the book balance is related to internally developed technology in this business area. This includes technology associated to weapon stations, missile systems, control systems and communication equipment.

Estimation uncertainty

Capitalised development costs are amortised according to the estimated lifetime. Estimated lifetime may change over time. This is considered annually, and the amortisation is adjusted when considered necessary. When testing the value of capitalised development costs, the Group applies the same principles and methods as used for impairment testing of godwill. Regarding estimate uncertainty associated with this matter, see Note 16 "Impairment testing of goodwill".

16 IMPAIRMENT TESTING OF GOODWILL

Goodwill

Goodwill obtained through acquisitions is allocated to the Group's operating segments and followed up and tested collectively for the group of cash-generating units that constitute the operating segment. Goodwill is followed up for groups of cash-generating units that are similar to what is defined as the operating segment pursuant to Note 7 "Operating segments".

Goodwill is allocated to the operating segments as follows:

MNOK	*31 Dec 19*	*31 Dec 18*
Kongsberg Maritime	4 012	1 753
Kongsberg Defence & Aerospace	174	172
Other[1]	86	86
Total goodwill in balance sheet	**4 272**	**2 011**

1) Goodwill from others is connected to Kongsberg Digital.

The Group tests goodwill for impairment annually, or more frequently if there are indications of impairment.

The Group has used value in use to determine recoverable amounts for the cash flow-generating entities. Value in use is determined by using the discounted cash flow method. The expected cash flow is based on the business areas' budgets and long term plans, which are approved by KONGSBERG's executive management and Board. Budgets and long-term plans cover a five-year period (explicit prognosis period). Approved budgets and long-term plans are adjusted for cash flows related to investments, restructuring, future product improvements and new development, if the elements are considered significant for the impairment test. After the five years of explicit plans, the units' cash flows are stipulated by extrapolation. At the beginning of the extrapolation period, the entity is assumed to be in a stable phase. To calculate value in use, the Group has used anticipated cash flows after tax and, correspondingly, discount rates after tax. The recoverable amount would not have been significantly different if cash flows before tax and the discount rate before tax had been used. The discount rate before tax has been stipulated using an iterative method and is shown in a separate table.

The assumptions are based on historical results and observable market data.

Key assumptions

Discount rate

The discount rates are based on a weighted average cost of capital (WACC) method, whereby the cost of equity and the cost of liabilities are weighted according to an estimated capital structure. The discount rates reflect the market's required return on investment at the time of the test and in the industry to which the cash-generating unit belongs. The estimated capital structure is based on the average capital structure in the industry in which the cash generating unit operates and an assessment of what is a reasonable and prudent long-term capital structure. The CAPM model is used to estimate the cost of equity. In accordance with the CAPM model, the cost of equity consists of risk-free interest as well as an individual risk premium. The risk premium is the entity's systematic risk (beta), multiplied by the market's risk premium. The risk-free interest is estimated on a 10-year Norwegian government bond interest rate and is based on all cash flows being translated to NOK. The cost of liabilities represents an expected long-term after-tax interest rate for comparable liabilities and consists of risk-free interest and an interest spread.

Profit margin (EBITDA)
The profit margin is reviewed for each of the cash flow-generating entities that are based on expectations of future development. This gives the Group good prospects for order intake, especially within the defence segment, and is a solid basis for long-term growth. The major restructurings that have been carried out are expected to contribute to increased profitability for the Group as a whole. The explicit 5-year period is based on moderate growth in both Kongsberg Maritime and Kongsberg Defence & Aerospace.

Growth rate
Growth rates in the explicit prognosis period are based on management's expectations of market trends in the markets in which the undertaking operates. The Group uses stable growth rates to extrapolate cash flows in excess of five years. The long-term growth rate beyond five years is not higher than the expected long-term growth rate in the industry in which the undertaking operates.

Market shares
For entities operating in markets where it is relevant to measure market shares, it is expected that established positions in general will be maintained, but there could be increases and setbacks in certain areas.

Key assumptions per cash flow-generating unit

Per cent	*Kongsberg Maritime*	*Kongsberg Defence & Aerospace*	*Other*
Discount rate before tax	9,60	7,32	9,60
Discount rate after tax	7,49	5,71	7,49
Long-term nominal growth rate	1,5	1,5	1,5
Inflation	1,5	1,5	1,5

Sensitivity analysis

In connection with impairment tests of goodwill, sensitivity analyses are carried out for each individual cash generating unit.

For both Kongsberg Maritime and Kongsberg Defence & Aerospace, there will not be an impairment situation before relatively large changes in the key assumptions, and these changes are considered to be outside the probable outcome.

Estimation uncertainty

There will always be uncertainty related to the estimate of value in use. The assessments are based on key assumptions as described above, and are to a large degree influenced by market data for comparable companies, interest rates and other risk conditions. These calculations are based on discounted future cash flows, in which judgement was used as regards future profit and operation.

Significant changes in the cash flows will affect the value of goodwill.

17 FINANCIAL INCOME AND FINANCIAL EXPENSES

MNOK	*Note*	*2019*	*2018*
Interest income from assets at amortised cost		88	50
Foreign exchange gain		48	16
Other financial income		4	3
Financial income		**140**	**69**
Interest expense from liabilities at amortised cost		122	103
Foreign exchange loss		69	35
Discounts of non-current provisions		2	4
Other financial expenses		32	28
Financial expenses		**225**	**170**
Interest on leasing liabilities	14	**131**	**-**
Net finance item recognised in income statement		**(216)**	**(101)**

18 INCOME TAX

Income tax expense

MNOK	*2019*	*2018*
Tax payable Norway	(29)	31
Tax payable abroad	194	88
Change in deferred tax	85	21
Income tax expense	250	140

Reconciliation from nominal to effective tax rate

MNOK	*2019*	*2018*
Earnings before tax	**967**	**844**
Tax calculated at statutory rate 22% (23%) of profit before tax	213	194
Effect of reducing the tax rate to 22% (23%)	-	(60)
Effect of tax differences and unrecognised tax benefits abroad	-	(1)
Joint arrangements and associated companies	(5)	(42)
Correction of taxes payable for previous years	-	38
Withholding taxes for income deduction	48	-
Other permanent differences	(6)	11
Income tax expense	**250**	**140**
Effective tax rate	25.8%	16.6%

Customer contracts/ Temporary differences

For customer contracts that are recognised over time, fiscal revenue recognition will occur when the control and risk has been transferred to the customer. This has no effect on the tax expense in the income statement, but as a consequence, tax payable will fluctuate over time.

Permanent differences

The effective tax rate is affected by withholding tax on dividends from foreign subsidiaries, other permanent differences and the fact that shares of net income from associated companies are recognised after tax.

Deferred tax asset and deferred tax liability

MNOK	*31 Dec 19*	*31 Dec 18*
Deferred tax assets		
Pensions	170	118
Provisions/currency	137	(22)
Derivatives	109	128
Accumulated tax loss to carry forward	392	134
Deferred tax assets - gross	**808**	**358**
Deferred tax liability		
Fixed assets	235	157
Customer contracts	1 673	1 454
Derivatives	83	40
Deferred tax liabilities - gross	**1 991**	**1 651**
Recognised deferred tax liabilities	**(1 350)**	**(1 293)**
Recognised deferred tax assets[1]	**167**	**-**
Tax rate in Norway	22%	22%

1) The deferred tax asset is related to KAMS.

Non-recognized deferred tax asset is amounted to MNOK 712 as of 31 December 2019 which is related to CM.

Change in deferred tax recognised in other comprehensive income

MNOK	*2019*	*2018*
Pensions	(15)	12
Cash flow hedges	(26)	16
Total	**(41)**	**28**

Change in deferred tax recognized directly in the statement of financial position

MNOK	*2019*	*2018*
Addition deferred tax assets on capital increase	-	(14)
Addition tax deduction abroad, not offset	(9)	(14)
Addition deferred tax assets on acquisition	(156)	-
Disposals deferred tax assets on disposal	11	-

19 EARNINGS PER SHARE

MNOK	*2019*	*2018*
Earnings for the year attributable to the shareholders		
Earnings after tax	717	704
Non-controlling interests' share of the result	(17)	(3)
Earnings for the year/diluted earnings attributable to the ordinary shareholders	**700**	**701**

Number of shares	*Note*	*2019*	*2018*
Average weighted number of shares outstanding as of 1 January	24	180	120
Average weighted number of shares as of 31 December	24	180	126

NOK	*2019*	*2018*
Earnings for the year per share	3,89	5,58
Earnings per share for the year, diluted	3,89	5,58

20 OTHER NON-CURRENT ASSETS

MNOK	*31 Dec 19*	*31 Dec 18*
Shares at fair value through profit and loss	26	26
Loans to employees	12	15
Prepaid land rental	16	17
Long-term loans to customers	97	110
Long-term loans, associated companies	29	-
Other non-current assets	34	20
Total other non-current assets	**213**	**188**

21 RECEIVABLES AND CREDIT RISK

Credit risk

Exposure to credit risk

For an explanation of KONGSBERG's credit risk and the handling of this, see Note 5 "Management of capital and financial risk". Carrying value of financial assets represents the maximum credit exposure:

MNOK	*Note*	*31 Dec 19*	*31 Dec 18*
Trade receivable[1]		6 783	3 001
Other short-term receivables		998	460
Customer contracts in progress	8	3 701	2 653
Other non-current assets	20	213	188
Cash and cash equivalents	23	5 654	10 038
Forward contracts and interest rate swaps are used as currency hedging	22A	376	182
Total exposure to credit risk		**17 725**	**16 522**

1) The increase in trade receivables is primarily due to the acquisition of Commercial Marine and an advance of NOK 1.5 billion received by KDA, which has been paid after year end. Please refer to Note 8 for further information.

MNOK	*31 Dec 19*	*31 Dec 18*
Trade receivables	6 783	3 001
Provision for bad debts	(420)	(199)
Net trade receivables	**6 363**	**2 802**

Trade receivables distributed by region

MNOK	*31 Dec 19*	*31 Dec 18*
Norway	1 117	413
Europe	1 551	893
North America	2 483	756
South America	178	79
Asia	1 001	534
Other countries	452	325
Total	**6 783**	**3 001**

Trade receivables distributed by customer type

MNOK	*31 Dec 19*	*31 Dec 18*
Public	1 266	863
Private	5 517	2 138
Total	**6 783**	**3 001**

Credit risk exposure on the Groups trade receivables

	31 Dec 19		**31 Dec 18**	
MNOK	*Gross*	*Provision for bad debts*	*Gross*	*Provision for bad debts*
Not due	4 159	(5)	1 737	(2)
Due 1–30 days	810	(6)	554	(5)
Due 31-90 days	527	(14)	388	(10)
Due 91-180 days	690	(60)	157	(27)
Due more than 180 days	597	(334)	165	(155)
Total	**6 783**	**(420)**	**3 001**	**(199)**

Changes in provision for bad debts

MNOK	*2019*	*2018*
Provisions as of 1 January	(199)	(241)
Additions through acquisition	(177)	-
Actual losses	51	52
Allocation	(98)	(34)
Dissolved	3	25
Provision as of 31 December	**(420)**	**(199)**

Estimation uncertainty

The provision for bad debts is determined by an assessment of the probability of loss on a receivable or a group of receivables. Judgement and assumptions that can change over time are applied for the assessments. The provision for bad debts is, to a large degree, influenced by the market situation and the financial standing of the counterparty.

22 FINANCIAL INSTRUMENTS

For definitions of financial instruments, please see Note 3 J "Financial instruments".

A) Fair value, derivatives

MNOK	*Note*	*31 Dec 19*	*31 Dec 18*
Current assets			
Forward exchange contracts, cash flow hedging	22C	44	117
Forward exchange contracts, fair value hedges		314	60
Interest rate swaps, fair value hedges	22D	-	5
Loan hedges	22B	18	-
Total derivatives, current assets		**376**	**182**
Current liabilities			
Forward exchange contracts, cash flow hedging	22C	55	50
Forward exchange contracts, fair value hedges		374	443
Fair value basis swaps		64	86
Loan hedges	22B	-	1
Total derivatives, current liabilities		**493**	**580**

B) Currency risk and hedging of currency

For an explanation of KONGSBERG's currency risk and its handling of this risk, see Note 5 "Management of capital and financial risk". Forward rates as fair value hedges shall hedge all contractual currency flows. This means that the forward rates will hedge capitalised receivables in foreign currency, as well as invoicing remaining on the contracts. KONGSBERG is also exposed to other currencies, but these are insignificant compared to the exposure to USD and EUR. The summary for 2018 included the British pound (GBP) due to the considerable exposure of cash flow hedges in connection with the acquisition of Rolls-Royce Commercial Marine.

Important foreign exchange rates used in the consolidated financial statements throughout the year:

KONGSBERG uses monthly mean exchange rates to translate the profit/loss in another functional currency.

	Average exchange rate		Spot rate as of 31 Dec	
	2019	*2018*	*2019*	*2018*
USD	8.80	8.13	8.78	8.64
EUR	9.85	9.60	9.84	9.90
GBP	11.24	10.85	11.64	11.02

Currency hedging

As of 31 December, the company had the following net sale foreign currency hedges, divided by hedge category:

	2019							
Amounts in million	*Value in NOK as of 31 Dec 19 based on agreed rates*	*Fair value[1] in NOK 31 Dec 19*	*Total hedged amount in USD 31 Dec 19*	*Average hedged rate in USD 31 Dec 19*	*Total hedged amount in EUR 31 Dec 19*	*Average hedged rate in EUR 31 Dec 19*	*Total hedged amount in GBP 31 Dec 19*	*Average hedged rate in GBP 31 Dec 19*
Hedge category								
Forward exchange contracts, cash flow hedges[2]	229	(11)	97	8.81	(59)	10.16	(2)	11.99
Total cash flow hedges	**229**	**(11)**	**97**		**(59)**		**(2)**	
Forward exchange contracts, fair value hedges[2]	15 122	(60)	1 428	8.74	215	10.06	31	11.57
Loan hedges, fair value hedges[2] [3]	657	18	73	9.02	3	10.10	3	11.85
Total fair value hedges	**15 779**	**(42)**	**1 501**		**218**		**34**	
Total	**16 008**	**(53)**	**1 598**		**159**		**32**	

	2018							
Amounts in million	*Value in NOK as of 31 Dec 18 based on agreed rates*	*Fair value[1] in NOK 31 Dec 18*	*Total hedged amount in USD 31 Dec 18*	*Average hedged rate in USD 31 Dec 18*	*Total hedged amount in EUR 31 Dec 18*	*Average hedged rate in EUR 31 Dec 18*	*Total hedged amount in GBP 31 Dec 18*	*Average hedged rate in GBP 31 Dec 18*
Hedge category								
Forward exchange contracts, cash flow hedges[2] [4]	(4 064)	67	234	8.52	(60)	9.83	(502)	10.87
Total cash flow hedges	**(4 064)**	**67**	**234**		**(60)**		**(502)**	
Forward exchange contracts, fair value hedges[2]	8 283	(384)	565	8.05	306	9.85	43	10.81
Loan hedges, fair value hedges[2] [3]	402	(1)	62	8.60	(2)	9.83	(2)	10.96
Total fair value hedges	**8 685**	**(385)**	**627**		**304**		**41**	
Total	**4 621**	**(318)**	**861**		**244**		**(461)**	

1) Fair value is the difference between the spot rate as of 31 December and the agreed rate on the forward exchange contracts.
2) Values in the table related to the value based on the agreed rates and fair value also include currencies other than USD, EUR and GBP.
3) Loan hedges are currency hedges connected to loans in foreign currency.
4) In 2018, the acquisition of Rolls-Royce Commercial Marine (MGBP 500) was hedged through a "Deal Contingency Forward".

Due date profile, hedges

As of 31 December, the company had the following net sale foreign currency hedges, divided by hedge category:

Amounts in million	*Nominal currency amount*	*Due in 2020*	*Due in 2021 or later*
Hedge category			
Forward exchange contracts, cash flow hedging			
USD	97	(51)	148
EUR	(59)	(59)	-
GBP	(2)	(2)	-
Forward exchange contracts, fair value hedges			
USD	1 501	878	623
EUR	218	147	71
GBP	34	36	(2)

Hedging ineffectiveness

Ineffective hedges may occur when payments come in earlier than planned, or when purchases are paid for earlier than planned. These should be captured through normal operating routines, and opposite foreign exchange transactions must be carried out to reduce the currency risk.

The effectiveness of established hedges is tested monthly through the checking of payments made and received in currency against hedging maturities, as well as assessments relating to hedging relationships.

As of 31 December, the Group had recognised the following amount as not hedge-effective through profit and loss, divided by hedge category:

Amounts in million	*2019*	*2018*
Hedge category		
Forward exchange contracts, cash flow hedges[1)]	-	-
Forward exchange contracts, fair value hedges[2) 3)]	-	14
Total	**-**	**14**

1) Changes in fair value connected to the effective cash flow hedges are recognised in other comprehensive income. The part that is not hedge-effective will be recognised in the income statement.
2) The total change in value of hedged projects was MNOK 322 during 2019 (MNOK 29 in 2018). Derivatives used as project hedges have a 100 per cent hedging efficiency corresponding to negative value during the year. Change of value is recognised in accounts receivable and construction contracts in progress (assets and liabilities).
3) No hedging ineffectiveness was recognised through profit and loss for fair value hedges in 2019 (MNOK 14 in 2018). In 2018, the ineffectiveness of the cash flows for the hedging object came earlier than the settlement for the hedging instrument, and the amount in its entirety consisted of interest items.

Foreign exchange options

As of 31 December 2019, KONGSBERG had no currency options.

Basis swaps

In connection with the acquisition of shares in Patria Oyj at a cost price of MEUR 284.9, basis swaps were entered into totalling MEUR 130 to hedge a net investment in foreign companies. These basis swaps have a fair value of MNOK -63 as of 31 December 2019 (MNOK -86 as of 31 December 2018). Changes in the fair value of the basis swaps are recognised in comprehensive income.

Fair value for forward rates is, in addition to the exchange rate on 31 December, influenced by the differences in interest rates in the relevant currencies. The interest rate curves that are used in the valuation are received from Reuters, which retrieves information from various market actors. Also refer to Note 4 "Fair value" and Note 22 G "Assessment of fair value".

Sensitivity analysis

A weakening of the NOK against the USD and GBP as of 31 December 2019 of 10 per cent would have increased comprehensive income by the amount stated in the table.

Estimated effect on comprehensive income (after tax):

MNOK	*31 Dec 19*	*31 Dec 18*
Forward exchange contracts in USD	66	158
Forward exchange contracts in EUR	(45)	(47)
Forward exchange contracts in GBP	(1)	(432)
Total	**20**	**(321)**

Cash flow hedging is considered to be effective and all the effects of any currency rate change will thus be recognised in comprehensive income. For fair value hedges, neither comprehensive income nor the annual results will be affected as long as the hedges are 100 per cent efficient. When KONGSBERG has a hedging strategy that generally hedges all contractual currency flows and receivables in foreign currency, any fluctuations in the exchange rate will have a minor effect on the profitability of existing contracts.

C) Cash flow hedges

List of the periods in which the cash flows related to derivatives that are cash flow hedges are expected to occur:

	31 Dec 19				31 Dec 18			
MNOK	*Carrying amount*	*Expected cash flow*	*2020*	*2021 and later*	*Carrying amount*	*Expected cash flow*	*2019*	*2020 and later*
Currency forward exchange contracts								
Assets	44	44	44	-	117	118	101	17
Liabilities	(55)	(57)	(33)	(24)	(50)	(51)	(25)	(26)
Total	**(11)**	**(13)**	**11**	**(24)**	**67**	**67**	**76**	**(9)**

List of the periods in which the cash flows related to derivatives that are cash flow hedges are expected to affect results:

	31 Dec 19				31 Dec 18			
MNOK	*Carrying amount*	*Expected cash flow*	*2020*	*2021 and later*	*Carrying amount*	*Expected cash flow*	*2019*	*2020 and later*
Currency forward exchange contracts								
Assets	44	44	23	21	117	118	71	47
Liabilities	(55)	(57)	(29)	(28)	(50)	(51)	(31)	(21)
Total	**(11)**	**(13)**	**(6)**	**(7)**	**67**	**67**	**40**	**27**

Cash flow hedges – hedging reserve

MNOK	*2019*	*2018*
Opening balance	(75)	(124)
Changes in fair value during the period		
Forward exchange contracts and rolling effects[1) 2)]	(194)	18
Interest rate swaps and basis swaps	23	(21)
Adaptations in connection with hedge accounting in acquired companies	19	
Tax on items recognised directly in comprehensive income	26	(16)
Recognised gains/losses in the period		
Forward exchange contracts and effects of roll-overs[1)]	**35**	**68**
Closing balance hedge reserve[2)]	**(166)**	**(75)**

1) Accrual occurs when cash flow hedges are realised and new periods, fair value hedges, are entered into for the projects (rolling). The effect on results that occurs will be recognised in the statement of financial position and realised in line with the progress of the projects. The capitalised value associated with the rolled cash flow hedges amounts to MNOK 157 as of 31 December 2019 (MNOK 76 as of 31 December 2018).
2) The net effect from the cash flow hedges before tax that are recognised in comprehensive income amounts to MNOK -159 in 2019 (MNOK 65 in 2018). Comprehensive income shows a change of MNOK -117 and the deviation of MNOK 42 is due to a change in the fair value of basis swaps of MNOK 23 and adaptations in connection with hedge accounting in acquired companies of MNOK 19.

If an expected project is contracted and a fair value hedge is established, the hedge reserve is recognised as transferred from comprehensive income to the capitalised value of the hedged project. If an expected cash flow occurs and does not result in a fair value hedge, the hedge reserve is recognised in the income statement at the same time as the hedged transactions.

In 2019, no effects were recognised related to ineffective cash flow hedges in the ordinary result. Any hedge ineffectiveness concerning cash flow hedges is also recognised under the item "recognised gains/losses in the period" in the table above.

D) Interest rate risk on loans

	2019			2018	
Amounts in MNOK	*Due date*	*Nominal interest rate*	*Carrying amount[1)]*	*Nominal interest rate*	*Carrying amount[1)]*
Bond loan KOG08 - floating interest	2 Jun21	3.09%	1 000	2.45%	1 000
Bond loan KOG09 - fixed interest	2 Jun 26	3.20%	1 000	3.20%	1 000
Bond loan KOG10 - floating interest	5 Mar 20	2.74%	-	2.12%	550
Bond loan KOG11 - fixed interest	5 Dec 23	2.90%	450	2.90%	450
Bond loan KOG12 - floating interest	6 Dec 21	2.70%	500	2.13%	500
Bond loan KOG13 - floating interest	6 Jun 24	3.02%	500	2.45%	500
Other long-term loans[2)]			19		20
Total long-term loans			**3 469**		**4 020**
Short-term loans					
Bond loan KOG07 - fixed interest[3)]			-	4.80%	250
Bond loan KOG10 - floating interest	5 Mar 20	2.74%	550		-
Other short-term loans			70		62
Total short-term loans			**620**		**312**
Total interest-bearing loans			**4 089**		**4 332**

Amounts in MNOK	*Due date*	*Nominal amount*	*Nominal amount*
Syndicated credit facility (undrawn borrowing limit)	15 Mar 23	2 300	2 300
Overdraft (unused)		500	500

1) For short-term and long-term loans, the carrying amount is equal to the nominal value.
2) "Other long-term loans" are minor borrowing by some of the Group's subsidiaries in local banks.
3) Bond loan KOG07 and associated interest rate swap agreement matured on 11 September 2019 and the values are 0 as of 31 December 2019.

Kongsberg Gruppen ASA has a syndicated credit facility with Danske Bank, DNB, JP Morgan Chase, Nordea and SEB. The facility is for general business purposes. The facility has a term of five years with an option to extend for one year, twice. The interest rate is NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.55 per cent to 2 per cent. The credit facilities require that net interest-bearing debt shall not exceed four times the EBITDA, but can be up to 4.5 times the figure for three consecutive quarters at the most. The covenants in the loan agreements have been met. The facility was unused as of 31 December 2019.

Kongsberg Gruppen ASA had six bond loans at the end of 2019. The bond loans were issued in NOK and listed on the Oslo Stock Exchange. The interest rate terms on loans with floating rates are 3-month NIBOR with a margin of + 1.25 per cent for KOG08, + 0.9 per cent for KOG10, + 0.86 per cent for KOG12 and + 1.18 per cent for KOG13. The fixed interest rates are 3.20 per cent for KOG09 and 2.9 per cent for KOG11.

A new cash credit of MNOK 500 was established. As of 31 December 2019, this remains undrawn.

Amounts in MNOK	*Due date*	*Interest rate*	*Nominal amount 2019*	*Fair value 31 Dec 19*	*Nominal amount 2018*	*Fair value 31 Dec 18*
Interest rate swap agreements, fixed to floating rate[1)]	11 Sep 19		-	-	250	5
Total interest rate swap agreements			**-**	**-**	**250**	**5**

1) The interest rate swap agreements matured on 11 September 2019, and all values are 0 as of 31 December 2019.

Sensitivity analysis interest rate risk
Simulated effect on net income of the interest rate increase of 50 BP in NIBOR:

MNOK	*31 Dec 19*	*31 Dec 18*
Investments with floating interest rates	28	50
Variable interest rate loans	(13)	(13)
Cash flow sensitivity (net)	**15**	**37**

E) Liquidity risk

The table shows due dates in accordance with the contract for the financial liabilities, including interest payments. Such liabilities as government fees and taxes are not financial liabilities and are therefore not included. The same applies to prepayments by customers and accrual of the projects.

	31 Dec 19						
MNOK	*Carrying amount*	*Contractual cash flows*	*2020*	*2021*	*2022*	*2023*	*2024 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	4 000	(4 396)	(657)	(1 586)	(60)	(509)	(1 584)
Leasing liabilities	2 198	(2 231)	(347)	(314)	(305)	(306)	(959)
Other loans and long-term liabilities	19	(19)	-	-	-	-	(19)
Accounts payable	2 098	(2 098)	(2 098)	-	-	-	-
Financial liabilities that are derivatives							
Currency derivatives	430	(440)	(297)	(81)	(32)	(26)	(4)
Basis swaps	64	(64)	-	(64)	-	-	-
Total	**8 809**	**(9 248)**	**(3 399)**	**(2 045)**	**(397)**	**(841)**	**(2 566)**

	31 Dec 18						
MNOK	*Carrying amount*	*Contractual cash flows*	*2019*	*2020*	*2021*	*2022*	*2023 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	4 250	(4 718)	(356)	(640)	(1 576)	(57)	(2 089)
Other loans and long-term liabilities	20	(20)	-	-	-	-	(20)
Accounts payable	927	(927)	(927)	-	-	-	-
Financial liabilities that are derivatives							
Currency derivatives	492	(570)	(440)	(84)	(30)	(7)	(9)
Basis swaps	86	(86)	-	-	(86)	-	-
Loan hedges	1	(1)	(1)	-	-	-	-
Total	**5 776**	**(6 322)**	**(1 724)**	**(724)**	**(1 692)**	**(64)**	**(2 118)**

F) List of financial assets and liabilities

Financial assets and liabilities divided into different categories for accounting purposes as of 31 December 2019:

		2019				
MNOK	*Note*	*Amortised cost*	*Fair value through compre-hensive income*	*Fair value with change in value through profit or loss*	***Total***	*Fair value*
Assets – non-current assets						
Other non-current assets	20	187	-	26	**213**	213
Assets – current assets						
Derivatives	22A	-	376	-	**376**	376
Receivables	21	7 361	-	-	**7 361**	7 361
Customer contracts in progress	8	3 701	-	-	**3 701**	3 701
Cash and cash equivalents	23	5 654	-	-	**5 654**	5 654
Financial liabilities – non-current						
Interest-bearing loans	22D	3 469	-	-	**3 469**	3 480
Leasing liabilities	14	1 850	-	-	**1 850**	1 850
Other non-current liabilities		11	-	-	**11**	11
Financial liabilities – current						
Interest-bearing loans	22D	620	-	-	**620**	619
Leasing liabilities	14	348	-	-	**348**	348
Derivatives	22A	-	493	-	**493**	493
Accounts payable	26	2 098	-	-	**2 098**	2 098

		2018				
MNOK	*Note*	*Amortised cost*	*Fair value through compre-hensive income*	*Fair value with change in value through profit or loss*	***Total***	*Fair value*
Assets – non-current assets						
Other non-current assets	20	162	-	26	**188**	188
Assets – current assets						
Derivatives	22A	-	182	-	**182**	182
Receivables	21	3 262	-	-	**3 262**	3 262
Customer contracts in progress	8	2 653	-	-	**2 653**	2 653
Cash and cash equivalents	23	10 038	-	-	**10 038**	10 038
Financial liabilities – non-current						
Interest-bearing loans	22D	4 020	-	-	**4 020**	4 080
Other non-current liabilities		11	-	-	**11**	11
Financial liabilities – current						
Interest-bearing loans	22D	307	-	5	**312**	316
Derivatives	22A	-	580	-	**580**	580
Accounts payable	26	927	-	-	**927**	927

G) Assessment of fair value

The following table shows corporate assets and liabilities measured at fair value

		2019			2018		
MNOK	*Note*	*Level 1*	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
Assets							
Shares at fair value through profit and loss	20	-	-	26	-	-	26
Derivatives	22A	-	376	-	-	182	-
Total assets at fair value		**-**	**376**	**26**	**-**	**182**	**26**
Liabilities							
Derivatives	22A	-	493	-	-	580	-
Interest-bearing liabilities (intended for note purposes)	22F	-	4 099	-	-	4 396	-
Total liabilities at fair value		**-**	**4 592**	**-**	**-**	**4 976**	**-**

The various levels are defined as follows:

Level 1: Fair value is measured by using quoted prices from active markets for identical financial instruments. No adjustment is made with respect to these prices.

Level 2: Fair value is measured based on data other than the list prices covered by the level 1, but which is based on observable market data either directly or indirectly. These methods have some uncertainty in the determination of fair value.

Level 3: Fair value is measured using models that substantially employ non-observable market data. This involves more uncertainty connected to the determination of fair value.

See also Note 4 "Fair value" for a discussion of the fair value measurement.

H) Estimate uncertainty

KONGSBERG has a range of financial instruments that are recognised at fair value. When market prices cannot be observed directly through the traded prices, fair value is estimated by using different models that either build on internal estimates or input from banks or other market players. The assumptions for such assessments include spot prices, forward prices and interest curves.

The assessments are always based on KONGSBERG's best estimates, but it is still likely that the observable market information and assumptions will change over time. Such changes can affect the calculated values of financial instruments considerably, and thereby result in gains and losses that will affect future periods' income statements. How such changes affect the income statement depends on the type of instrument and whether it is included in a hedging relation.

23 CASH AND CASH EQUIVALENTS

Nominal amounts in MNOK	*31 Dec 19*	*31 Dec 18*
Bank deposits	5 654	10 038
Total	**5 654**	**10 038**

Bank guarantees have been furnished for funds related to withholding tax for employees of MNOK 297 (MNOK 273 in 2018). There are also bank deposits for tax withholding amounting to MNOK 51.

The Group's liquidity management is handled by the Group's corporate treasury unit.

24 SHARE CAPITAL

Share capital

As of 31 December 2019, share capital consists of 179,990,065 shares, each with a nominal value of NOK 1.25.

Share capital trends

	Date	Number of shares	Nominal NOK	Amount, MNOK	Corr. factor	Share capital MNOK
Expansion type						
Stock exchange introduction	13 Dec 1993	5 850 000	20	117		117
Private placement for employees	1996	6 000 000	20	3		120
Share split	1997	24 000 000	5		01:04	120
Issue	1999	30 000 000	5	30		150
Share split	2009	120 000 000	1.25		01:04	150
Preferential share issue	2018	179 990 065	1.25	75		225

List of major shareholders as of 31 December 2019

Shareholders	*Type*	*Number of shares*	*% share*
Ministry of Trade, Industry and Fisheries		90 002 400	50.00%
National Insurance Fund		11 444 171	6.36%
MP Pensjon PK		5 336 431	2.96%
Must Invest AS		4 333 186	2.41%
Danske Bank As		3 314 374	1.84%
Danske Invest Norske Instit. II.		2 981 089	1.66%
Fidelity Invest: Fidelity Srs International Small Cap Fund		2 643 085	1.47%
Verdipapirfond Odin Norge		2 502 872	1.39%
Arctic Funds Plc		2 480 806	1.38%
Snefonn AS		2 375 534	1.32%
Nordea Nordic Small Cap Fund		2 366 955	1.32%
State Street Bank and Trust Comp	Nom	2 311 395	1.28%
LF Miton Europ Opportunities Fund		2 078 436	1.15%
JP Morgan Chase Bank, N.A., London	Nom	1 525 405	0.85%
State Street Bank and Trust Comp	Nom	1 301 077	0.72%
The Northern Trust Comp, London Br	Nom	1 252 965	0.70%
Danske Invest Norske Aksjer Inst.		1 240 486	0.69%
JP Morgan Chase Bank, N.A., London	Nom	1 223 121	0.68%
Havfonn AS		1 165 835	0.65%
Fidelity Invest: Fidelity International Sl Cap Opportunities Fund		951 459	0.53%
Total		**142 831 082**	**79.35%**
Other		37 158 983	20.65%
Total number of shares		**179 990 065**	**100.00%**

Shareholders listed according to share holding size

Shareholding interval	*Number of owners*	*Number of shares*	*Holding %*
1–1 000	9 458	2 495 957	1.38%
1 001–10 000	2 852	7 965 573	4.43%
10 001–100 000	281	7 730 579	4.30%
100 001–1 000 000	70	19 918 333	11.07%
1 000 001–10 000 000	17	40 433 052	22.46%
Over 10 000 000	2	101 446 571	56.36%
Total	**12 680**	**179 990 065**	**100.00%**

Of the 12,680 shareholders as of 31 December 2019, 895 were foreign, with a total holding of 19.78 per cent.

Treasury shares

As of 31 December 2019, KONGSBERG had a holding of 16,779 treasury shares. The shares have been purchased in accordance with the authority given at the annual general meeting and provide the opportunity to buy back up to 4.3 per cent of the share capital.

	Quantity
Holding of treasury shares as of 31 December 2018	19 869
Purchase of treasury shares	925 000
Treasury shares sold to employees in connection with the share programme	(875 151)
Treasury shares sold to employees in connection with the long-term incentive scheme	(52 939)
Holding of treasury shares as of 31 December 2019	**16 779**

Dividends

	2019	*2018*
Dividends paid in NOK per share	2.5	3.75
Dividends paid in MNOK	450	450
Of which, dividends treasury shares in MNOK	2.23	1.75

The Board has proposed an ordinary dividend for the 2019 accounting year of MNOK 450 equivalent to NOK 2.50 per share. The Board will also request the General Meeting an authority to pay an additional dividend of up to MNOK 1,800, corresponding to NOK 10.00 per share.

25 PROVISIONS

Non-current provisions

MNOK	*Sale and leaseback*	*Other*	*Total*
31 Dec 18	**120**	**8**	**128**
Provisions used	(3)	-	(3)
Allocation	14	-	14
Dissolved	(11)	(6)	(17)
31 Dec 19	**120**	**2**	**122**

Non-current provisions

KONGSBERG has in the period from 1999 to 2014 sold properties in the Kongsberg Technology Park. The properties have been leased back on long-term lease and expire from 2017 to 2031. The leaseback contract related to the purchase in 1999 expired in 2014. In connection with the sale and leaseback it was agreed that KONGSBERG guarantees for entry costs and for the maintenance of the buildings in the leaseback period. The current value of future warranty liability is allocated in the accounts. In addition, provision has been made for lack of rental. The remaining provision requirement will need to be assessed each quarter. The effects of discounting cost are transferred as financial expenses.

Current provisions

MNOK	*Warranty*	*Other*	*Total*
31 Dec 18	**413**	**102**	**515**
Additions through acquisition	270	516	786
Reclassified from customer contracts, liability	174	28	202
Provisions used	(135)	(138)	(273)
Allocation	204	133	337
Dissolved	(29)	(25)	(54)
31 Dec 19	**897**	**616**	**1 513**

Warranty provisions

Warranty provisions are provisions for warranty costs on completed deliveries. Unused warranty provisions are dissolved upon the expiration of the warranty period. Warranty provisions are estimated based on a combination of experience figures, specific calculations and judgement. The warranty period usually extends from one to five years, but for some defence contracts the warranty period may be up to 30 years.

Other provisions

Provisions are recognised when the Group has an obligation as a result of a past event, and when it is probable that there will be a financial settlement as a result of this obligation and the amount can be reliably measured.

Provisions apply to conditions where there is disagreement between contractual parties, uncertainty related to product liability or products that are in an early life-cycle phase.

Estimation uncertainty

Assessments are based on a combination of experience figures, technical evaluations and judgement. Evaluations of the estimates are made each quarter. There is significant uncertainty related to these provisions with respect to amounts and times.

26 OTHER CURRENT LIABILITIES

MNOK	*31 Dec 19*	*31 Dec 18*
Accounts payable	2 098	927
Public charges owing	480	314
Calculated income tax payable	77	19
Accrued holiday pay	753	410
Other accruals[1)]	1 948	808
Total	**5 356**	**2 478**

1) Other accruals relate to costs incurred for which invoices have not yet been received, withholding tax owed for employees, salaries owed to employees and other non-interest-bearing liabilities.

27 ASSETS PLEDGED AS COLLATERAL AND GUARANTEES

Assets pledged as collateral

The Group's loan agreements, both bond loan agreements and the agreement on the syndicated credit facilities, are based on the negative collateral.

Prepayment and completion guarantees

Group companies have provided guarantees for prepayments and completion related to customer contracts. The guarantees are issued by Norwegian and foreign banks and insurance companies and by Kongsberg Gruppen ASA (parent company guarantees). Kongsberg Gruppen ASA is responsible for all guarantees.

MNOK	*31 Dec 19*	*31 Dec 18*
Guarantees issued by banks and insurance companies	3 521	2 472
Guarantees issued by Kongsberg Gruppen ASA (parent company)	7 841	5 054
Prepayments from and completion guarantees to customers	**11 361**	**7 526**

Kongsberg Gruppen ASA has non-committed framework agreements for guarantees with banks and insurance companies.

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.

29 REMUNERATION FOR EXECUTIVE MANAGEMENT AND THE BOARD

Remuneration specified for members of the Executive Management for 2019 and 2018[1)]

Amounts in TNOK	*Year*	*Salary paid including holiday pay*[4)]	*Other benefits reported during the financial year*[2)]	*Accrued long-term incentive plan (LTI)*[3)]	*Accrued performance-related pay during the financial year*[4)]	*Pension accrual during the year*[5)]	*Long-term incentive plan (LTI) paid out*[6)]	*Out standing amount, loans*	*Shares acquired during the financial year linked to the LTI scheme*	*Total number of shares inc. LTI as of 31 Dec*
Geir Håøy President and CEO	2019	5 502	315	1 048	2 594	924[7)]	1 329	-	5 746	30 091
	2018	5 162	315	752	2 216	441	1 374	-	3 158	24 040
Gyrid Skalleberg Ingerø, Chief Financial Officer Group Executive Vice President Legal, Compliance and Property	2019	2 728	265	213	1 198	83	561	-	2 429	12 383
	2018	2 622	279	19	827	81	581	-	177	9 649
Even Aas, Group Executive Vice President Public Affairs, Communication and Sustainability	2019	1 841	284	266	892	2 889[8)]	386	-	1 542	25 805
	2018	1 675	314	221	722	353	369	-	678	23 958
Hans Petter Blokkum Group Executive Vice President, HR and Security from 1 March 2018	2019	2 237	213	131	1 089	208[9)]	454	69	1 797	3 691
	2018	1 758	201	-	694	46	393	117[14)]	-	1 589
Harald Aarø, Group Executive Vice President for Commercial Development and Strategy	2019	2 564	289	367	1 156	730[10)]	516	-	2 245	10 231
	2018	2 414	307	211	908	401	537	-	945	7 681
Hege Skryseth, President, Kongsberg Digital	2019	2 569	215	422	738	779[11)]	536	261	2 147	12 249
	2018	2 331	215	361	387	448	514	330	1 180	9 797
Egil Haugsdal, President, Kongsberg Maritime	2019	2 965	460	493	1 401	1 653[12)]	596	-	2 579	33 720
	2018	2 782	505	407	1 231	772	617	-	1 417	30 836
Eirik Lie, President, Kongsberg Defence & Aerospace	2019	3 042	334	371	1 276	283[13)]	620	-	2 682	8 775
	2018	3 131	325	158	1 072	36	642	-	1474	5 788

1) Compensation and other benefits to members of Executive Management are based on their time served as part of corporate management. All members of executive management are included in the general contribution scheme for salaries up to 12G.
2) Benefits other than cash refers to expensed discounts on shares in connection with the share programme for all employees, communication, car arrangements and compensation for the taxable share of pensions and insurance, as well as other taxable benefits.
3) Accrued LTI including tax compensation is, for accounting purposes, accrued on a linear basis over three years since the shares can be managed freely only after three years. A statement on the LTI scheme is provided in Note 28.
4) It is decided that the excecutive management will not obtain any salary increases in 2020. It is also decided that management bonuses related to the performance-related part of their salary will not be paid out for the members of the excecutive management at this point in time.
5) The year's return on balance in the defined contribution pension scheme over 12G is included in the accrual. This principle has changed from previous years.
6) LTI with tax compensation for disbursement the following year where the net amount will be invested in KONGSBERG shares. A statement on the LTI scheme is provided in Note 28.
7) Early retirement agreement 63-65 years. An explanation for the CEO is given in Note 28.
8) Early retirement agreement 60 years. Defined benefit scheme that provides 90% of salary from 60 years with 10% reduction per year to 60% of salary from 63 to 67 years. The increase in pension earnings is due to salary increases and fully earned pension rights.
9) Earnings are a return on previously earned balance in defined contribution plan for salaries above 12G.
10) Defined contribution pension scheme for salaries above 12G with 18% and early retirement scheme between 63-65 years.
11) Defined contribution pension scheme for salaries above 12G with 30%.
12) Defined contribution pension scheme for salaries above 12G with 18% and early retirement scheme with the right to retire from 62 years.
13) Earnings area return on previously earned balance in defined contribution plan for salaries above 12G.
14) For 2018, the outstanding amount on loans has been corrected from TNOK 49 to TNOK 117.

Shares owned by, and compensation to the members of the Board

Board of Directors *Amounts in NOK*	*Year*	*Number of shares*	*Fixed Board remuneration*	*Remune-ration for committee meetings*	*Total Board remune-ration*	*Number of Board meetings*[1)]
Eivind K. Reiten, Chair	2019	2 850	535 333	46 300	581 633	11
	2018	2 850	508 333	43 600	551 933	17
Irene Waage Basili, Director, Vice Chair to May 2019	2019	-	92 333	-	92 333	4
	2018	-	272 000	-	272 000	16
Anne-Grete Strøm-Erichsen, Director, Vice Chair from June 2019	2019	2 000	277 667	37 600	315 267	10
	2018	2 000	255 333	37 600	292 933	16
Morten Henriksen, Director	2019	3 027	268 667	74 400	343 067	11
	2018	3 027	255 333	82 900	338 233	15
Helge Lintvedt, Director	2019	-	268 667	61 500	330 167	11
	2018	-	255 333	70 700	326 033	17
Martha Kold Bakkevig, Director	2019	2 119	268 667	51 400	320 067	10
	2018	2 119	255 333	50 500	305 833	16
Elisabeth Fossan, Director	2019	5 209	268 667	37 600	306 267	11
	2018	4 904	255 333	37 600	292 933	16
Sigmund Ivar Bakke Director	2019	3 383	268 667	-	268 667	11
	2018	3 078	255 333	-	255 333	17
Per Arthur Sørlie, Director from May 2019	2019	1 400	182 000	31 200	213 200	6
	2018	-	-	-	-	-
Payment to deputies in 2019	2019	-	-	-	-	-
Payment to deputies in 2018	2018	**-**	11 400	-	11 400	**1**
Total compensation to the Board	**2019**		**2 430 668**	**340 000**	**2 770 668**	
Total compensation to the Board	**2018**		**2 323 731**	**322 900**	**2 646 631**	

1) 11 board meetings were held in 2019 (17 board meetings in 2018).

30 AUDITOR'S FEES

TNOK	2019 Parent company	2019 Subsidiaries in Norway	2019 Subsidiaries outside Norway	Total 2019	2018 Parent company	2018 Subsidiaries in Norway	2018 Subsidiaries outside Norway	Total 2018
Group auditor EY								
Statutory audit	1 100	7 774	7 760	16 635	846	4 740	2 137	7 723
Other assurance services	298	198	-	496	71	693	-	764
Tax consultancy	209	1 553	1 149	2 911	299	1094	936	2 329
Other non-audit services	746	-	141	887	2 805	778	54	3 637
Total fees, EY	**2 352**	**9 525**	**9 015**	**20 929**	**4 021**	**7 305**	**3 127**	**14 453**
Other auditors								
Estimated audit fees		32	2 780	2 812		30	1 787	1 817

31 LIST OF GROUP COMPANIES

The following companies have been consolidated:

Name of company	*Country of origin*	*Ownership stake 31 Dec 19*	*Ownership stake 31 Dec 18*
Kongsberg Gruppen ASA	Norway	Parent	Parent
Kongsberg Defence & Aerospace AS	Norway	100	100
Kongsberg Spacetec AS	Norway	Merged	100
Kongsberg Norspace AS	Norway	Merged	100
Kongsberg Oil & Gas Technologies AS	Norway	100	100
Kongsberg Digital AS	Norway	100	100
Kongsberg Eiendom Holding AS	Norway	100	100
Kongsberg Teknologipark AS	Norway	100	100
Kongsberg Næringseiendom AS	Norway	100	100
Kongsberg Næringsparkutvikling AS	Norway	100	100
Kongsberg Næringsbygg 2 AS	Norway	100	100
Kongsberg Næringsbygg 3 AS	Norway	100	100
Kongsberg Næringsbygg 5 AS	Norway	100	100
Kongsberg Næringsbygg 6 AS	Norway	100	100
Kongsberg Real Estate AS	Norway	100	100
Kongsberg Næringsbygg 11 AS	Norway	100	100
KNB12 Ulsteinvik AS	Norway	100	-
KNB13 Brattvåg AS	Norway	100	-
KNB 14 Longva AS	Norway	100	-
Kongsberg Basetec AS	Norway	100	100
Kongsberg Seatex AS	Norway	100	100
Vehicle Tracking and Information Systems AS	Norway	100	100
Kongsberg Maritime AS	Norway	100	100
Kongsberg Norcontrol AS	Norway	100	100
Kongsberg Evotec AS	Norway	Sold	100
Eelume AS	Norway	51	51
Simrad AS	Norway	100	100

Name of company	*Country of origin*	*Ownership stake 31 Dec 19*	*Ownership stake 31 Dec 18*
Kongsberg Maritime CM AS	Norway	100	-
Ulstein Holding AS	Norway	100	-
Kongsberg Aviation Maintenance Services AS	Norway	50.1	-
Rygge 2 AS	Norway	50.1	-
Rygge Eiendom AS	Norway	50.1	-
Kongsberg Maritime S.R.L	Italy	100	100
Kongsberg Maritime Italy S.R.L	Italy	100	-
Kongsberg Maritime Holland BV	The Netherlands	100	100
Kongsberg Maritime Benelux BV	The Netherlands	100	-
Kongsberg Maritime CM Sp. zo.o.	Poland	100	-
Scandinavian Electric Gdansk Sp. zo.o.	Poland	66.6	-
Kongsberg Maritime Poland Sp. Zo.o.	Poland	100	100
Kongsberg Defence Sp. zo.o.	Poland	100	100
Simrad Spain SL	Spain	100	100
Kongsberg Maritime Spain SA	Spain	100	-
Kongsberg Defence Oy	Finland	100	100
Kongsberg Maritime Finland OY	Finland	100	-
Kongsberg Maritime GmbH	Germany	100	100
Kongsberg Maritime Embient GmbH	Germany	100	100
Kongsberg Maritime Contros GmbH	Germany	100	100
Kongsberg Maritime CM Germany GmbH	Germany	100	-
Kongsberg Maritime France SARL	France	100	-
Kongsberg Defence Switzerland AG	Switzerland	100	100
Kongsberg Reinsurance Ltd.	Ireland	100	100
Kongsberg Norcontrol Ltd.	Great Britain	100	100
Kongsberg Maritime Holding Ltd.	Great Britain	100	100
Kongsberg Maritime Ltd.	Great Britain	100	100
Kongsberg GeoAcoustics Ltd.	Great Britain	100	100
Kongsberg Hungaria Kft.	Hungary	100	100
Navis Consult d.o.o.	Croatia	75	-
Kongsberg Maritime Hellas SA	Greece	100	100
Kongsberg Commercial Marine SA	Greece	100	-
Kongsberg Maritime Denmark A/S	Denmark	100	-
Kongsberg Maritime Sweden AB	Sweden	100	-
Kongsberg Maritime Tech LLC	Russia	100	-
Kongsberg Maritime Turkey Denizcilik Sanayi Ve Ticaret Limited Şirketi	Turkey	100	-
Kongsberg Geospetial Ltd.	Canada	100	100
Kongsberg Digital Simulation Ltd.	Canada	100	100
Kongsberg Maritime Canada Ltd.	Canada	100	100
Kongsberg Mesotech Ltd.	Canada	100	100
Kongsberg Protech Systems Canada Corporation	Canada	Phased out	100
Kongsberg Maritime Canada Ltd.	Canada	100	-
Kongsberg Maritime Ltd.	Canada	100	-
Kongsberg Digital Simulation Inc.	USA	100	100
Simrad North America Inc.	USA	100	100
Kongsberg Maritime Inc.	USA	100	100
Kongsberg Underwater Technology Inc.	USA	100	100
Kongsberg Protech Systems USA Inc.	USA	100	100
Kongsberg Digital Inc.	USA	100	100
Kongsberg Defense Systems Inc.	USA	100	100
Hydroid Inc.	USA	100	100
Kongsberg Geospatial Corporation	USA	100	100
Kongsberg Integrated Tactical Systems Inc.	USA	100	100
Kongsberg Maritime do Brazil Ltda	Brazil	100	100
Kongsberg Oil & Gas Technologies do Brazil Ltda	Brazil	100	100
Kongsberg Maritime CM Brasil Ltda	Brazil	100	-
Kongsberg Maritime Mexico SA DE CV	Mexico	100	100

Name of company	*Country of origin*	*Ownership stake 31 Dec 19*	*Ownership stake 31 Dec 18*
Kongsberg Defence Chile Spa.	Chile	100	100
Kongsberg Maritime Chile SpA	Chile	100	-
Kongsberg Maritime Panama Corporation	Panama	100	100
Kongsberg Asia Pacific Ltd.	Hong Kong	100	100
Kongsberg Maritime Hoi Tung Holding Ltd.	Hong Kong	90	90
Kongsberg Maritime Hong Kong Ltd	Hong Kong	100	-
Kongsberg Maritime China Shanghai Ltd.	China	100	100
Kongsberg Maritime China Jiangsu Ltd.	China	100	100
Kongsberg Maritime China Ltd.	China	100	100
Kongsberg Maritime China Waigaoqiao Ltd.	China	100	100
Kongsberg Maritime CM China Ltd	China	100	-
Kongsberg Maritime CM Korea Ltd	Korea	100	-
Kongsberg Maritime Korea Ltd.	South Korea	100	100
Kongsberg Norcontrol Pte. Ltd.	Singapore	100	100
Kongsberg Maritime Pte. Ltd.	Singapore	100	100
Kongsberg Maritime Japan Co Ltd	Japan	100	-
Kongsberg Maritime India Private Ltd.	India	91	91
Kongsberg Digital Private Ltd.	India	100	100
Kongsberg Digital Software & Services Private Ltd.	India	100	100
Kongsberg Norcontrol Surveillance Pvt. Ltd.	India	100	100
Kongsberg Maritime CM India Pvt Ltd	India	100	-
Kongsberg Defence Ltd.	Saudi Arabia	100	100
Kongsberg Defence Malaysia Sdn. Bhd	Malaysia	100	100
Kongsberg Maritime Malaysia Sdn. Bhd.	Malaysia	100	100
Kongsberg Maritime Middle East DMCCO	UAE	100	100
Kongsberg Maritime Vietnam Ltd	Vietnam	100	-
Kongsberg Defence Australia Pty Ltd.	Australia	100	100
Kongsberg Oil & Gas Technologies Pty Ltd. (Kongsberg Nemo Pty Ltd.)	Australia	Phased out	Being phased out
Kongsberg Maritime Pty Ltd.	Australia	100	100
Kongsberg Maritime South Africa Pty. Ltd.	South Africa	100	100
Kongsberg Maritime Namibia Pty Ltd	Namibia	100	-

New companies in KONGSBERG consolidation in connection with acquisitions:

Name of company	*Company name before acquisition*	*Country of origin*	*KONGSBERG's ownership stake 31 Dec 19*
Kongsberg Maritime CM AS	Rolls-Royce Marine AS	Norway	100
Ulstein Holding AS	Ulstein Holding AS	Norway	100
Kongsberg Maritime CM Brasil Ltda	Commercial Marine Brasil Limitada	Brazil	100
Kongsberg Maritime Canada Ltd.	Newly founded	Canada	100
Kongsberg Maritime Chile SpA	Newly founded	Chile	100
Kongsberg Maritime Denmark A/S	Rolls-Royce Marine A/S – Denmark	Denmark	100
Kongsberg Maritime Finland OY	Rolls-Royce Oy AB	Finland	100
Kongsberg Maritime France SARL	Rolls-Royce Marine France SARL	France	100
Kongsberg Commercial Marine SA	RR Marine Hellas SA	Greece	100
Kongsberg Maritime Hong Kong Ltd	Rolls-Royce Marine Asia Ltd. Hong Kong	Hong Kong	100
Kongsberg Maritime CM India Pvt Ltd	Rolls-Royce Marine India Pvt Ltd	India	100
Kongsberg Maritime Italy S.r.l	Rolls-Royce Italia SRL	Italy	100
Kongsberg Maritime Japan Co Ltd	Newly founded	Japan	100
Kongsberg Maritime CM China Ltd	Rolls-Royce Marine (Shanghai) Ltd.	China	100
Kongsberg Maritime CM Korea Ltd	Rolls-Royce Marine Korea Ltd	Korea	100

Name of company	*Company name before acquisition*	*Country of origin*	*KONGSBERG's ownership stake 30 Jun 19*
Navis Consult d.o.o. Croatia (JV 75%)	Navis Consult d.o.o. Croatia (JV 75%)	Croatia	75
Kongsberg Maritime Namibia (Pty) Ltd	Rolls-Royce Namibia (Pty) Ltd	Namibia	100
Kongsberg Maritime Benelux BV	Rolls-Royce Marine Benelux BV (Netherlands)	The Netherlands	100
Kongsberg Maritime CM Sp. z o.o.	Rolls-Royce Poland Sp. z o.o.	Poland	100
Scandinavian Electric Gdansk Sp z o.o.	Scandinavian Electric Gdansk Sp z o.o.	Poland	66.6
Kongsberg Maritime Tech LLC	Rolls-Royce International LLC	Russia	100
Kongsberg Maritime Spain SA	Rolls-Royce Marine España SA	Spain	100
Kongsberg Maritime Sweden AB	Rolls-Royce AB	Sweden	100
Kongsberg Maritime Turkey Denizcilik Sanayi Ve Ticaret Limited Şirketi	Newly founded	Turkey	100
Kongsberg Maritime CM Germany GmbH	Rolls-Royce Marine Deutschland GmbH	Germany	100
Kongsberg Maritime Vietnam Ltd	Rolls-Royce Vietnam Ltd	Vietnam	100
Kongsberg Aviation Maintenance Services AS	Aerospace Industrial Maintenance AS	Norway	50.1
Rygge 2 AS	Rygge 2 AS	Norway	50.1
Rygge Eiendom AS	Rygge Eiendom AS	Norway	50.1

32 TRANSACTIONS WITH RELATED PARTIES

The Norwegian State as the largest owner

The Norwegian State as represented by the Ministry of Trade, Industry and Fisheries is KONGSBERG's largest owner (50.001 per cent of the shares in Kongsberg Gruppen ASA). The State represented by the Ministry of Defence is an important customer for the Group. Sales to the Armed Forces are regulated by the EEA agreement and the Procurement Regulations for the Armed Forces, which guarantee equal treatment for all vendors.

As of 31 December 2019, KONGSBERG had an outstanding balance from state-owned customers of MNOK 86, while other liability items in respect of state suppliers amounted to MNOK 7 as of 31 December 2019.

In 2019, KONGSBERG issued invoices to state customers for a total of MNOK 1,825. Goods and services purchased from state suppliers in 2019 amounted to MNOK 42.

On 13 December 2018, KONGSBERG entered into an agreement with the Ministry of Defence for the acquisition of Aerospace Industrial Maintenance Norway AS (AIM). The acquisition was completed on 29 May 2019. The preliminary consideration is MNOK 3. Please refer to Note 6 for further information.

Please refer also to the Board's report on corporate governance Chapter 4 "Equal treatment of shareholders and related party transactions", where the State as a customer and shareholder is described in more detail.

Transactions with the associated companies

As of 31 December 2019, KONGSBERG had trade receivables for associated companies of MNOK 4, while trade payables amounted to MNOK 0 on 31 December 2019.

KONGSBERG also has a long-term receivable from associated companies of MNOK 29.

In 2019, KONGSBERG issued invoices to associated companies for a total of MNOK 21. Goods and services purchased from state suppliers in 2019 amounted to MNOK 7.

33 DEFINITIONS

KONGSBERG uses terms in the consolidated financial statements that are not anchored in the IFRS accounting standards. Our definitions and explanations of these terms follow below.

EBITDA/EBIT

EBITDA/EBIT are considered by KONGSBERG to be normal accounting terms, but they are not included in the IFRS accounting standards. EBITDA is an abbreviation of "Earnings Before Interest, Taxes, Depreciation and Amortisation". KONGSBERG uses EBITDA in the income statement as a summation line for other accounting lines. These accounting lines are defined in our accounting principles, which are part of the consolidated financial statements for 2019. The same applies for EBIT.

Adjusted EBITDA

Adjusted EBITDA shows the Group's EBITDA before items which require separate explanation. This applies to restructuring/integration costs, gains/losses on the sale of activity and the effect on results from changes to pension schemes and other non-recurring effects linked to pension.

Net interest-bearing debt

Net interest-bearing debt is the net amount of the accounting lines "Cash and cash equivalents", "Long-term interest-bearing debt" and "Short-term interest-bearing debt". Leasing liabilities are not included.

Restructuring costs

KONGSBERG defines restructuring costs as salary and social security tax upon termination of employment (such as severance pay and gratuity) in connection with workforce reductions. In addition, there is rent and related costs or one-time payments when leases are terminated before the lease agreement expires for spaces that are vacated, and some other costs related to restructuring.

Integration costs

Integration costs are costs linked to the integration of Commercial Marine into Kongsberg Maritime.

Return on Average Capital Employed (ROACE)

ROACE is defined as 12 months' roll-over EBIT excluding IFRS 16 divided by the 12-month average of the entered equity and interest-bearing debt. Net interest-bearing debt is adjusted for the purchase sum for Rolls-Royce Commercial Marine.

Working capital

Working capital is defined as current assets minus cash and cash equivalents, non-interest bearing current liabilities (except taxes payable). Financial instruments recognised at fair value are not included in working capital.

Book-to-Bill Ratio

New orders divided by operating revenues.

RRCM is Rolls-Royce Commercial Marine

CM is Commercial Marine

KAMS is Kongsberg Aviation Maintenance Services AS (formerly Aerospace Industrial Maintenance Norway AS)

34 EVENTS AFTER BALANCE DATE

Kongsberg Maritime has signed an agreement to sell its subsidiary Hydroid

On 4 February, Kongsberg Maritime signed an agreement to sell the underwater technology company Hydroid Inc. in the USA for MUSD 350 to Huntington Ingalls Industries (HII). At the same time, the parties will enter into a strategic collaboration agreement concerning underwater technology and maritime solutions, which become effective when the transaction is completed.

Kongsberg Maritime acquired Hydroid for MUSD 80 in 2007 and is now selling the American subsidiary for MUSD 350 on a debt- and cash-free basis, adjusted for agreed working capital.

Hydroid Inc. is a wholly owned subsidiary of Kongsberg Maritime AS, and has its headquarters in Pocasset, Massachusetts in the USA. The company produces and supplies autonomous underwater vessels for both the military and commercial markets, with the U.S. Navy as the largest customer.

At the end of Q4 2019, Hydroid had an order backlog of MNOK 813. In 2019, the company delivered a turnover of MNOK 862 with an EBITDA of MNOK 133. See the table below for key figures for the period 2016–2019.

MNOK	*2016*	*2017*	*2018*	*2019*
Income statement items				
Revenues	598	542	617	862
Operating profit before depreciation and amortisation (EBITDA)	97	76	84	133
Earnings before interest and taxes (EBIT)	60	38	60	120
Balance sheet items				
Fixed assets	238	200	189	194
Reported working capital	281	279	221	247
Cash	19	28	146	28
Net assets excluding goodwill	538	507	556	469

The transaction is expected to be completed during Q1 2020, and is subject to ordinary reservations such as approval from relevant authorities.

Covid-19

The outbreak of the new COVID-19 virus in Asia at the beginning of 2020, followed by the spread of the virus throughout the world, is impacting on industry and trade globally. KONGSBERG will also be affected, but it is still too early to predict the outcome of the virus outbreak. Writing this, as of March 2020, Norway and many other countries have implemented severe travel restrictions, schools and kindergartens are closed, a large part of the industry, commerce and public service experience restrictions. The amount of infected people are in-creasing, and all people are encouraged avoid physical contact, trying to avoid spreading of the virus. KONGSBERG's operations will also be affected by this situation. Less activity in the after sales market is hence expected. The risk of postponements in projects have increased significantly, both because of temporary close-downs and lack of input factors. A large portion of the customers are influenced, hence there is also a risk of delayed or absence of payments. KONGSBERG has implemented and, are continuously implementing, initiatives to protect own employees and business partners, to the largest degree as possible secure normal operations.

Statement of income 1 January–31 December

KONGSBERG GRUPPEN ASA

MNOK	*Note*	*2019*	*2018*
Operating revenues from subsidiaries	9	160	176
Other operating revenues		6	6
Total revenues		**166**	**182**
Payroll expenses	4, 5	(152)	(128)
Depreciation		(2)	(1)
Other operating expenses	4	(138)	(206)
Total operating expenses		**(292)**	**(335)**
Earnings before interest and tax		**(126)**	**(153)**
Dividends from subsidiaries		60	10
Interest from group companies		75	53
Net currency gains		(3)	4
Interest to Group companies		(8)	(12)
Interest income, bank and investment		29	23
Interest costs, external loans		(100)	(82)
Other financial income		-	1
Other finance expenses		(35)	(11)
Group contribution		80	1 500
Net finance items		**98**	**1 486**
Earnings before tax (EBT)		**(28)**	**1 333**
Income tax expense (+income/expense)	6	24	(20)
Earnings after tax		**(4)**	**1313**
Allocations and equity transfers			
Proposed dividend		(450)	(450)

Statement of financial position as of 31 December

KONGSBERG GRUPPEN ASA

MNOK	*Note*	*2019*	*2018*
Assets			
Non-current assets			
Deferred tax assets	6	124	98
Fixed assets		16	10
Shares in subsidiaries	3	8 970	8 970
Shares in associated companies		11	11
Interest-bearing loans to Group companies	9	2 498	1 173
Other long-term receivables		30	3
Total non-current assets		**11 649**	**10 265**
Current assets			
Receivables from Group companies	9	117	1 568
Other short-term receivables		233	83
Cash and cash equivalents	11	289	6 663
Total current assets		**639**	**8 314**
Total assets		**12 288**	**18 579**
Equity and liabilities			
Equity			
Shares capital		225	225
Premiums		4 876	4 876
Total paid-in capital		**5 101**	**5 101**
Other equity		1 699	2 162
Total retained earnings		**1 699**	**2 162**
Total equity	2	**6 800**	**7 263**
Non-current liabilities			
Pension liabilities	5	240	228
Long-term interest-bearing loans	7	3 450	4 000
Other non-current liabilities		1	3
Total non-current liabilities		**3 691**	**4 231**
Current liabilities			
Dividend		450	450
Short-term interest-bearing loans	7	550	250
Liabilities to group companies	9	644	6 234
Other current liabilities		153	151
Total current liabilities		**1 797**	**7 085**
Total equity and liabilities		**12 288**	**18 579**

Kongsberg, 19 March 2020

Eivind Reiten
Chairman

Per A. Sørlie
Director

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Deputy chair

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
Chief Executive Officer

Statement of cash flow

KONGSBERG GRUPPEN ASA

MNOK	*Note*	*2019*	*2018*
Earnings before tax		(28)	1 333
Depreciation		2	1
Changes in accruals, etc.		(61)	169
Net cash flows from operating activities		**(87)**	**1 503**
Cash flow from investing activities			
Purchase of fixed assets		(7)	(6)
Investment in shares		-	(11)
Net cash flow used in investing activities		**(7)**	**(17)**
Cash flow from financing activities			
Capital increase		-	4 997
Costs related to the capital increase (before tax effect)		-	(60)
Payment of loans		(28)	(2)
Dividends received		60	10
Proceeds from interest-bearing loans			1 000
Repayment of loans		(250)	-
Interest paid		(93)	(73)
Dividend paid		(448)	(448)
Net disbursements for purchase/disposal of treasury shares		(27)	(20)
Changes in intercompany balances		(5 494)	(985)
Net cash flow from financing activities		**(6 280)**	**4 419**
Net increase (reduction) in cash and cash equivalents		**(6 374)**	**5 905**
Cash and cash equivalents at the beginning of the period		**6 663**	**758**
Cash and cash equivalents at the end of the period		**289**	**6 663**

Notes

KONGSBERG GRUPPEN ASA

1 ACCOUNTING POLICIES

The financial statements for Kongsberg Gruppen ASA have been prepared in accordance with the Norwegian Accounting Act and generally-accepted accounting practices in Norway.

Subsidiaries and associated companies

Subsidiaries and associates are measured at cost in the statutory accounts. The investment is evaluated at acquisition cost less any impairment. Such assets are written down to fair value when a decrease in value cannot be considered to be temporary and is required pursuant to generally accepted accounting principles. Impairments are reversed when the basis for the impairment no longer applies.

Classification and valuation of statement of financial position items

Current assets and current liabilities include items due for payment within one year after the date of acquisition. Other items are classified as non current assets/non-current liabilities. Current assets are measured at the lower of cost and fair value. Current liabilities are recorded at their nominal values on the date of acquisition. Fixed assets are measured at acquisition cost less depreciation, but are written down when a decrease in value is not expected to be of temporary nature. Non-current liabilities are measured at nominal value at the date they are incurred.

Revenues

Revenues are recognised in the period when the services are rendered.

Hedges

Kongsberg Gruppen ASA enters into hedging contracts on behalf of subsidiaries and undertakes back-to-back agreements with external banks. See also Note 10 “Currency hedging” and Note 3 J “Financial instruments” of the consolidated financial statement.

Receivables

Trade receivables and other receivables are capitalised at nominal values less provisions for expected loss. Provisions for bad debt are made on the basis of individual assessments of each receivable.

Foreign currency

Monetary items in a foreign currency are assessed using the exchange rate applicable at year-end. Gains and losses related to items in a foreign currency and that are part of the goods circulation are included in the operating profit/loss. Other gains and losses related to items in foreign currency are classified as financial income or costs.

Short-term investments

Short-term investments (shares and other items considered to be current assets) are measured at the lower of the acquisition cost and fair value at the date of the balance sheet. Dividends and other distributions from the companies are recognised as other financial income.

Pensions

The defined contribution scheme
The Group introduced a defined contribution pension scheme for all employees under the age of 52 as of 1 January 2008. Employees aged 52 or over at the time of the transition remained with the defined benefit plan. The contributions are expensed as incurred.

The defined benefit plan
Pension costs and pension obligations are calculated according to linear accruals, based on the expected final salary. The calculation is based on a number of assumptions including discount rates, future salary adjustments, pensions and benefits from the National Insurance Scheme, and future interest income on pension fund assets, as well as actuarial assumptions on mortality and voluntary retirement. Pension fund assets are measured at their fair value, less net pension liabilities at the date of the balance sheet. See also Note 5 “Pensions”.

Income tax

Income tax expense in the financial statements includes tax payable and the change in deferred tax for the period. Deferred tax/tax assets are calculated at 22 per cent on all temporary differences between the book value and tax value of assets and liabilities, and loss carried forward at the end of the reporting period. Taxable and deductible temporary differences that reverse or may reverse in the same period are offset. Deferred tax assets are recognised when it is probable that the company will have adequate profit for tax purposes in subsequent periods to utilise the tax asset.

Statement of cash flow

The cash flow statement was prepared using the indirect method. Cash and cash equivalents comprise cash reserves, bank deposits and other short-term liquid investments.

2 EQUITY RECONCILIATION

MNOK	*Shares capital*	*Premiums*	*Other equity*	*Total equity*
Equity as of 31 December 2017	**150**	**-**	**1 289**	**1 439**
Earnings after tax	-	-	1 313	1 313
Capital increase	75	4 922	-	4 997
Net costs related to the capital increase (reduced for tax effect)	-	(46)	-	(46)
Transactions with treasury shares	-	-	(3)	(3)
Dividend for 2018	-	-	(450)	(450)
Actuarial gain/loss on pension expense	-	-	13	13
Equity as of 31 December 2018	**225**	**4 876**	**2 162**	**7 263**
Earnings after tax	-	-	(4)	(4)
Transactions with treasury shares	-	-	(4)	(4)
Dividend for 2019	-	-	(450)	(450)
Actuarial gain/loss on pension expense	-	-	(5)	(5)
Equity as of 31 December 2019	**225**	**4 876**	**1 699**	**6 800**

Other information about the company's share capital is provided in Note 24 "Share capital" of the consolidated financial statements. The total number of treasury shares as of 31 December 2019 is 16,779.

3 SHARES IN SUBSIDIARIES

MNOK	*Date of acquisition*	*Business office*	*Owner/voting share %*	*Carrying amount as of 31 Dec*
Kongsberg Defence & Aerospace AS	1997	Kongsberg	100	1 206
Kongsberg Basetec AS	1992	Kongsberg	100	137
Kongsberg Maritime AS	1992	Kongsberg	98.9	6 666
Kongsberg Eiendom Holding AS	2015	Kongsberg	100	497
Kongsberg Digital AS	2016	Asker	24.5	435
Kongsberg Maritime China Ltd	2016	Shanghai	100	25
Kongsberg Hungaria Kft[1]	2003	Budapest	10	-
Kongsberg Reinsurance Ltd.	2001	Dublin	100	4
Total				**8 970**

1) The remaining shares in Kongsberg Hungaria Kft. are owned by Kongsberg Defence & Aerospace AS.

4 PAYROLL EXPENSES AND AUDITOR'S FEES

With regard to salary and remuneration to the corporate executive management and Board members, reference is made to Note 29 "Remuneration for Executive Management and the Board" in the consolidated financial statements.

Payroll expenses

MNOK	*2019*	*2018*
Salaries	84	71
Social security expenses	15	14
Pension	15	16
Performance-based part of salary	13	10
Other benefits	25	17
Total payroll expenses	**152**	**128**
Number of full-time equivalents (FTEs)	65	56

Auditor's fees

TNOK	*2019*	*2018*
Group auditor EY		
Statutory audit	1 100	846
Other assurance services	298	71
Tax consultancy	209	299
Other non-audit services	746	2 805
Total fees, EY	**2 352**	**4 021**

5 PENSIONS

KONGSBERG has a service pension plan that consists of a defined contribution scheme and a defined benefit plan and complies with laws and regulations. The service pension plans include all employees of the Group in Norway.

The defined contribution pension scheme

The Group introduced a defined contribution pension scheme as of 1 January 2008 for all employees under 52 years of age. The contribution rates are 0 per cent of salary up to 1G, 5 per cent of salary between 1G and 7,1G, and 11 per cent of salary from 7,1G up to 12G. The employees can influence the way the funds are managed by choosing between three investment options; with either 30, 50 or 80 per cent of their shares in the portfolio. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The Group's deposits in this plan are 18 per cent of the portion of the base salary that exceeds 12G, up to a ceiling of 15G. Special terms and conditions apply for executives. This is described in Note 28 "Statement on the remuneration of the Group CEO and Executive Management" in the consolidated financial statements. The unfunded scheme has been closed for new members since 2015. The supplementary plan has the same investment choices as the main plan. The contributions are expensed as incurred.

The defined benefit plan (YTP)

In connection with the transition to the defined contribution plan on 1 January 2008, employees aged 52 or more remained in the defined benefit plan. The pension plan is insured through DNB Life Insurance. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. Pension costs are distributed over the employee's accrual period. Given a calculated state pension based on the Norwegian National Insurance Scheme's rules before 1 January 2011 and full earnings, the scheme provides approx. 65 per cent of the final salary including National Insurance benefits until the age of 77, after which the service pension section is reduced by 50 per cent for the remaining lifetime. The Group also has a collective, unfunded defined benefit plan for salaries between 12G and 15G. The collective, unfunded benefits plan corresponds to about 60 per cent of the share of the base salary that exceeds 12G until the age of 77, and then the benefit is reduced by 50 per cent for the remaining lifetime. Special terms and conditions apply for executives. This is described in Note 28 "Statement on the remuneration of the Group CEO and Executive Management" in the consolidated financial statements. These supplementary plans were discontinued in connection with the transition to defined contribution pension schemes.

Risk coverage

Disability pension from the Group was changed on 1 January 2016 and will provide an addition to the estimated disability benefits from national insurance. National insurance will cover 66 per cent of the pension basis up to 6G, while the Group plan covers 66 per cent of the pension basis between 6G and 12G. The Group plan also provides an additional 3 per cent of the pension basis from 0G to 12G, a pay increase of 25 per cent of G and any child supplement of 4 per cent per child (maximum 3 children). From 1 January 2016, KONGSBERG has decided to terminate the paid-up policy accrual for disability pensions as part of the adaptation to the new regulations. The employees have been issued individual paid-up policies for the already earned paid-up policy rights. The new scheme is a one-year risk cover and the premiums will be expensed as they accrue. Starting on 1 January 2013, the risk pensions are unfunded for the share of salary that exceeds 12G. In practice this implies that KONGSBERG is self-insurer for the risk pension for future periods. The unfunded scheme has been closed for new members since 2015.

Pension expenses for the year are calculated on the basis of the financial and actuarial assumptions that apply at the beginning of the year. Gross pension liabilities are based on the financial and actuarial assumptions made at year-end.

The year's pension costs were calculated as follows:

MNOK	*2019*	*2018*
Total net pension cost for the year	9	11
Defined contribution scheme costs	6	5

The net pension liability appears as follows:

MNOK	*2019*	*2018*
Total gross pension liabilities	(242)	(232)
Gross value of gross pension assets	32	32
Net pension liabilities	**(210)**	**(200)**
Social security expenses	**(30)**	**(28)**
Net pension liabilities in balance sheet	**(240)**	**(228)**

6 INCOME TAX

Income tax expense

MNOK	*2019*	*2018*
Taxes payable	-	-
Change in deferred tax	(24)	20
Tax income/expense	**(24)**	**20**

MNOK	*2019*	*2018*
Earnings before tax	**(28)**	**1 333**
Tax calculated – 22% (23%t) of earnings before tax	(6)	307
Correction of taxes from previous years		(4)
Group contribution without tax effect	(18)	(299)
Net permanent differences	-	11
Effect of reduced tax rate by 1%	-	5
Tax income/expense	**24**	**(20)**

Deferred tax and deferred tax asset

MNOK	*2019*	*2018*
Pension	53	50
Tax losses carried forward	87	43
Other	(16)	5
Recognised deferred tax asset	**124**	**98**
Tax rate in Norway	22%	22%

Change in deferred tax recognised directly in equity as follows:

MNOK	*2019*	*2018*
Deferred tax asset on capital increase	-	(14)
Pensions	(2)	4
Other	-	(1)
Total	**(2)**	**(11)**

7 LONG-TERM INTEREST-BEARING LOANS AND CREDIT FACILITIES

As of 31 December 2019, Kongsberg Gruppen ASA had the following loans and credit facilities:

	Due date	*Nominal interest rate*	*Carrying amount 31 Dec 19*	*Carrying amount 31 Dec 18*
Bond loan KOG08 - floating interest	2 Jun 21		1 000	1 000
Bond loan KOG09 - fixed interest	2 Jun 26	3.2%	1 000	1 000
Bond loan KOG10 - floating interest	5 Mar 20			550
Bond loan KOG11 - fixed interest	5 Dec 23	2.9%	450	450
Bond loan KOG12 - floating interest	6 Dec 21		500	500
Bond loan KOG13 - floating interest	6 Jun 24		500	500
Total long-term loans			**3 450**	**4 000**
Bond loan KOG07 - fixed interest				250
Bond loan KOG10 - floating interest	5 Mar 20		550	
Total current liabilities			**550**	**250**
Total interest-bearing loans			**4 000**	**4 250**
Credit facility (undrawn borrowing limit)	15 Mar 23		2 300	2 300
Overdraft (unused)			500	500

Kongsberg Gruppen ASA has a syndicated credit facility with Danske Bank, DNB, JP Morgan Chase, Nordea and SEB. The facility is for general business purposes. The facility has a term of five years with an option to extend for one year, twice. The interest rate is NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.55 per cent to 2 per cent. The credit facilities require that net interest-bearing debt shall not exceed four times the EBITDA, but can be up to 4.5 times the figure for three consecutive quarters at the most. The covenants in the loan agreements have been met. There was no borrowings on the facility as of 31 December 2019.

Kongsberg Gruppen ASA had six bond loans at the end of 2019. The bond loans were issued in NOK and listed on the Oslo Stock Exchange.

The interest rate terms on loans with floating rates are 3-month NIBOR with a margin of + 1.25 per cent for KOG08, + 0.9 per cent for KOG10, + 0.86 per cent for KOG12 and + 1.18 per cent for KOG13. The interest conditions for the loans with fixed interest are 3.2 per cent for KOG09 and 2.9 per cent for KOG11.

A new overdraft of MNOK 500 was established. As of 31 December 2019, this remains undrawn.

All loans in the Group are primarily centralised to Kongsberg Gruppen ASA and handled by the Group's treasury unit.

8 GUARANTEES

Kongsberg Gruppen ASA has, in the period from 1999 to 2014, sold properties in the Kongsberg Teknologipark Park. The properties have been leased back on long-term lease and expire from 2017 to 2031. The leaseback contracts have been entered into by Kongsberg Næring-sparkutvikling AS, which is a wholly-owned subsidiary of Kongsberg Eiendom Holding AS, which in its turn is owned 100 per cent by Kongsberg Gruppen ASA. The leaseback contracts are classified as operating leasing agreements.

In addition to lease payments, Kongsberg Gruppen ASA is responsible for certain expenses related to taxes and maintenance of the properties. With the exception of the properties sold in 2007 and 2014, the properties are mainly leased to external tenants. The leases have durations ranging from three months to 15 years. The obligations related to this responsibility were in 2015 transferred to Kongsberg Næringsparkutvikling AS, but Kongsberg Gruppen ASA guarantees that the obligations are observed. Further information on provisions related to these leases is given in Note 25 "Provisions" of the consolidated financial statements.

Prepayment and completion guarantees

Group companies have provided guarantees for prepayments and completion related to customer contracts. The guarantees are issued by Norwegian and foreign banks and insurance companies. Kongsberg Gruppen ASA is responsible for all guarantees.

MNOK	*2019*	*2018*
Guarantees issued by banks and insurance companies	3 521	2 472
Guarantees issued by Kongsberg Gruppen ASA	7 840	5 054
Prepayments and completion guarantees to customers	**11 361**	**7 526**

Kongsberg Gruppen ASA has non-committed framework agreements for guarantees with banks and insurance companies.

9 RELATED PARTIES

Operating revenues

MNOK	*2019*	*2018*
Kongsberg Maritime AS	56	84
Kongsberg Defence & Aerospace AS	47	75
Kongsberg Digital AS	5	7
Kongsberg Maritime CM AS	46	
Other Group companies	6	10
Total operating revenues - related parties	**160**	**176**

Operating revenues from related parties mainly comprises corporate charge and guarantees. The revenues for 2018 include MNOK 38 in insurance revenues from Group companies. From 2019, insurance revenues are recognised net under other operating expenses.

Interest-bearing loans to Group companies

MNOK	*2019*	*2018*
Kongsberg Digital AS	100	100
Kongsberg Næringseiendom AS	100	100
Kongsberg Næringsbygg 2 AS	54	54
Kongsberg Næringsbygg 3 AS	77	77
Kongsberg Næringsbygg 5 AS	96	96
Kongsberg Næringsbygg 11 AS	31	-
KNB13 Brattvåg AS	19	
Kongsberg Protech Systems USA Inc.	-	17
Hydroid Inc	371	459
Kongsberg Maritime Hoi Tung Holding Ltd.	117	110
Kongsberg Maritime do Brasil SA	39	8
Kongsberg Maritime Malaysia Sdn. Bhd	17	17
Kongsberg Defence & Aerospace AS	-	69
Kongsberg Maritime Embient GmbH	-	28
Kongsberg Maritime Contros GmbH	-	16
Kongsberg Maritime Pty Ltd	8	6
Kongsberg Maritime India PVT. LTD	13	16
Kongsberg Digital Brasil BR	8	-
Kongsberg Maritime Inc	70	-
Kongsberg Maritime Pty Ltd	12	-
Kongsberg Maritime Canada Ltd.	17	
Kongsberg Maritime Chile SpA	1	
Kongsberg Maritime Ltd	35	-
Kongsberg Maritime CM AS	1 300	-
Kongsberg Maritime Japan Co Ltd	7	-
Kongsberg Maritime Pty Ltd	2	-
Kongsberg Maritime Turkey Denizcilik Sanayi Ve Ticaret Limited Şirketi	3	-
Other companies	1	-
Total	**2 498**	**1 173**

Current liabilities to Group companies

MNOK	*2019*	*2018*
Kongsberg Defence & Aerospace AS	6	9
Kongsberg Maritime AS	94	6 010
Kongsberg Aviation Maintenance Services AS	195	
Kongsberg Maritime Sweden AB	239	-
Kongsberg Maritime Inc		73
Kongsberg Mesotech Ltd.	109	101
Kongsberg Maritime Ltd.		22
Kongsberg Underwater Technology Inc.		17
Other companies	1	2
Total	**644**	**6 234**

Current receivables to Group companies

MNOK	*2019*	*2018*
Kongsberg Maritime AS	43	182
Kongsberg Defence & Aerospace AS	-	1 300
Kongsberg Basetec AS	40	40
Kongsberg Norcontrol AS		18
Kongsberg Digital AS	1	6
Kongsberg Satellitt Services AS		1
Hydroid Inc	5	12
Kongsberg Maritime Hoi Tung Holding Ltd.	1	1
Kongsberg Digital Brasil BR	1	
Kongsberg Maritime Inc	1	-
Kongsberg Maritime CM AS	20	
Other companies	5	8
Total	**117**	**1 568**

10 CURRENCY HEDGING

As of 31 December, the company had the following net sale foreign currency hedges, divided by hedge category:

	2019							
Amounts in million	*Value in NOK based on agreed rates 31 Dec 19*	*Fair value in NOK 31 Dec 19*	*Total hedged amount in USD as of 31 Dec 19*	*Average hedged rate in USD 31 Dec 19*	*Total hedged amount in EUR 31 Dec 19*	*Average hedged rate in EUR as of 31 Dec 19*	*Total hedged amount in GBP 31 Dec 19*	*Average hedged rate in GBP 31 Dec 19*
Hedge category								
Forward exchange contracts, cash flow hedging	229	(11)	97	8.81	(59)	10.16	(2)	11.99
Total cash flow hedges	**229**	**(11)**	**97**		**(59)**		**(2)**	
Forward exchange contracts, fair value hedges	15 122	(60)	1 428	8.74	215	10.06	31	11.57
Loan hedges, fair value hedges	657	18	73	9.02	3	10.10	3	11.85
Total fair value hedges	**15 779**	**(42)**	**1 501**		**218**		**34**	
Total	**16 008**	**(53)**	**1 598**		**159**		**32**	

	2018							
Amounts in million	*Value in NOK based on agreed rates 31 Dec 18*	*Fair value in NOK 31 Dec 18*	*Total hedged amount in USD as of 31 Dec 18*	*Average hedged rate in USD 31 Dec 18*	*Total hedged amount in EUR as of 31 Dec 18*	*Average hedged rate in EUR as of 31 Dec 18*	*Total hedged amount in GBP 31 Dec 18*	*Average hedged rate in GBP 31 Dec 18*
Hedge category								
Forward exchange contracts, cash flow hedging	(4 064)	67	234	8.52	(60)	9.83	(502)	10.87
Total cash flow hedges	**(4 064)**	**67**	**234**		**(60)**		**(502)**	
Forward exchange contracts, fair value hedges	8 283	(384)	565	8.05	306	9.85	43	10.81
Loan hedges, fair value hedges	402	(1)	62	8.60	(2)	9.83	(2)	10.96
Total fair value hedges	**8 685**	**(385)**	**627**		**304**		**41**	
Total	**4 621**	**(318)**	**861**		**244**		**(461)**	

Foreign exchange options
As of 31 December 2019, Kongsberg Gruppen ASA had no foreign exchange options.

Basis swaps
In 2016, basis swaps totalling MEUR 130 were entered into to hedge net investment in foreign companies. These basis swaps have a fair value of MNOK -63 as of 31 December 2019 (MNOK -86 as of 31 December 2018). Changes in value have not been included in Kongsberg Gruppen ASA's statement in accordance with Norwegian GAAP.

Currency hedges, related parties

Subsidiary

Amounts in million	2019 Value in NOK based on agreed rates 31 Dec 19	Fair value in NOK 31 Dec 19	Total hedged amount in USD 31 Dec 19	Total hedged amount in EUR 31 Dec 19	Total hedged amount in GBP 31 Dec 19
Forward exchange contracts, cash flow hedging					
Kongsberg Maritime	-	-	-	-	-
Kongsberg Defence & Aerospace	229	(11)	97	(59)	(2)
(No internal counterparty)	-	-	-	-	-
Total cash flow hedges	**229**	**(11)**	**97**	**(59)**	**(2)**
Forward exchange contracts, fair value hedges					
Kongsberg Maritime	3 784	(80)	323	97	5
Kongsberg Digital	289	(2)	13	9	1
Kongsberg Defence & Aerospace	11 004	(25)	1 092	109	25
(No internal counterparty)	45	47	-	-	-
Total fair value hedges	**15 122**	**(60)**	**1 428**	**215**	**31**
Total of forward rates	**15 351**	**(71)**	**1 525**	**156**	**29**

Amounts in million	2018 Value in NOK based on agreed rates 31 Dec 18	Fair value in NOK 31 Dec 18	Total hedged amount in USD 31 Dec 18	Total hedged amount in EUR 31 Dec 18	Total hedged amount in GBP 31 Dec 18
Forward exchange contracts, cash flow hedging					
Kongsberg Maritime	47	-	5	-	-
Kongsberg Defence & Aerospace	1 309	(8)	229	(60)	(2)
(No internal counterparty)	(5 420)	75	-	-	(500)
Total cash flow hedges	**(4 064)**	**67**	**234**	**(60)**	**(502)**
Forward exchange contracts, fair value hedges					
Kongsberg Maritime	2 685	(130)	283	37	1
Kongsberg Digital	334	(14)	17	7	2
Kongsberg Defence & Aerospace	5 240	(239)	262	262	40
(No internal counterparty)	24	(1)	3	-	-
Total fair value hedges	**8 283**	**(384)**	**565**	**306**	**43**
Total of forward rates	**4 219**	**(317)**	**799**	**246**	**(459)**

Associated companies

	2019				2018			
MNOK	*Value in NOK based on agreed rates 31 Dec 19*	*Fair value in NOK 31 Dec 19*	*Total hedged amount in USD 31 Dec 19*	*Total hedged amount in EUR 31 Dec 19*	*Value in NOK based on agreed rates 31 Dec 18*	*Fair value in NOK 31 Dec 18*	*Total hedged amount in USD 31 Dec 18*	*Total hedged amount in EUR 31 Dec 18*
Forward exchange contracts, fair value hedges								
Kongsberg Satellite Services	1 495	(53)	128	42	1 150	(60)	87	45

11 CASH AND CASH EQUIVALENTS

Nominal amounts in MNOK	*2019*	*2018*
Bank deposits, operating accounts	(221)	5 862
Money market funds	510	801
Total	**289**	**6 663**

Bank guarantees amounting to MNOK 10 (MNOK 10 in 2018) have been furnished for funds related to withholding tax for employees.

The Group's liquidity management is centralised in Kongsberg Gruppen ASA and handled by the Group's treasury unit.

Statement from the Board

KONGSBERG GRUPPEN ASA

We hereby confirm, to the best of our conviction, that the financial statements for 1 January to 31 December 2019 have been drawn up in compliance with recognised accounting standards, and that the information disclosed therein gives a true picture of the enterprise's and the Group's assets, liabilities, financial position and performance as a whole, and that the information disclosed in the Directors' report gives a true picture of the progress, profits and position of the enterprise and the Group, as well as a description of the most central risk and uncertainty factors facing them.

Kongsberg, 19 March 2020

Eivind Reiten
Chairman

Per A. Sørlie
Director

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Deputy chair

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
Chief Executive Officer

AUDITOR'S REPORT 2019

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Kongsberg Gruppen ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kongsberg Gruppen ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2019, the income statement, and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2019, income statement, statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Recognition of revenue from customer contracts over time

A large part of the Group's revenues are derived from customer contracts recognised over time. The process of measuring the progress towards complete satisfaction of the performance obligations and selecting the method of measuring this progress, involves judgement and estimates by the management. It may be uncertainty in relation to the transaction price, allocation of the transaction price, and in the estimated costs in fulfilling the contract. The recognition of revenue from customer contracts over time is a key audit matter, due the extent and complexity of ongoing projects in the Group with different duration, and where management exercises judgement to estimate the progress, including expected transaction price and costs to fulfil the contract.

We evaluated the application of accounting principles, methods for estimating the projects' progress, routines for monitoring projects and tested controls over estimating projects' progress, estimation of expected transaction price and costs to fulfil the contract. We discussed estimated total project costs, including provisions for guarantees, with project management. We evaluated these estimates against comparable projects and analysed the development in margins for selected projects and the project portfolios. For a selection of contracts, we tested estimated revenues against agreements, incurred costs against invoices and hours against project reports, and assessed the total estimated project costs. In addition, we have analysed actual margins on a selection of completed contracts against estimated total margins during the project period in order to evaluate management's accuracy in judgments and estimates.

We refer to note 2 for details on estimation uncertainty and note 8 on customer contracts in the financial statements for further information.

Acquisition of Roll-Royce Commercial Marine

Kongsberg acquired all the shares of Rolls-Royce Commercial Marine (RRCM) at 1 April 2019. The final purchase price was agreed in October 2019 to NOK 6 185 million. The company carried out, with the assistance of third-party valuation specialists, an assessment of fair value of identifiable assets acquired and liabilities assumed in the acquired company. It is recognised net values over book value of NOK 611 million and goodwill of NOK 2 272 million. The final purchase price allocation and assessment of goodwill will be carried out in the interim financial statements of the first quarter 2020. The assessment of fair value of intangible assets is judgmental and complex, and the acquisition and initial consolidation has a significant impact in the financial statements of Kongsberg and hence we considered this as a key audit matter.

We reviewed and assessed the accounting principles and discussed the methods of assessing the fair value of customer relations, brands and technology with the management and third-party valuation specialists. We tested the basis for the purchase price allocation and assessed the completeness of the assets acquired and liabilities assumed by reading the share purchase agreement, due diligence reports, board minutes, and the final agreement after the closing negotiations in October 2019. We also had discussions with management to review the adjustments that has been done during the measurement period with effect on the recognised preliminary amounts on the transaction date.

We refer to note 6 acquisitions in the financial statements for additional information.

Other information

Other information consists of the information included in the Company's annual report and sustainability report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the report on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the report on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 19 March 2020

ERNST & YOUNG AS

Finn Espen Sellæg
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Financial calendar

ANNUAL GENERAL MEETINGS

The ordinary Annual General Meeting will be held on
Wednesday 14 May 2020

PRESENTATION OF QUARTERLY RESULTS

Q1: 8 May 20
Q2: 15 July 20
Q3: 30 October 20

Ticker code: KOG (Oslo Stock Exchange)

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Disclaimer: In the event of any discrepancy between the Norwegian and English versions of KONGSBERG's Annual Report and Sustainability Report 2019, the Norwegian version is the authoritative one.

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