KONGSBERG

ANNUAL REPORT AND SUSTAINABILITY REPORT 2018

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01

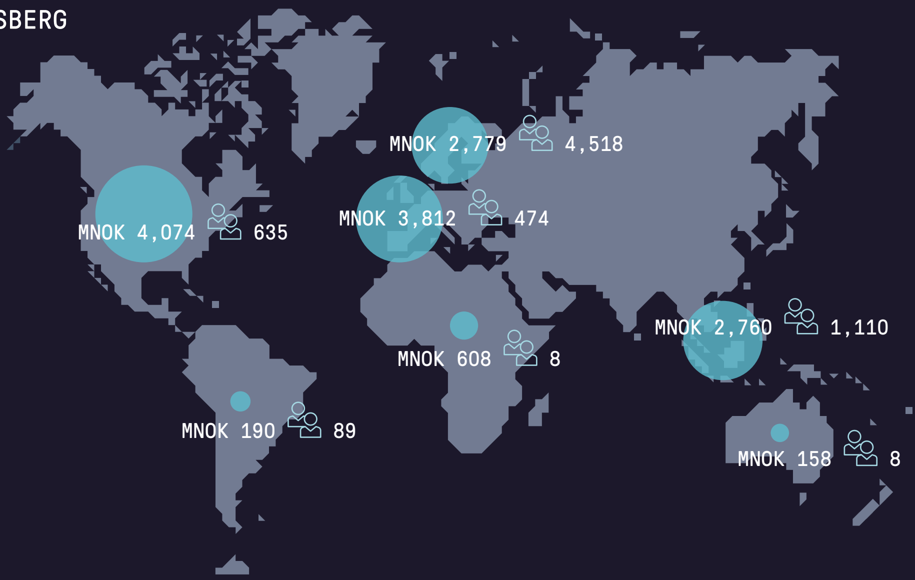
YEAR 2018

Key Figures 2018

MNOK	2018	2017	2016	2015	2014	2013	2012 1)	2011 1)	2010	2009
SALES										
Revenues	14 381	14 490	15 845	17 032	16 613	16 323	15 652	15 128	15 497	13 816
New orders	16 574	13 430	14 319	15 238	22 097	15 043	14 605	15 016	13 584	17 605
Order backlog	17 283	15 629	16 914	19 597	21 020	15 687	16 523	17 839	17 759	19 892
Book-to-bill ratio	1.15	0.9	0.9	0.9	1.3	0.9	0.9	1.0	0.9	1.4
PERFORMANCE										
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	1 394	1 279	1 217	1 784	2 060	2 142	2 294	2 385	2 485	1 619
Earnings before interest, taxes and amortisation (EBITA)	1 038	886	835	1 405	1 718	1 797	1 971	2 123	2 216	1 376
Earnings before interest and taxes (EBIT)	945	772	692	944	1 258	1 659	1 840	2 026	2 113	1 263
Earnings before taxes (EBT)	844	654	729	944	1 285	1 644	1 809	1 991	2 097	1 169
Profit for the year	704	559	651	755	880	1 225	1 304	1 418	1 500	828
PROFITABILITY										
EBITDA %	9.7%	8.8%	7.7%	10.5%	12.4%	13.1%	14.7%	15.8%	16.0%	11.7%
EBITA %	7.2%	6.1%	5.3%	8.2%	10.3%	11.0%	12.6%	14.0%	14.3%	10.0%
EBIT %	6.6%	5.3%	4.4%	5.5%	7.6%	10.2%	11.8%	13.4%	13.6%	9.1%
BALANCE SHEET										
Equity	12 626	7 365	6 725	6 127	6 282	6 657	6 274	5 484	4 881	3 726
Equity ratio %	45.7	35.6	31.7	32.0	31.0	38.2	38.6	35.1	35.0	30.0
Net interest-bearing debt	(5 706)	384	2 195	(941)	(3 551)	(1 935)	(1 198)	(2 191)	(1 813)	(634)
Working capital 1)	(14)	955	2 533	2 698	155	775	1 000	(644)	(522)	(220)
ROACE 2)	12.5	9.1	8.2	21.8	35.9	32.5	36.3	51.6	65.2	34.8
EMPLOYEES										
Number of employees, total	6 842	6 830	7 159	7 688	7 664	7 493	7 259	6 681	5 681	5 423
Number of reported injuries per million hours worked (TRI)	1.6	3.2	3.5	4.1	4.7	3.7	1.5	1.7	6.3	5.5
Number of lost time days per million hours worked (ISR)	17.6	16.2	32.0	14.2	45.3	15.6	13.6	1.1	22.3	58.2
THE ENVIRONMENT										
Energy consumption (GWh)	131.2	124.4	122.8	119.35	123.7	127.0	114.7	108.9	103.2	100.0
CO_2 emissions (metric tonnes)	35 466	32 517	33 464	39 268	26 006	25 294	19 579	22 747	20 005	12 980
Waste (metric tonnes)	1 888	1 884	1 986	2 368	1 788	1 935	1 784	1 622	1 772	1 473
OWNERS' VALUE										
Market capitalisation	21 167	18 120	14 940	17 400	14 760	15 300	14 940	13 920	15 960	10 590
Earnings per share after tax (EPS) in NOK	5.58	4.62	5.44	6.23	7.28	10.24	10.91	11.83	12.46	6.83
P/E in NOK	30.20	32.70	22.95	23.05	16.77	12.49	11.46	9.82	10.64	12.92
Dividend per share in NOK	2.50	3.75	3.75	4.25	9.25	5.25	3.75	3.75	3.75	2.00

1) The figures have been revised in accordance with the description in Note 32. For other years, this change has not been taken into account.
2) See Note 32 for definitions.

KEY FIGURES – KONGSBERG



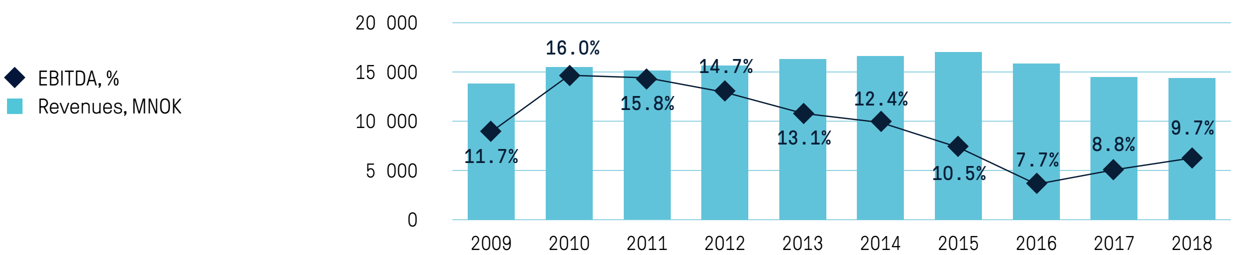
REVENUES

MNOK 14,381

Kongsberg Defence & Aerospace 42.4%
Kongsberg Maritime 52.5%
Other 5.1%

EBITDA MNOK 1,394	EBIT MNOK 945	PROFIT FOR THE YEAR MNOK 704
DIVIDEND PER SHARE NOK 2.50	EARNINGS PER SHARE AFTER TAX NOK 5.58	MARKET CAPITALISATION MNOK 21,167

HISTORICAL DEVELOPMENT



KEY FIGURES – BUSINESS AREAS

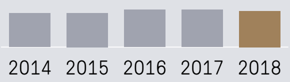
Kongsberg Defence & Aerospace

2,448

REVENUES

MNOK 6,104

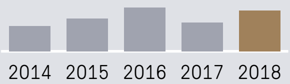
-3.6% from 2017



EBITDA

MNOK 863

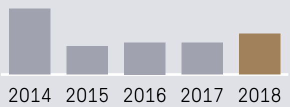
+41.0% from 2017



NEW ORDERS

MNOK 6,885

+28.1% from 2017



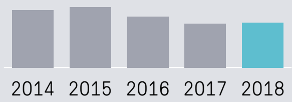
Kongsberg Maritime

3,794

REVENUES

MNOK 7,545

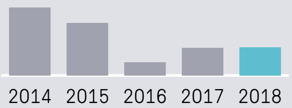
+1.6% from 2017



EBITDA

MNOK 594

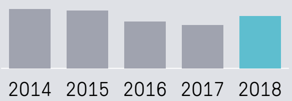
+0.8% from 2017



NEW ORDERS

MNOK 8,884

+21.1% from 2017



Other activities

600

REVENUES

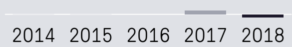
MNOK 732

+0.5% from 2017

EBITDA

MNOK -63

-180.8% from 2017

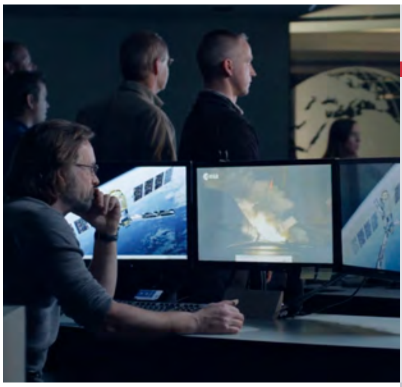


NEW ORDERS

MNOK 805

+12.1% from 2017

Important milestones 2018



KONGSBERG

- Successful share flotation with high level of participation from shareholders.
- Voted by students as one of the top three most attractive technology companies in Norway. KONGSBERG remains one of Norway's most attractive employers
- The acquisition of Rolls-Royce Commercial Marine reinforces KONGSBERG's positioning as a supplier of complete solutions to the maritime industry
- The acquisition of Aerospace Industrial Maintenance Norway strengthens KONGSBERG's positioning as a strategic partner for the Norwegian Armed Forces' operational needs

KONGSBERG DEFENCE & AEROSPACE

- Naval Strike Missile chosen for the US 'Over-the-Horizon' programme
- Naval Strike Missile sold to Malaysia
- Chosen as the supplier of remote weapon stations, communication, digitisation, etc. for a major vehicle programme in Qatar. Final contract negotiations are ongoing
- Chosen as the supplier for the next phase of the US CROWS programme

Photo: Courtesy of Knud E. Hansen

KONGSBERG MARITIME

- Order intake of almost MNOK 9,000, an increase of over MNOK 1,500 compared with 2017
- Entered into significant agreements for major integrated system solutions from companies including Awilco and Grimaldi
- Contract for the delivery of the Safety and Automation system for phase two of the Johan Sverdrup development on the Norwegian shelf
- Order intake exceeding MNOK 3,000 for the first time for subsea

KONGSBERG DIGITAL

- Important orders from the Singapore Police for Maritime Simulation
- Around 25 per cent higher order intake in 2018 compared with 2017

President and CEO Geir Håøy

2018 can be summed up as one of the most eventful years in KONGSBERG's history. We have made major strategic investments and taken positions that will change our size and importance. At the same time, delivery has been high throughout the organisation and the underlying performance is solid.

"An eventful year that will change KONGSBERG"

I want to start by thanking our shareholders for their support in connection with the acquisition of Rolls-Royce Commercial Marine (RRCM). In November, KONGSBERG asked shareholders to take part in a rights issue to provide BNOK 5 that was required for financing the acquisition. At the end of the warrant period, more than 99.2 per cent of the shareholders had signed up. Now it is up to us to repay their trust and do everything we can to secure a good return for our owners.

The acquisition of RRCM was necessary to scale our business. By joining our complementary product portfolios, we will be able to continue being a world-leading supplier of products, systems and services for our customers.

Much like us, RRCM has experienced demanding markets. Together, we believe that we are able to create a solid and profitable business, even without any considerable improvements in the market. We are convinced that we have made the right choice. The integration will make KONGSBERG better equipped to deliver seamless and complete vessel solutions, which will form the maritime industry in the future.

In 2018, KONGSBERG's defence area continued to deliver good results, and there have been a number of significant break-throughs this year. In March, KONGSBERG signed a strategic cooperation agreement with Qatar for long-term development programmes within the defence, maritime industry and digitalisa-tion areas. KONGSBERG confirm-ed its world-leading position within remote weapon stations in 2018 through the continuation of the CROWS agreement with the U.S. Army. Our deliveries to the F-35 fighter aircraft are increas-ing, and the rate of production is now twice as high as it was only two years ago.

KONGSBERG started developing a new, advanced anti-ship missile, the Naval Strike Missile (NSM), for the Norwegian Armed Forces in 1996. The development process was scheduled to take more than ten years. Up to 2018, the missile was operational in two countries: Norway and Poland. It was also selected as the new anti-ship missile in Malaysia and Germany. In April, a contract was signed for the delivery of the Naval Strike Missile to Malaysia.

In late May/early June, the U.S. Navy announced that the NSM would be used as the anti-ship missile for its Littoral Combat Ships and future frigates. This marks the beginning of what could be several decades of deliveries to the biggest missile market in the world, which in turn will be an important reference for other markets.

KONGSBERG and US company Raytheon are cooperat-ing in several areas. 2018 marked the 50th anniversary of this partnership. Within air defence, KONGSBERG and Raytheon have had great success with NASAMS since 1996.

Our joint venture for submarines with thyssenkrupp Marine Systems and Atlas Elektronik from 2018 is now in operation. Here, kta naval systems SA will supply combat systems to Norwegian and German submarines as well as to other nations in the decades to come. The agreement with Germany also involves great opportunities for NSM in relation to the German Navy.

Towards the end of the year, KONGSBERG announced the acquisition of Aerospace Industrial Maintenance Norway AS (AIM). This will make us an even more attractive operational partner for maintenance services on military aircraft and heli-copters for organisations such as the Norwegian Armed Forces. To further improve delivery capacity and expertise, KONGSBERG has signed an agreement with Patria on shared ownership, where KONGSBERG is the majority owner with 50.1 per cent, and Patria owns the remaining shares.

In 2018, Kongsberg Maritime (KM) increased its operating revenues for the first time since 2015. We have also been able to stay profitable in a demanding market. This has been achieved through focusing on cost and prioritising where to invest our efforts. We have focused on improvements and have worked hard to increase our margins.

Some opportunities have been left unexploited, while we have strengthened and taken positions within areas such as autonomy, digitalisation and aquaculture. The total order intake is over 30 per cent higher in 2018 than in 2017 for the

"In late May/early June, the U.S. Navy announced that the NSM would be used as the anti-ship missile for its Littoral Combat Ships and future frigates."

"The acquisition of Rolls-Royce Commercial Marine was necessary to scale our business. By joining our complementary product portfolios, we will be able to continue being a world-leading supplier of products, systems and services for our customers."

divisions that deliver to the new build market (Vessel Systems and Solutions). In the traditional vessel markets, improvement comes particularly from the bulk carrier, shuttle tanker and LNG markets. Traditional offshore markets such as supply and drilling are still weak, but the order intake has developed positively for both offshore production vessels and construction vessels compared to 2017.

In 2018, we followed up on our strategy for increased scope of delivery through integrated solutions. We won several large contracts for integrated solutions, including Awilco's semi-submersible drilling rig and nine Ro-Ro vessels to the Grimaldi Group.

The Subsea division shows an all-time high order intake, with total orders of over MNOK 3,000 in 2018. There was a particularly high order intake from hydrography and fisheries, as well as from the market for autonomous underwater vessels (AUV). This applies to both the Norwegian and American segments of the business.

Kongsberg Digital (KDI) had a weak order intake in the first half of the year, especially within maritime simulation. The order intake improved significantly in the second half of the year, and order intake was 25 per cent higher in 2018 than in 2017.

KONGSBERG launched a revised sustainability strategy in 2018 that will run until 2022. Sustainability is not an alternative way of thinking – it is the basis for sound business operations in the decades to come. Technological development is crucial for creating a more sustainable society. Technology companies such as KONGSBERG will play a key role in solving the global environmental and climate challenges facing the world today.

More than 80 per cent of KONGSBERG's turnover is related to the sea, a figure that will increase further with the acquisition of RRCM. We are represented in all the most important areas: fisheries, merchant shipping, oil and gas. KONGSBERG's technology will enable sustainable ocean management, which is high on the UN's agenda.

Sustainable operation will be required for a licence to operate. This applies to both customers, authorities, owners, employees and future generations in the labour market. Our sustainability strategy must be integrated and made operational in all business areas as well as in the individual fields of expertise in the Group's business strategy.

Preparations for the integration with RRCM have been ongoing since the acquisition was announced in July 2018. Both companies are working systematically for a successful integration. It is important that this effort doesn't affect the ordinary activities. Our customers can rely on us to deliver what we have promised. Our top priority has always been and will always be our customers. I am convinced that our customers will get added value from KONGSBERG when RRCM becomes part of the company.

The Group increased its order backlog in 2018, and we are more robust going into 2019 than we were one year ago. As pointed out in the introduction, it has been one of the most eventful years in KONGSBERG's history. This means that we have every opportunity to make KONGSBERG an even larger and stronger company within our respective areas.

Geir Håøy
President and CEO
March 2019

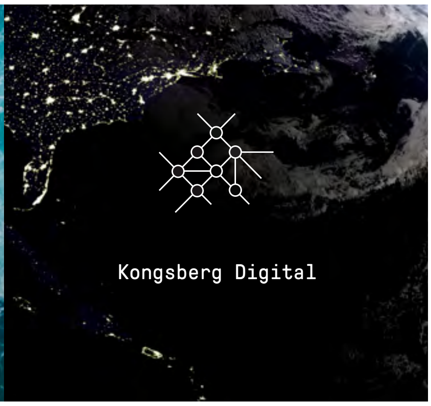
"In 2018, we followed up on our strategy for increased scope of delivery through integrated solutions. We won several large contracts for integrated solutions, including Awilco's semi-submersible drilling rig and nine Ro-Ro vessels to the Grimaldi Group."

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

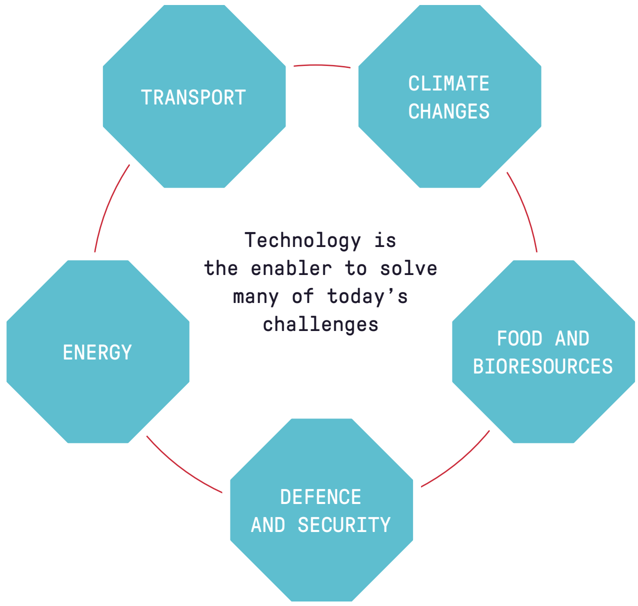
The Group is divided into three business areas and other operations. The three business areas are Kongsberg Defence & Aerospace, Kongsberg Maritime and Kongsberg Digital. Kongsberg Digital is a digital focus area under development which is reported as other activities. Other activities also include real estate business and the corporate staff. The corporate staff provides group governance and support-functions 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

What KONGSBERG delivers is often of strategic importance for our customers, and contributes 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.

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 our position as a leading maritime technology supplier.

Kongsberg Digital

Take the leading position within the digitalisation of maritime and offshore industry.

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.

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.

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.

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 & Chief Executive Officer

GYRID SKALLEBERG INGERØ

Group Executive Vice President & Chief Financial Officer

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, Chief HR & Security Officer

HARALD AARØ

Group Executive Vice President, Business Development and Strategy

EVEN AAS

Group Executive Vice President, Public Affairs

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 Defence & Aerospace

Kongsberg Maritime

Kongsberg Digital

Kongsberg Defence & Aerospace

STRONGER POSITIONS IN THE DEFENCE MARKET

- Integrated Defence Systems
- Space & Surveillance
- Missile Systems
- Aerostructures
- Defence Communications
- Protech Systems
- Patria

Kongsberg Defence & Aerospace (KDA) is a leading supplier of defence products and systems for command and control, surveillance, space, tactical communications, remote weapon stations and missiles, as well as advanced composites and engineering products for aircraft and helicopters. Our products and systems span from underwater to surface, land and air to space.

Integrated Defence Systems

The Integrated Defence Systems division supplies the world's most advanced air defence system in NASAMS, monitoring systems, 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 for supplying exclusive combat systems to tKMS submarines.

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

The U.S. Navy selected NSM for its "Over-The-Horizon" programme.

services related to the processing of satellite data for space and maritime surveillance customers in over 40 countries. The division has 500 employees and is the largest in Scandinavia within the space segment.

Missile Systems

The Missile Systems division has over 50 years' experience from a range of missile programmes. Its products include Penguin, Naval Strike Missile (NSM) and Joint Strike Missile (JSM) that are fired from ships, helicopters and fighter aircraft. KONGSBERG is the world's only supplier of 5th generation long-range precision strike missiles with stealth capabilities. The U.S. Navy recently chose the NSM for its OTH programme (Over-The-Horizon Weapon-System).

Aerostructures

The 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 high-quality ruggedised

"We are continuing to strengthen our position in important technology areas and markets. In the last year, we have established new positions within missiles for the USA. The development of the Joint Strike Missile is now completed and ready to be integrated with the F-35 fighter plane. We have commenced cooperation with Germany on submarines and missiles, strengthened in terms of helicopter maintenance and won new, strategic contracts within space, air defence and weapon stations. All in all, this will be significant for our development for many decades to come."

Eirik Lie – President, Kongsberg Defence & Aerospace radios and radio links used in advanced tactical communication systems. The tactical communication solutions are used in more than 30 countries.

Protech Systems
The Protech Systems division is a world leading supplier of remote weapon stations. The systems allow soldiers to operate from a protected position inside the vehicle. Protech Systems has since 2001 delivered more than 20,000 systems to 20 nations. In 2017, deliveries of the MCT-30 started, a Medium Caliber Turret based on the same technology as PROTECTOR RWS.

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 some 2,800 employees, and holds 50 per cent of the shares in Nammo. KONGSBERG holds 49.9 per cent of the shares in Patria.

Kongsberg Combat Demonstrator is a collaboration between Integrated Defence Systems, Protech Systems, Defence Communications and Patria.

Kongsberg Maritime

WELL PLACED FOR FUTURE GROWTH

- Acquisition of Rolls-Royce Commercial Marine
- Offshore
- Seaborne Transportation
- Subsea
- Emerging Business

Kongsberg Maritime (KM) is a world-leader in the development and delivery of integrated vessel concepts for traditional merchant vessels and fishing vessels, as well as offshore and research vessels and offshore installations. KM supplies products and systems for advanced mapping surveying, sonars, underwater communication, marine robotics (Unmanned Surface Vessel [USV] and Autonomous Underwater Vehicle [AUV]) and underwater cameras for, among other things, research, fishing and defence vessels, as well as aquaculture installations.

Acquisition of Rolls-Royce Commercial Marine

In July 2018, KONGSBERG announced the acquisition of Rolls-Royce Commercial Marine (RRCM). The two companies have complementary portfolios, as well as a world-class support network. With nearly double the amount of expert personnel and global locations, the expanded KM portfolio will be the future of maritime activities, with products and integrated solutions.

KM is a world leader in integrated vessel concepts within the offshore market.

Offshore

Our offshore product and solution portfolio positions KM as a market leader in advanced dynamic positioning technology, and offers a well-established and highly regarded range of integrated navigation and automation solutions. Other areas of expertise include information management solutions, cargo handling systems and process automation. KM's complete portfolio for the offshore market is designed with smart improvement and safe, profitable operations in mind. KM is positioned as a key supplier to all the major operators in all offshore and oil and gas markets globally.

Seaborne Transportation

To the merchant marine and passenger market KM delivers systems for integrated marine automation and navigation, cargo management and level sensors, temperature sensors and pressure transmitters. KM's bridge systems ensure safe, efficient passage for vessels globally, while the control and monitoring technology continues to introduce new efficiencies for ships, enabling smarter, more profitable operation through fuel reduction, hybrid solutions and process automation.

Subsea

Our subsea technology is applied predominantly in the offshore, oil

"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 have."

Egil Haugsdal – President, Kongsberg Maritime and gas, surveying (seabed mapping, surveying and research), defence, fisheries & aquaculture, subsea construction and oceanography industries. KM's products and systems are based on highly innovative, pioneering hydroacoustic technology and sensors, advanced signal processing and expert knowledge in underwater engineering. The extensive portfolio includes leading single and multibeam echo sounders, sonars, underwater vehicles and subsea transponders, in addition to advanced software for data processing, products for search and rescue, and defence applications.

Emerging Business

Always aiming to be at the forefront of new technologies and applications, we are dedicated to supporting important emerging growth markets in maritime and offshore industries such as autonomy, satellite positioning, hybrid solutions and on-deck handling equipment. These areas, and other emerging interests, have significant synergies with KM's core profile and are generating major technology development and sales opportunities.

KONGSBERG is working together with Ocean Farming to develop the world's first digital ocean farm, Ocean Farm 1. The first generation of farmed fish was harvested in January 2019.

- Kognifai – Kongsberg Digital Platform
- Maritime Digital Ecosystem and Vessel Insight
- Dynamic Digital Twin for Oil & Gas
- Other Solutions for Oil & Gas
- Renewable Energy and Power Supply
- Maritime Simulation

Kongsberg Digital (KDI) was established in 2016 to deliver next-generation software and digital solutions to customers within the maritime, oil and gas, renewable energy and the power supply industry. KDI has leading domain and digital expertise within areas that support increased automisation and autonomous operations in the industry.

Kognifai – Kongsberg Digital Platform

Kognifai is KONGSBERG's digital and 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.

Maritimt Digital Ecosystem and Vessel Insight

Given KONGSBERG's extensive maritime footprint, it is natural that the group has the ambition to create a standardised ship-to-cloud infrastructure, thereby establishing a digital ecosystem for the maritime sector. This infrastructure is called Vessel Insight and is based on Kognifai.

Vessel Insight consists of two main components. The first is

Dynamic Digital Twin provides greater opportunities for value creation in the oil and gas sector.

an Edge PC installed in the ship, which collects data and acts as a portal to Kognifai. The other is the ability to structure, store and process data in the cloud through Kognifai. Together, these components give customers the ability to connect ships, retrieve data for use in analyses, as well as develop or download value-creating applications at the top.

Dynamic Digital Twin for Oil & Gas

In its simplest form, a digital twin is a digital replica of processes and devices. Advanced digital twins, such as Dynamic Digital Twin, have greater capabilities within value creation, the changing of work streams and increased production within oil and gas. A number of elements differentiate our digital twin from others on the market. Our highly accurate simulator which, combined with the other processes, enables continuous automatic testing of different scenarios, prediction and production optimisation. Dynamic Digital Twin makes remote control and fully-autonomous platforms possible.

Other Solution for Oil & Gas

During drilling operations, we can combine data collection and visualisation in real time with well safety and performance optimisation, as well as applications for operational analysis

"Kongsberg Digital's unique position is in the ability to combine long and extensive industrial insight with cutting-edge digitisation expertise. With this interface, we are creating solutions and software that drive the digital transformation in the industries and in individual companies in the future."

Hege Skryseth – President, Kongsberg Digital and decision support. In addition, we have solutions that increase production efficiency using real-time simulators for design, multi-phase flow and training.

Renewable Energy and Power Supply

KONGSBERG's portfolio of digital solutions for the operational optimisation of wind farms and EmPower is run on the Kognifai platform. The system includes complete real-time performance monitoring, maintenance forecasts and product optimisation, which will improve operational efficiency.

In the energy sector, we are working together with a range of stakeholders in the industry on developing a dynamic digital twin and smart grid functionality through virtual sensors, as well as giving these companies a web-based tool for balancing and flexibility.

Maritime Simulation

KDI has market-leading simulator solutions that 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.

Kognifai consolitdates our existing platforms making new functionality and new solutions available to our customers.

THE WORLD OF KONGSBERG

Number of employees | Number of suppliers | Value added MNOK | Investments MNOK

	Number of employees	Number of suppliers	Value added MNOK	Investments MNOK
Total	6 842	7 768	14 381	230
Europe	73.0%	77.5%	73.5%	91.3%
Asia	16.2%	11.8%	12.0%	3.9%
North America	9.3%	7.8%	13.3%	3.9%
Central and South America and the Antarctic	1.3%	1.9%	0.9%	0.9%
Oceania	0.1%	0.4%	0.2%	0%
Africa	0.1%	0.1%	0.1%	0%

Refer to notes, pages 29-33

For 2018 the total number of suppliers is shown; for 2017 the number of suppliers that invoiced KONGSBERG for more than NOK 50,000 is shown. We have improved our reporting for suppliers in 2018, which means that the figures cannot be compared directly. 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

Norway

Employees **4.518 (4.421)**
Number of suppliers[1)] **3.623 (2.050)**
Value added[2)] **MNOK 9.222 (9.036)**
Investments **MNOK 188 (267)**

Great Britain

Employees **70 (140)**
Number of suppliers[1)] **581 (135)**
Value added[2)] **MNOK 267 (393)**
Investments **MNOK 10 (6)**

Rest of Europe

Employees **189 (206)**
Number of suppliers[1)] **1.493 (481)**
Value added[2)] **MNOK 959 (770)**
Investments **MNOK 7 (10)**

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 Satellite Services AS has ground stations for satellite data, such as in the Antarctic and on Svalbard.

Kongsberg Maritime has operations for development, production, testing, sales and service in Kongsberg, Horten, Ulsteinvik, 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.

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

Kongsberg Maritime's headquarters for offshore activities in the UK are located in Aberdeen. We also have offices in Wick, Waterlooville and Great Yarmouth. Opeartions include product development, manufacturing, sales and support. In addition, we have an office in the Bridge of Don for production of cameras.

Poland

Employees **215 (189)**
Number of suppliers[1)] **327 (16)**
Value added[2)] **MNOK 128 (105)**
Investments **MNOK 5 (9)**

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

Kongsberg Maritime carries out service and project support in Szczecin.

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

At Arsenalet in Norway, KDA is engaged in activities such as maintenance and composite solutions.

Asia

KM has built up a significant business in China.

China

Employees **464 (500)**
Number of suppliers[1)] **254 (10)**
Value added[2)] **MNOK 322 (326)**
Investments **MNOK 3 (2)**

Kongsberg Maritime has built up a significant business in China. The business area is a local supplier to the Chinese shipbuilding industry, with offices in Shanghai, Dalian, Guangzhou and Zhenjiang. In Zhenjiang, we have a production unit that includes an electromechanical assembly line where we manufacture consoles, cabinets and sensors. We also have a centre with CNC machines where we produce mechanical components and precision mechanics.

South Korea

Employees **163 (167)**
Number of suppliers[1)] **431 (11)**
Value added[2)] **MNOK 660 (759)**
Investments **MNOK 2 (4)**

Kongsberg Defence & Aerospace has a sales office in Seoul.

Kongsberg Maritime's main operations in South Korea are located in Jungkwan outside of Busan. For several years, we have been building up a local presence in the world's largest shipbuilding nation. The main activities are sales, engineering, installation, commissioning and service/support as well as local manufacturing. In addition, we have offices in Gohyeon, Okpo, Ulsan, Jellanam-do and Gyeongsangnamdo.

India

Employees **267 (230)**
Number of suppliers[1)] **10 (5)**
Value added[2)] **MNOK 108 (93)**
Investments **MNOK 3 (2)**

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.

Middle East

Employees **39 (41)**
Number of suppliers[1)] **26 (6)**
Value added[2)] **MNOK 110 (140)**
Investments **MNOK 0 (1)**

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.

Singapore

Employees **169 (156)**
Number of suppliers[1)] **180 (12)**
Value added[2)] **MNOK 464 (616)**
Investments **MNOK 1 (0)**

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

Kongsberg Maritime's main activities in Singapore are sales, installation, engineering, commissioning, service/support and training. Singapore has one of the largest harbors in the world and is a significant shipowner and shipbuilding nation.

Rest of Asia

Employees **8 (11)**
Number of suppliers[1)] **42 (33)**
Value added[2)] **MNOK 57 (49)**
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 fisheries in Kuala Lumpur, Malaysia.

North America

KM and KDI moved into new offices in Houston.

USA

Employees **537 (552)**
Number of suppliers[1)] **574 (349)**
Value added[2)] **MNOK 1.624 (1.644)**
Investments **MNOK 6 (26)**

Canada

Employees **98 (104)**
Number of suppliers[1)] **35 (56)**
Value added[2)] **MNOK 283 (371)**
Investments **MNOK 3 (0)**

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 operates in Seattle (Washington), Houston (Texas), New Orleans (Louisiana), Pocasset Massachusetts), Long Beach (California) and Arlington (Virginia). In Pocasset operations include development, sales and support of autonomous underwater vehicles (AUV). The other units do sales and customer support. In Seattle they also work with 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.

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 main facility in Canada is located in Vancouver, where they perform product development and manufacturing. The activity in Vancouver is based on hydroacoustic technologies and is coordinated with Kongsberg Maritime's other subsea operations. The business area also has two sales and customer support offices on the east coast, in Nova Scotia and on Newfoundland.

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

Central and South America and Antarctica

Brazil

Employees **63 (75)**
Number of suppliers[1)] **142 (4)**
Value added[2)] **MNOK 87 (112)**
Investments **MNOK 2 (0)**

Kongsberg Maritime's operations in Rio de Janeiro, Brazil, includes sales, service, engineering, commissioning of merchant marine systems and offshore vessels as well as operator training and simulator training.

Mexico

Employees **21 (19)**
Number of suppliers[1)] **0 (0)**
Value added[2)] **MNOK 35 (29)**
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

Medarbeidere **5 (5)**
Number of suppliers[1)] **8 (7)**
Value added[2)] **MNOK 11 (10)**
Investments **MNOK 0 (0)**

Kongsberg Maritime has a service office in Panama.

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 Satellite Services has ground stations for satellite data on Svalbard.

Oceania

Australia

Employees **8 (8)**
Number of suppliers[1)] **32 (14)**
Value added[2)] **MNOK 34 (29)**
Investments **MNOK 0 (0)**

Kongsberg Defence & Aerospace has a marketing office in Canberra.

Kongsberg Maritime has sales and service operations in Perth.

KONGSBERG has an office in Perth – the oil capital of Australia.

Africa

Kongsberg Satellite Services has ground stations all over the world, including in South Africa.

Algeria and South Africa

Employees **8 (6)**
Number of suppliers[1)] **10 (7)**
Value added[2)] **MNOK 9 (8)**
Investments **MNOK 0 (1)**

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.

03

SUSTAINABILITY

About the Sustainability Report

The report covers 2018, and addresses topics of importance to us and our stakeholders. Any significant events from 1 January 2019 to 15 March 2019 will also be mentioned. All figures are related to the 2018 financial year.

The purpose of this report is to give stakeholders who are affected by or interested in our activities information about how KONGSBERG approaches sustainability and social responsibility.

Changes to the reporting platform since the preceding report

There were no major changes in the reporting platform from 2017 to 2018.

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.

Process to define the content

We carry out materiality assessments periodically, and assess ongoing updates in the case of any necessary changes.

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.

In carrying out the materiality assessment, we have also taken into account what our most important stakeholders are concerned with 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.

Framework for the preparation of Sustainability Report

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

The Norwegian state owns 50.001 per cent of the shares in the company. 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 Paper.

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

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.

In 2017 we carried out a materiality assessment to identify the main sustainability topics for KONGSBERG and for our most important stakeholders. This is described in detail on page 42–43.

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

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 2018 fulfils these requirements.

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 on page 74.

Responsible Business Conduct

KONGSBERG has more than 200 years of tradition and history as a defence supplier and technology enterprise. 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.

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 2018, defence business represented about 42 per cent of our turnover.

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 on disarmament.

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.

Oil, gas and merchant marine

Almost half of the Group's activities are related to shipping, oil and gas. The world's needs for energy and transport are increasing. This provides commercial opportunities for the sustainable solutions we are developing together with our partners and customers. Read more about this in the chapter on sustainable innovation.

New technologies and renewable energy sources are rapidly entering the market, but oil and gas will still be important for many years to come. 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.

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.

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.

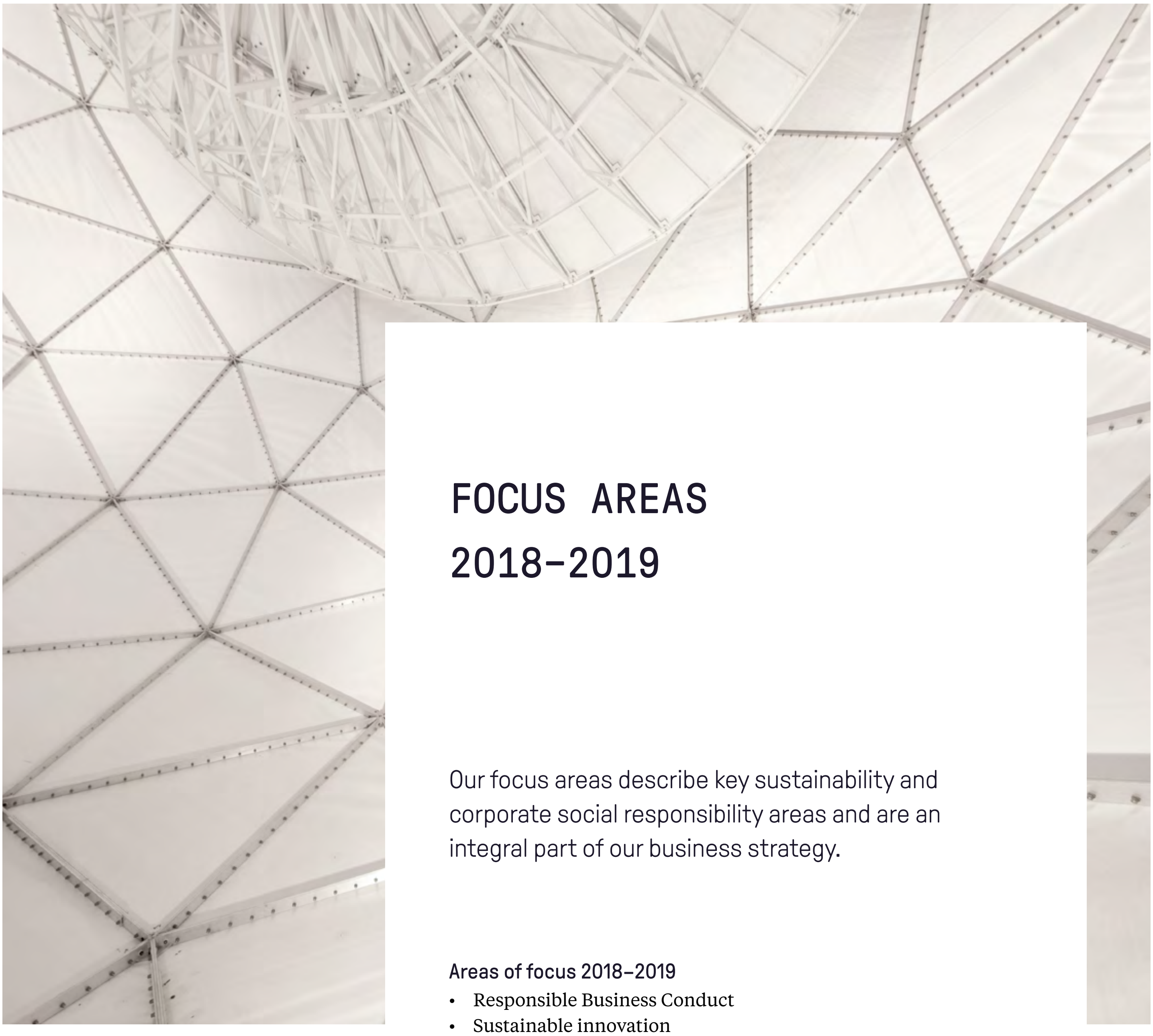
Forum for responsible business conduct
The Forum is a link between the business areas, the corporate staff and Corporate Executive Management on questions related to business ethics, compliance, sustainability and corporate social responsibility. Its main responsibility is to help promote, further develop 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, ISO14001 and ISO27001.

KM and KDI are certified according to ISO9001, ISO14001 and OHSAS18001.

In 2018, KDI and KM prepared a management system for information security, in accordance with ISO 27001, and the plan is to certify the system in the first half of 2019.



FOCUS AREAS 2018–2019

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

Areas of focus 2018–2019

- Responsible Business Conduct
- Sustainable innovation
- Health, Safety and the Environment & People
- Sustainability and Corporate Social Responsibility in the supply chain
- Corporate Social Responsibility

Sustainability strategy and priority

KONGSBERG delivers high-tech products and services to our customers in an international market. Our business strategy provides the direction and principles that form the basis for our success in the future. Our sustainability strategy supports the mapping of risk and opportunities in the markets where we compete. KONGSBERG's technology and expertise could help to address future needs.

Our position

In 2015, our position was clarified through our new strategy "Technology for Global Challenges", based on our business strategy. We have continued this in 2018, and use the UN sustainable development goals in our work in developing the strategy. Our most important contribution to a greener footprint is through technology and solutions for our customers. Applying more sustainable thinking in our innovation also strengthened our global competitiveness.

KONGSBERG has a significant technology and expertise portfolio that includes solutions for aquaculture and food

KONGSBERG supports the Sustainable Development Goals.

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

www.kongsberg.com/investor-relations/reports-and-presentations/

production, sustainable resource management, climate and environmental research, transport and renewable energy.

Technology companies such as KONGSBERG are very important for sustainable ocean resource utilisation. Here we see significant opportunities and KONGSBERG the "ocean expert" will play an important role in exploiting this potential. In 2018, we signed up to the UN initiative for sustainable use and ocean 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

Our challenges

Based on our broad portfolio of products and services, our growth ambitions and current global challenges, we need to be ambitious, always deliver what our customers expect and adapt to the markets we operate in.

Our stakeholders play an important role in defining our most important priorities going forward. We gather input through our continuous contact with business partners, participation in various meeting arenas and in one-to-one meetings. Our materiality assessment focuses on 5 main topics:

- Responsible Business Conduct
- Sustainable innovation
- Health, Safety and the Environment & People
- Sustainability and Corporate Social Responsibility in the supply chain
- Corporate Social Responsibility

On the following pages you can read more about these topics and why they are important for us.

AREA OF FOCUS
2018-2019

ZERO TOLERANCE FOR CORRUPTION

Responsible Business Conduct

"KONGSBERG takes the prevention of corruption very seriously. We have zero tolerance for corruption among our employees, consultants or business associates. As a company with significant international activities, KONGSBERG has implemented a comprehensive anti-corruption programme, and high ethical standards are an integral part of our business."

Geir Håøy, President and CEO

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 at large.

Anti-corruption

KONGSBERG has zero tolerance

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.

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 clearly 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 Board and executive management 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 to and shall be understood by all employees, 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.

Notification of alleged misconduct
The Group has procedures for notification of any breach of the corporate 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 corporate Code of Ethics and Business Conduct. KONGSBERG will not tolerate a whistleblower being 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, whistleblowing, etc., can be directed to the Corporate Compliance Officer by sending an e-mail to: ethics@kongsberg.com or to our global web-based notification channel.

In 2018 we have processed eleven cases internally, mainly concerning the work environment and financial irregularities of a personal character.

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, and customers and parties involved in the transaction 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 2019 to build further expertise.

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 routines to manage this.

Data privacy at KONGSBERG
The EU General Data Protection Regulation (GDPR) came into effect from May 2018. Over the last two 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. 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.

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 it consists of e-learning courses and classroom courses for new employees and line 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.

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 audits.

We carry out periodic evaluation of our compliance and anti-corruption programme. The last occasion was in 2017, when an external compliance audit was carried out of Kongsberg Gruppen ASA's (the parent company) anti-corruption system against the new ISO Standard 37001. The main result was satisfactory and a follow-up plan was established for the identified improvement measures. In 2017 and 2018, KM and KDA performed internal compliance audits against the corresponding criteria.

Law violations in 2018
None of the companies in KONGSBERG were sanctioned due to law violations related to business ethics in 2018.

All our new employees go through a training programme that deals with the Group's Code of Ethics and Business Conduct.

GOALS AND ACTIVITIES
RESPONSIBLE BUSINESS CONDUCT

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

Goals for 2018 – what we said	Status for 2018 – what did we do?	Goals for 2019 – 1 year	Goals for 2020-2023 – 5 years
• Carry out external compliance auditing against ISO standard 37001 "Management systems for anti-corruption" • Assess certifications	• The business areas have carried out compliance audits with satisfactory results, and established action plans for improvement measures • We have assessed our certifications and our conclusion is that we will wait for the standard to become more established internationally	• Follow up of audits that have been carried out against the ISO standard for "Anti-corruption management systems"	• Carry out external evaluation of compliance and the anti-corruption programme every third year
• Revise Code of Ethics and Business Conduct • Further develop and maintain internal policies and procedures	• Our Code of Ethics and Business Conduct was revised in 2018, with effect from 1 March 2019 • Management documents for due diligence compliance regarding business partners, gifts and hospitality, as well as sponsorship, have been revised in 2018, and the changes will take effect in the first half of 2019. • Our supply chain govern-ance documents were revised and distributed in 2018	• Implementation of revised governance documents • Develop and maintain internal governance documents	• Develop and maintain internal governance 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	• We carry out systematic risk analyses as the basis for risk mitigation measures and internal controls. Internal audits are conducted to confirm that internal control is working. This will be further developed and strengthened in the future	• Carry out risk analyses, internal controls and audits to confirm compliance with legislation, rules and internal procedures. Carry out risk reduction measures as needed • Strengthen the internal control function in our compliance department	• Carry out risk analyses, internal controls and audits to confirm compliance with legislation, rules and internal procedures. Carry out risk reduction measures as needed

GOALS AND ACTIVITIES RESPONSIBLE BUSINESS CONDUCT

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

Goals for 2018 – what we said	Status for 2018 – what did we do?	Goals for 2019 – 1 year	Goals for 2020-2023 – 5 years
• Further develop and carry out continuous training	• We have a comprehensive training plan. In 2018, we carried out training with some minor deviations from and delays to the plan. We will strengthen and develop our training in 2019	• Further develop and carry out continuous training	• Further develop and carry out continuous training
• Further develop good forms of cooperation with business partners and other external parties	• We have established a good basis for a common understanding of compliance requirements and the agreement with our business partners. This is followed up systematically during cooperation meetings.	• Maintain and further develop good forms of cooperation with business partners and other external parties	• Maintain and further develop good forms of cooperation with business partners and other external parties
• 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. We have established internal rules and procedures for the follow-up of compliance and notification issues, as well as employee issues in general. We will develop this further in 2019	• Further develop and maintain incentives and KPIs for ethics and integrity, as well as internal rules and procedures for reactions and sanctions	• Maintain and further develop incentives and KPIs for ethics and integrity, as well as internal rules and procedures for reactions and sanctions
• Continue to communicate a clear and distinct “Tone at the Top” to all managers at all levels	• Responsible business operations, including business ethics and compliance, is part of presentations and leadership messages from the CEO and heads of all business areas	• Continue to 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

AREA OF FOCUS 2018–2019

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.

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.

Climate

Our most important contribution is to use our technology and expertise to develop even more climate-friendly solutions for our customers. Our investment in wind power is starting to have an impact in the market, 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

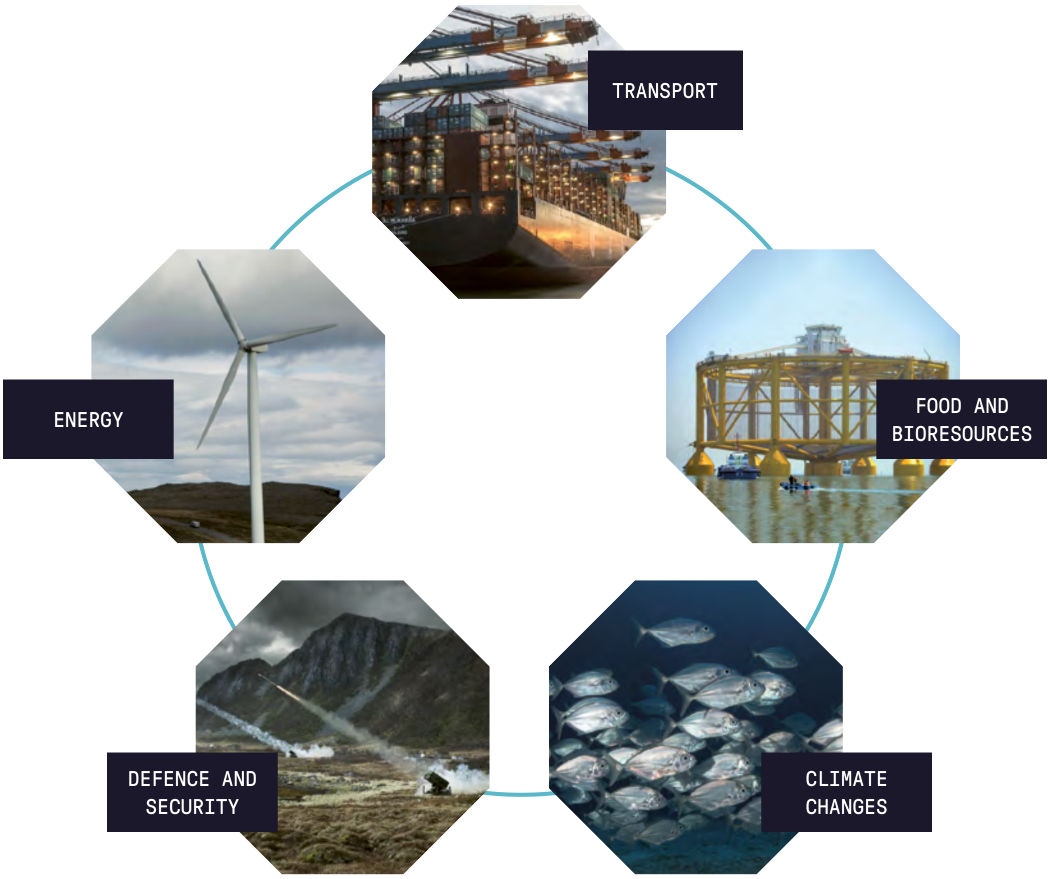
We deliver products and systems to fisheries all over the world, as well as technology that facilitates more sustainable offshore ocean farming. We are a world-leading manufacturer of scientific instruments for research on fisheries. Single beam and multibeam echosounders and sonars are used on research vessels globally, where scientists rely on our technology and precise measurements.

Defence and security

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. Kognifai ensures the full integration of systems and sensors to provide wind farm owners with a comprehensive status-based maintenance system. The system includes real-time performance monitoring, maintenance forecasts and product optimisation, which will improve operational efficiency.



SUSTAINABLE INNOVATION

Yara Birkeland is being built in Norway

Over the next few years, transport from Yara's fertiliser plant in Porsgrunn to Brevik and Larvik will be handled by the Yara Birkeland – the world's first electric, autonomous and zero-emission container ship. In addition to reducing NO_x and CO_2 emissions, Yara Birkeland will improve road safety *by removing up to 40,000 truck loads per year from the roads in populated and urban areas. KONGSBERG is responsible for the development and delivery of all key technology on board the Yara Birkeland. It was announced in August that Yara Birkeland will be built by VARD in Brevik. Norwegian Prime Minister Erna Solberg attended the signing of the agreement between Yara and VARD in Brevik.

Nine Ro-Ro vessels to the Italian Grimaldi Group

In August 2018, it was announced that Kongsberg Maritime, together with the Chinese company Nanjing Jinling Shipyard, had been awarded a contract for nine roll-on/roll-off (Ro-Ro) vessels to the Italian company Grimaldi Group. These are hybrid technology ships powered by electricity when they are docked and by conventional fossil-based fuel during transportation. One Ro-Ro vessel will weigh 64,000 metric tonnes; it will be 238 metres long and 34 metres wide. "We are happy to have secured these contracts that will strengthen our position in the hybrid ship market. The project will involve resources from both Norway and China", says president of Kongsberg Maritime, Egil Haugsdal.

Photo: Courtesy of Knud E. Hansen

SUSTAINABLE INNOVATION

Ocean Farm 1 – The world's first digital ocean farm

There is a global demand for innovation within food production. By the year 2030, global food production must increase by 70 per cent – with less use of resources and a minimal ecological footprint. Two-thirds of the earth's surface is covered with water, but only 2 per cent of this is used for food production. KONGSBERG are working together with Ocean Farming to develop the world's first digital ocean farm, "Ocean Farm 1". The first generation of farmed fish was harvested in January 2019. However, the real leap is expected to come with the "Smart Fish Farm", which will be twice as big as the ocean farm and is set to be launched in 2022.

Satellites for monitoring illegal fishing

Illegal fishing is a global problem and a serious threat to fish populations and marine ecosystems. Kongsberg Satellite Service (KSAT) communicates with satellites every time they pass over the ground station on Svalbard. Much like the Troll research station in Antarctica, they receive information from the satellites that circle the Earth in as little as 100 minutes. In the fight against illegal fishing, these satellites can supply radar images or high-resolution images to identify vessels, etc. Combined with the AIS (automatic identification system), this can help detect vessels that are in places where they are not supposed to be.

Health, Safety and the Environment & People

KONGSBERG is an enterprise based on knowledge and expertise, where the greatest asset is our employees. We must offer a safe, exciting, attractive and evolving workplace to attract a diversity of the right competences and ensure we manage this through our global operations.

Our position

KONGSBERG's vision for health, safety and the environment is zero events, accidents or fatal injuries involving our employees, visitors, customers or partners in our global operations. To achieve this vision, KONGSBERG continuously works on building a strong culture with visible corporate management – a culture where we conduct risk analyses on a frequent basis to implement risk reduction measures. Safety must always come first, and our employees and partners are in-

We will work systematically with HSE to ensure a good working environment, prevent injuries and accidents and work to reduce sickness absence.

structed to stop work if it involves a safety risk. We all have a personal responsibility for making our joint HSE efforts preventive.

We will work systematically with HSE to ensure a good working environment, prevent injuries and accidents and work to reduce sickness absence. There is a focus on increasing the number of reported near-accidents and HSE observations, and these measures will contribute to reduce the number of injuries and accidents. HSE data are collected from all companies in the Group and are reported to the corporate executive management and then to the Board each quarter.

We are committed to prevent discrimination and prevent harassment. We have zero tolerance for unacceptable behaviour and motivate our employees to report such incidents.

Leadership at KONGSBERG is all about creating values 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 Business Conduct and management principles. 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 competencies. 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 puts emphasis on strengthening competences and is continuously working to develop our employees. Individuals and teams who comply with our values and demonstrate good behaviour are to be appreciated. This culture will help us attract people with the right competences 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.

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 (International Labour Organisation) Core Conventions and the OECD Guidelines for Multinational Enterprises.

KONGSBERG will ensure that the salaries and conditions of all employees are in accordance with local legislation, agreements and guidelines.

Diversity and gender equality creates value and makes us more competitive. It expands the mind-set and has a positive influence on the company's strategy and management. Therefore, we work systematically and purposefully to recruit, develop and retain people of different age groups, ethnicity and gender. Diversity must be implemented as a focus of promotion, recruitment and management development, with periodic measurement and follow-ups. The 2018 goal for diversity and gender equality was to increase the share of women in management positions, with a focus on operational positions and international operations. This focus area will be continued in 2019.

Our challenges

We operate in nearly 30 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 the license to operate and are essential for our very existence and our reputation. Our international growth involves new partners and supplier chains, which means increased focus on matters related to human rights and labour rights.

A world of instability and many threats requires a higher degree of information and security of our 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, it 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 6,842 employees should reflect this in relation to the outside world.

From Johnstown, USA

GOALS AND ACTIVITIES HEALTH, SAFETY AND THE ENVIRONMENT & PEOPLE

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

Goals for 2018 – what we said	Status for 2018 – what did we do?	Goals for 2019 – 1 year	Goals for 2020-23 – 5 years
HUMAN RIGHTS AND WORKERS' RIGHTS ▪ Carry out risk assessment related to human rights and employee rights and complete *Due Diligence*	▪ Risk evaluation and *Due Diligence* in the context of human rights and employee rights has been carried out at selected locations with minor deviations ▪ No issues or violations related to the areas were reported in 2018	▪ Carry out risk assessment related to human rights and employee rights and complete *Due Diligence* ▪ Ensure that new companies in the Group have the same focus on this topic	▪ International growth and establishment in new countries leads to increased attention on human rights and employee rights
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 all our international operations 2. Strengthen the focus on social exclusion 3 Female managers in operational positions	▪ We have begun measuring diversity in our international operations and measuring social exclusion and the percentage of female managers in operational positions. These measurements are followed up on a quarterly basis.	▪ We are maintaining our focus on diversity (gender, ethnicity, etc.), gender equality and inclusion with the following: 1. Increase the focus on diversity in all our international operations 2. Strengthen the focus on social exclusion 3. Female managers in operational positions	▪ Further develop our global organisation and actively pursue diversity to foster an environment and a culture where everyone feels included

GOALS AND ACTIVITIES HEALTH, SAFETY AND THE ENVIRONMENT & PEOPLE

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

Goals for 2018 – what we said	Status for 2018 – what did we do?	Goals for 2019 – 1 year	Goals for 2020-23 – 5 years
HSE • Increased reporting of the number of near-accidents and HSE observations to prevent injuries and accidents • Increase the personal commitment of managers and employees through Safe@KONGSBERG	• A targeted 25 per cent increase in reported near-accidents and HSE observations. The increase was almost 150 per cent in 2018 • Positive development and fewer reported injuries and accidents • Establishment of "KONGSBERG Global HSE Day", an annual HSE campaign in KONGSBERG • Safe@KONGSBERG is launched, the Group's own HSE brand • Various campaigns, training and activities, both locally and at Group level	• 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	• Evaluate and follow up goals and processes in the continuous improvement work within the HSE area
ORGANISATIONAL DEVELOPMENT • Continued focus on increasing the completion rate and the quality of the appraisal interviews. • Carry out global employee survey.	• 90 per cent completion rate of appraisal interviews. • Implementation of the global employee survey postponed until Q1 2019.	• Continued focus on increasing the completion rate and the quality of the appraisal interviews • Carry out global employee survey • Mapping strategic competence	• Establish a strategy for continuous competence building among our employees, with a focus on strategic competence, digitalisation and increased globalisation.

HEALTH, SAFETY AND THE ENVIRONMENT

Continuous improvement through training, commitment and focus

One of our goals is to prevent all incidents, accidents or fatal injuries involving our employees, visitors, customers or partners. Safety is always most important. Our HSE culture is built on being proactive, and on transparent reporting, which ensures learning and continuous improvement. The HSE culture will be part of our business processes.

In 2018, KONGSBERG continued working towards our HSE vision. The Group's HSE forum, which consists of HSE managers from all business areas, is responsible for carrying out joint activities that apply to the entire Group. A milestone in 2018 was establishing and arranging KONGSBERG Global HSE Day, where "Awareness" was an overarching topic. Local initiatives adapted to the individual risk environments were encouraged. This event also included the presentation of Safe@Kongsberg, our very own HSE brand.

Our HSE KPIs have also seen a positive development. The number of incidents with and without absence has been reduced. This year there was a focus on reporting more near-accidents and observations, which has contributed to the reduction.

Travel activity is one of our greatest risk areas. Systematic training of managers and employees has helped ensure proper conduct and safe journeys. An emergency team has been established to handle any incident that might occur in connection with our employees' travels.

Going forward, our HSE work will still strive for continuous improvement. In addition, the companies that are set to become part of KONGSBERG in 2019 will provide valuable knowledge.

A fire drill was one of many activities during the "KONGSBERG Global HSE Day". This is from our premises in China.

GENDER EQUALITY AND MANAGEMENT

Diversity and gender equality creates value and makes us more competitive

It expands the mind-set and has a positive influence on the company's strategy and management. The importance of this work is reflected in our HR strategy and by the Board. We work systematically and purposefully to recruit, develop and retain people of different age groups, ethnicity and gender. Recently, the main focus has been on the gender balance. The focus on diversity must be implemented in promotion, recruitment and management development, with periodic measurement and follow-up.

In common with other technology companies, KONGSBERG is facing challenges in that the proportion of women choosing a career in technology continues to be low. In 2018, the percentage of women in technology careers was recorded as 19.9 per cent. The percentage of women in the company is increasing and is now at 22 per cent.

The proportion of female managers at KONGSBERG has also increased noticeably. There are multiple reasons for this. The most important thing is to have ambitions and targets, and then measure the results driving behavioural change. The HR strategy includes several concrete measures supporting these targets.

One of our initiatives to motivate women to apply for management roles has been Female Forum. The intention behind the forum is to give female managers an opportunity to meet and use the network as a tool. In 2018, Female Forum was implemented in China, in addition to Norway.

Within the recruitment of women, for example, we have in recent years worked actively internally to bring women into senior positions, and externally to help more women choose a career in technology. A key factor has been awareness when hiring new managers. This has produced results, and is a consequence of targeted work and concrete measures.

In 2018, Female Forum was implemented for the first time in China.

AREA OF FOCUS 2018-2019

QUALITY AND SAFETY THROUGHOUT

17 PARTNERSHIPS FOR THE GOALS

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 7,000 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

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.

use suppliers. The suppliers are an 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.

Reduction of risk gives increased quality.

GOALS AND ACTIVITIES SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY IN THE SUPPLY CHAIN

GOALS:
We will follow up annual action plans prepared by each individual business area

Goals for 2018 – what we said	Status for 2018 – what did we do?	Goals for 2019 – 1 year	Goals for 2020-23 – 5 years
• Revise management documents for the supply chain to increase efficiency and clarify requirements	• Our "Supplier Conduct Principles" requirements and our internal regulations for risk assessment and follow-up of the supply chain were updated in 2018	• Carry out annual internal training for the purchasing organisation • Develop e-learning courses for our suppliers	• 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
• Follow up annual action plans prepared by each individual business area, including implementation of planned audits	• All business areas have carried out risk-based follow-up of their supply chains	• Ensure compliance with our requirements for subcontractors through agreements and audits	• Make effective follow-up of the supply chain through the development and automisation of administration and by setting effective KPIs.

Audits are part of our continuous improvement.

AREA OF FOCUS 2018-2019

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. Being an international technology group means that KONGSBERG also has a larger social responsibility. We have a particular focus on nurturing children's and young people's interests and skills in the natural sciences. Moreover, we invest in the local communities wherever we have a presence, and in our employees and their families by supporting sports, culture and social activities.

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

In 2018, 123 students out of 1,300 applicants got summer jobs with KONGSBERG.

the way from kindergarten to college.

We therefore support the science centre Kongsberg Vitensenter, 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 lower and upper 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 collaboration 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.

KONGSBERG has collaborated with NTNU to establish the world's first professorship in Big Data Cybernetics, which combines the fields of chemometrics and cybernetics. The agreement involves a five-year endowed professorship sponsored by KONGSBERG.

KONGSBERG is the main sponsor for two multidisciplinary student projects at NTNU where students get to set theory into practice. KONGSBERG has since 2014 been the main sponsor of Revolve NTNU. Every year a new team of students develops, designs and builds a racing car to compete with. Ascend is a project that participates in the annual International

Over the last ten years, our summer project LocalHawk has been popular among students. In 2018, the students had the task of creating an autonomous drone swarm.

The summer project SmartShip was run for the first time in 2018. The project is based on the zero-emission, electric, autonomous container ship, Yara Birkeland.

Aerial Robotics competition, where the goal is to push the limits of what autonomous drones are capable of doing.

In 2016, we opened the KONGSBERG Innovation Center, where our employees can bring their children and experiment with drones, robots and visualisation. The centre is also used in connection with visits from local school classes and educational institutions and students that we collaborate with.

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. The oldest project is "LocalHawk", which started already in 2008.

Through the summer jobs, students get to see what opportunities are available when they graduate, and we hope this will 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.

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 focus on 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 and not individuals. Our two biggest cultural sponsorships are with the Kongsberg Jazz Festival and Glogerfestpillene (classical music festival). Both festivals hold a very high professional level and have their own programmes for developing young talents.

KONGSBERG has chosen to support many different sports, especially for children and young people, and we always sponsor teams, not individuals.

YOUR EXTREME 2018

"The ocean space – food production at sea"

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.

In 2018, the topic of the competition was "The ocean space – food production at sea". The challenge presented was to describe how to exploit the opportunities of the seas and create a sustainable aquaculture and food production on an industrial scale. The students were asked to design the "from sea to plate" value chain on an overarching level, reflect on technical and societal issues connected to sea-related food production, and subsequently describe the solution and go into detail regarding one or two of the technical solutions proposed.

This year's winner was the team "Worst Case Scenario". Their proposal was based on circular economic theory which entails designing an industry so that the fewest possible resources are wasted. 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.

The winners were named by a jury consisting of Geir Håøy, CEO and president of KONGSBERG, Pål André Eriksen, KONGSBERG's Technology Forum, Gunnar Bovim, rector at NTNU, Martha Kold Bakkevig, KONGSBERG board member and Alexandra Bech Gjørv, CEO of SINTEF.

"Worst Case Scenario" presented their winning concept at KONGSBERG's executive management meeting in January 2019.

CLIMATE STATEMENT AND KEY FIGURES

The climate and environmental statement provides an overview of KONGSBERG's consumption of energy, CO_2 emissions and waste processing.

The statement includes all Norwegian units, all production units and major offices abroad. The key figures include a presentation of the results within the fields of value creation, employee relations and health and safety, in addition to the climate and environment.

Climate and Environmental Accounts for 2018

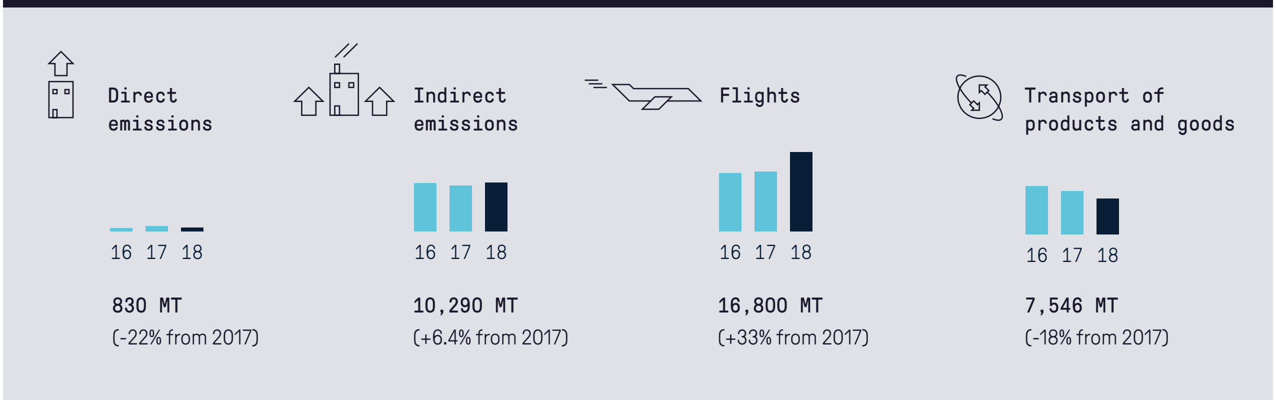
The Group has adopted a target of reducing CO_2 greenhouse gas emissions by 20 per cent relative to turnover or in absolute figures by the end of 2020, with the baseline in figures from 2015.

CO_2 emissions in 2015 were just under 40,000 metric tonnes. This figure went down to around 32,500 metric tonnes in 2017, but then increased to almost 35,500 metric tonnes in 2018. The achieved reduction in CO_2 emissions from 2015 to 2018 was 10 per cent.

The changes are primarily related to flights and transport of products and goods. Emissions from flights will of course fluctuate with the activity level. In 2018, a significant increase in activity due to work that typically requires travel, such as customer support business at KM, resulted in more flights. Reducing emissions from flights is one of the actions in our sustainability strategy and we plan to further strengthen our efforts in this area by using analyses and evaluating different measures for achieving our environmental targets.During the same period, CO_2 emissions measured relative to turnover was reduced by 4 per cent.

CO_2 emissions

A total of 35,466 MT (+9 % from 2017)



Graphs: 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.

KONGSBERG's CO_2 emissions are mainly calculated in accordance with the recommendations of the "Greenhouse Gas Protocol" published by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI).

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).

Direct CO_2 emissions (scope 1) have been reduced by 22 per cent from 2017 to 2018 and account for only 2 per cent of the total CO_2 emissions for KONGSBERG.

Indirect CO_2 emissions (scope 2) have increased by 6 per cent since last year, and account for around 30 per cent of the total emissions.

Other emissions (scope 3) make up two thirds of the total, divided into flights, with 47 per cent, and the transport of goods and merchandise, with 21 per cent of the total. There are some omissions in the reporting of flights booked outside Norway.

CO_2 EMISSIONS

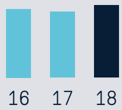
Metric tonnes	*Changes in the last year*	*2018*	*2017*	*2016*
Scope 1 (Direct emissions)	-22%	830	1 065	702
Oil and gas (business area)		631	943	605
Oil and gas (Kongsberg Technology Park)		199	122	97
Scope 2 (Indirect emissions)	6%	10 290	9 670	10 199
Electricity (business area)		8 521	8 007	8 432
Electricity (Kongsberg Technology Park)		1 766	1 656	1 761
District heating from external suppliers		3	7	6
District cooling from external suppliers		0	0	0
Scope 3 (Other emissions)	33%	16 800	12 607	12 328
Flights purchased in Norway		10 224	8 936	8 845
Flights purchased abroad		6 576	3 671	3 483
Total without shipping	20%	27 920	23 342	23 229
Transport of goods and products paid for in Norway	-18%	7 546	9 175	10 235
Total including shipping	9%	35 466	32 517	33 464

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.

Energy consumption

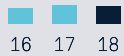
A total of 131.17 GWh (+5% from 2017)

Electricity



102.01 GWh (+10% from 2017)

Heat recovery, district heating and district cooling



25.00 GWh (-5% from 2017)

Oil and gas

4.10 GWh (-24% from 2017)

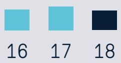
Graphs: Total energy consumption for KONGSBERG. The figures include electricity, oil and gas, as well as recycled energy used by Kongsberg Technology Park for the production of district heating, district cooling and compressed air also supplied to non-KONGSBERG companies.

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 2018, 25 GWh was recovered at the facility.

Waste

A total of 1,888 MT (+/-0% from 2017)

Residual waste



549 MT (-17% from 2017)

Hazardous waste

402 MT (+14% from 2017)

Recycled waste

937 MT (+8% from 2017)

Graphs: Total waste production for KONGSBERG (metric tonnes).

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.

There were no major changes in total waste volumes from 2017 to 2018.

Sustainable Key Figures

FINANCIAL VALUE CREATION

MNOK	*2018*	*2017*	*2016*	*2015*	*2014*	*2013*	*2012*
ADDED VALUE							
Salaries	4 638	4 417	4 649	4 725	4 537	4 304	3 894
Dividends	450	450	450	510	1 110	630	450
Dividends – % of earnings (new reporting)	64%	81%	69%				
Interest to lenders	100	110	63	24	30	43	37
Retained earnings	254	109	201	245	(230)	595	854
OTHER FINANCIAL KEY FIGURES							
Costs related to the purchase of goods and services	7 239	7 610	8 722	9 143	8 497	8 439	8 107
Financial support received from authorities	53	59	35	18	21	14	16
INCOME TAX EXPENSE							
Norway	61	(15)	(40)	85	291	332	416
Rest of Europe	14	13	17	9	27	11	14
North and South America	38	33	48	49	50	55	32
Asia	27	64	53	46	37	21	43
Total	**140**	**95**	**78**	**189**	**405**	**419**	**505**

SOCIAL INVESTMENTS

MNOK	*2018*	*2017*	*2016*	*2015*	*2014*	*2013*	*2012*
Financial support to organisations, etc. [1]	6.9	9.1	12.4	9.3	8.8	7.3	6.7

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 63–65 for further information.

EMPLOYEES

	2018	2017	2016	2015	2014	2013	2012
LEVEL OF EDUCATION							
Master's degree (%)	29	29	29	28	28	29	28
– of which doctorates (PhD)	2	2	2	1	1	1	2
Bachelor's degree (%)	36	35	35	37	36	34	36
Technicians (%)	12	12	12	15	14	14	14
Production workers (%)	11	11	11	11	11	11	10
Other (%)	11	13	13	10	11	11	12
NUMBER OF EMPLOYEES							
Number of employees, total	6 842	6 830	7 159	7 688	7 726	7 493	7 259
Number of full-time equivalents (FTEs)	6 771	6 728	7 027	7 571	-	-	-
Number of full-time employees	6 674	6 636	6 963	7 364	7 470	7 171	7 003
Number of part-time employees	168	194	196	324	256	322	256
AGE							
Average age	43	43	42	41	41	41	40
Employees under age 30 (%)	13	14	15	19	21	21	22
Employees between ages 30 and 50 (%)	59	57	58	56	55	56	55
Employees over age 50 (%)	28	29	27	25	24	23	23
PERCENTAGE OF WOMEN							
Women as a % of the number of employees	21.8	21.5	21.2	21.0	20.9	21.4	21.2
Women in managerial positions as a % of total managerial positions	20	20	19	18	18	21	19
Shareholder-elected women on the Board (%)	60	60	40	40	40	40	40
TURNOVER							
Turnover (employees who have resigned)	465	357	477	430	516	587	459
Turnover (%)	6.8	5.2	6.7	5.6	6.7	7.8	6.3
– Men	5.6	4.2	6	4.2	5.5	5.9	5.2
– Women	1.2	1.0	0.7	1.4	1.2	1.9	1.1

HEALTH AND SAFETY

	2018	2017	2016	2015	2014	2013	2012
Sick leave as a % of hours worked	2.6	2.3	2.5	2.6	2.6	2.5	2.4
Sick leave for the Norwegian companies	3.0	2.8	2.8	2.8	3.0	3.1	2.8
Number of reported injuries per million hours worked (TRI)[1)]	1.6	3.2	3.5	4.1	4.7	3.7	1.5
Number of lost time days per million hours worked (ISR)	17.6	16.2	32.0	14.2	45.3	15.6	13.6
Number of reported injuries leading to absence among employees	13	31	40	20	34	27	5
Total number of injuries among employees[2)]	71	129	176	196	240	86	54
Total number of near-accidents among employees	379	232	183	140	140	158	78
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

	2018	2017	2016	2015	2014	2013	2012
CO_2 EMISSIONS							
CO_2 emissions (metric tonnes) [3]	27 920	23 342	23 229	25 933	26 006	25 294	19 579
CO_2 emissions from transport (metric tonnes) (first reported in 2015)	7 546	9 175	10 235	13 335			
Total CO_2 emissions (metric tonnes)	**35 466**	**32 517**	**33 464**	**39 268**			
CO_2 emissions relative to sales (metric tonnes/MNOK)	2.5	2.2	2.1	2.4			
CO_2 emissions relative to man-years of labour (metric tonnes/ man-years of labour)	5.2	4.7	4.8	5.3			
ENERGY USE							
Electricity (MWh)	102 071	92 795	96 734	91 582	91 340	94 802	79 218
Gas/oil (MWh)	4 095	5 397	3 471	4 400	4 123	4 601	6 092
Heat recovery (MWh) [1]	25 004	26 208	22 591	23 366	26 733	20 342	20 844
Energy consumption (MWh) per employee	19.2	18.2	17.2	15.5	15.8	16.0	14.6
Energy consumption (MWh/MNOK)	9,1	8.6	7.7	7.0	7.4	7.3	6.8
WASTE (METRIC TONNES)							
Waste for recycling	937	866	1 016	1 410	1 048	1 100	1 100
Residual waste	549	665	583	560	604	550	200
Hazardous waste	402	353	387	398	136	285	484

1) Energy recovery at Kongsberg Technology Park, as well as purchased district heating and remote cooling from external companies. A change in the method of calculation from 2014 means that the figures for 2014 are not directly comparable with previous years.
2) Most of the flights ordered from our international locations are included in the CO2 accounts for 2013, accounting for a significant share of the increase from 2012 to 2013.

In November 2018, KONGSBERG and Yara were awarded the Confederation of Norwegian Business Climate prize for the development of the world's first electric autonomous container ship – Yara Birkeland.

AUDITOR'S REPORT, SUSTAINABILITY

Deloitte.

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To the management of Kongsberg Gruppen ASA

Independent auditor's report on KONGSBERG Sustainability Report 2018

We have reviewed certain information presented in the KONGSBERG Sustainability Report 2018, presented on pages 34 – 74 in the KONGSBERG Annual Report and Sustainability Report 2018, as well as information referred to from page 43 in the report (in total referred to as "the Report"). The Report is the responsibility of and has been approved by the management of the Company. Our responsibility is to draw a conclusion based on our review.

We have based our work on the international standard ISAE 3000 "Assurance Engagements other than Audits and Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board. The objective and scope of the engagement were agreed with the management of the Company and included the subject matters on which we provide our conclusion below.

Based on an assessment of materiality and risks, our work included analytical procedures and interviews as well as a review on a sample basis of evidence supporting the subject matters. We have conducted interviews of managers responsible for preparing the Report and for sustainability aspects at corporate level.

We believe that our work provides an appropriate basis for us to draw a conclusion with a limited level of assurance on the subject matters. In such an engagement, less assurance is obtained than would be the case had an audit-level engagement been performed.

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

- Kongsberg Gruppen has applied procedures to collect, compile and validate sustainability information for 2018 from its reporting units to be included in the Report, as summarised on pages 35 – 36.
- Information presented for 2018 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 Gruppen applies a reporting practice for its sustainability reporting that is aligned with the Global Reporting Initiative (GRI) Standards' reporting principles and the reporting fulfils the in accordance level Core according to the GRI Standards. The GRI Index referred to from page 43 in the Report appropriately reflects where information on each of the reported standard and specific disclosures of the GRI Standards is presented.

Oslo, 21 March 2019
Deloitte AS

Eivind Skaug	Frank Dahl
Eivind Skaug	Frank Dahl
State Authorized Public Accountant	Deloitte Sustainability

Registrert i Foretaksregisteret
Medlemmer av Den norske Revisorforening
Organisasjonsnummer: 980 211 282

04

CORPORATE GOVERNANCE

The Board's Report on Corporate Governance

KONGSBERG's objective is to safeguard and enhance stakeholder value through profitable 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 2018

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 2019. 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. 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. These guidelines are posted on the Group's website at www.kongsberg.com. 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

IRENE
WAAGE BASILI

Deputy chairman

MARTHA
KOLD BAKKEVIG

Director

MORTEN
HENRIKSEN

Director

ANNE-GRETE
STRØM-ERICHSEN

Director

SIGMUND IVAR
BAKKE

Director
(employee representative)

ELISABETH
FOSSAN

Director
(employee representative)

HELGE
LINTVEDT

Director
(employee representative)

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

The Kongsberg Gruppen 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, from 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:

1. "a statement of the recommendations and regulations concerning corporate governance that the enterprise is subject to or otherwise chooses to comply with": The section of the report entitled "KONGSBERG's Policy"
2. "information on where the recommendations and regulations mentioned in no. 1 are available to the public": The section of the report entitled "KONGSBERG's Policy"
3 "the reason for any non-conformance with recommendations and regulations mentioned in no. 1": The section of the report entitled "Deviations from the code of practice"
4. "a description of the main elements in the enterprise's 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": The section's item 10, "Risk management and internal control"
5. "articles of association that completely or partially extend or depart from provisions stipulated in Chapter 5 of the Public Limited Companies Act": The section's item 6, "Annual General Meeting"
6. "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": The section's item 8, "Composition and independence of the Board" and item 9, "The Board's work"
7. "articles of association that regulate the appointment and replacement of directors": The section's item 8, "Composition and independence of the Board"
8. "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": The section's item 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 feels 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 21 March 2019.

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 78 of this report.

Goals, strategy and risk

The Kongsberg Gruppen ASA aims to be an international technology company based in Norway. 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, and to focus on continually improving our operations.

To achieve its stated objectives, the Board and executive management have developed strategies in marketing, business areas, acquisition, competence, social responsibility, technology and finance, as well as capital structure. The Group's objectives and main strategies are described in the Group's Annual and Sustainability Report and on the Group's website. The Group's risk management is described 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.

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 discussed 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 2018, the Group's equity came to MNOK 12,626 (MNOK 7,365), which is equivalent to 45.7 (35.6) per cent of the total assets.

Net interest-bearing debt as of 31 December 2018 was MNOK -5,706 (MNOK 384). Of this, cash and cash equivalents represented MNOK 10,038 (MNOK 2,956). Cash and cash equivalents at the end of 2018 are temporarily high and so not a normalised portfolio. This is mainly due to the rights issue of MNOK 5,000 and the the establishment of two new bond loans totalling MNOK 1,000 in connection with the acquisition of Rolls-Royce Commercial Marine (RRCM). Settlement for the acquisition is expected to take place 1 April 2019.

Working capital as of 31 December 2018 was MNOK -14 (MNOK 955) and, like net interest-bearing debt, this is affected by the capital increase arising from the acquisition of RRCM, as described above.

Total assets as of 31 December 2018 were MNOK 27,658 (MNOK 20,676). 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 2017, a dividend of NOK 3.75 per share was paid.

For the accounting year 2018, the Board proposes to the Annual General Meeting a dividend of NOK 2.50 per share. The dividend represents 64.2 per cent of the ordinary profit.

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 16 May 2018, the Board was given authorisation to acquire treasury shares up to a maximum nominal value of MNOK 7.5, which was equivalent to 5 per cent of the share capital before the issue on 28 November 2018. The authorization can be used several times and applies up until the next Annual General Meeting, but not later than 30 June 2019. 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 2018, the Group owned a total of 19,869 (8,961) 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) for members of the Corporate Executive Management. 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 they 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 27 and Point 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 2018 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 2018.

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 FREELY NEGOTIABLE

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 Items 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 2018, the Annual General Meeting was held on 16 May and 67.48 per cent (73.07) of the aggregate share capital was represented. A total of 98 (92) shareholders were present or represented by proxies.

On 2 November 2018, an Extraordinary General Meeting was held concerning the capital increase due to the acquisition of Rolls-Royce Commercial Marine. A total of 70.36 per cent of the overall share capital was represented.

Notification

The Annual General Meeting is ordinarily held by 1 June each year. In 2019, the date is set for 14 May 2019.

- 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 at least 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 two deviations from the recommendation relating to Item 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, as well as Deputy Chair of the Board of Arendals Fossekompani ASA
- Morten Strømgren, department director in the Ministry of Trade, Industry and Fisheries
- Vigdis M. Almestad, senior 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 in 2020.

PARTICIPATION IN BOARD AND COMMITTEE MEETINGS IN 2018

Participation in meetings	*Board*	*Audit Committee*	*Compensation Committee*
Eivind K. Reiten	17		4
Irene Waage Basili	16		
Morten Henriksen	15	7	
Anne-Grete Strøm-Erichsen	16		4
Martha Kold Bakkevig	16	5	
Helge Lintvedt	17	7	
Elisabeth Fossan	16		4
Sigmund Ivar Bakke	17		
Rune Sundt Larsen (deputy)	1		

None of the Committee's members represent KONGSBERG's management or the 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 2018 had a shareholding of 1.32 per cent in KONGSBERG. Bergesen also holds offices or positions in companies which have a combined shareholding of 0.66 per cent in KONGSBERG. Strømgren is employed by the Ministry of Trade, Industry and Fisheries, which as of 31 December 2018 had a shareholding of 50.001 per cent in KONGSBERG. Almestad is employed by ODIN Forvaltning AS, which as of 31 December 2018 had an overall shareholding of 1.56 per cent in KONGSBERG through its funds. 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 COMPOSITION AND INDEPENDENCE OF THE BOARD

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),
Irene Waage Basili (Deputy Chair),
Morten Henriksen,
Martha Kold Bakkevig and
Anne-Grete Strøm-Erichsen.
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 17 meetings in total in 2018, of which 7 were ordinary, 4 extraordinary, including 1 held as a telephone conference, and 6 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.

The Board members are elected for two-year terms and elect their own Chair, based on a recommendation from the Nominating Committee. Eivind K. Reiten was elected Chair of the Board. All Board members will be up for election in 2019.

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 two men and three women, i.e. 60 per cent women.

Election of the Board

The General Meeting elects the five shareholder-elected representatives to the Board. The Nominating Committee draws up a recommended list of shareholders' nominees for the Board prior to the election. The recommendations will be available to the shareholders contemporaneous with notification of the General Meeting. Decisions on the composition of the Board take place by simple majority. The Norwegian state owns 50.001 per cent of the shares in KONGSBERG, and could in principle exercise control over the election of the shareholder's directors. Three of the directors are elected by, and from, the Group's employees.

The directors are elected for two-year terms and are eligible for re-election. All employee-elected Board members will be up for election in 2019.

The directors' shareholdings

As of 31 December 2018, the shareholder-elected directors held the following portfolios of shares in the Group:

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

- Irene Waage Basili owns 0 (0) shares.

The employee-elected board members hold the following portfolios of shares in KONGSBERG as of 31 December 2018:

- Elisabeth Fossan owns 4,904 (3,024) shares.
- Sigmund Ivar Bakke owns 3,078 (2,862) shares.
- Helge Lintvedt owns 0 (0) 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 and Business Conduct, 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 organised 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 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 takeover, confidentiality and professional secrecy, 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 special instructions for the CEO. These are reviewed every second year by the Board and revised as needed. The current instructions were presented to 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 discussed. 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 17 Board meetings (14) in 2018, of which 4 were extraordinary, including 1 held as a telephone conference, and 6 Board deliberations conducted without a meeting. The Board meetings had 96 (96) per cent attendance in 2018.

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 topic of conflict of interest is described in Item 5.10 of the Group's Code of Ethics and Business Conduct. 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 and 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 consists of two shareholder-elected directors and one employee-elected director. 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. Seven (six) meetings were held in 2018, of which two were extraordinary.

Members:
Morten Henriksen (chair), Martha Kold Bakkevig 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 2018.

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 self-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 follows the Group's management model, and it is the individual unit's responsibility to make sure that it has the capacity and expertise required to carry out responsible internal control. Corporate executive management and the individual technological fields are responsible for controlling 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 cycle 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 and Business Conduct 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 2018, KONGSBERG continued the work on systematic development and follow-up of important areas for compliance with regulations, rules and internal guidelines. The Group has a strong 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 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 Chair of the Nominating Committee. From the Annual General Meeting in 2018 until the next Annual General Meeting, the total remuneration to the Board members will amount to NOK 2,355,000 (NOK 2,227,000).

The remuneration breaks down as follows:

- Board Chairperson NOK 518,000 (NOK 489,000)
- Deputy Chair NOK 277,000 (NOK 262,000)
- Other Board members NOK 260,000 (NOK 246,000)

In addition, the members of the Audit Committee receive NOK 10,100 (NOK 10,100) per meeting, and a maximum of NOK 101,000 (NOK 101,000) per year. The Committee's chair receives NOK 12,100 (NOK 11,500) per meeting, and a maximum of NOK 121,000 (NOK 115,000) 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 11,200 (NOK 10,600) per meeting, and a maximum of NOK 56,000 (NOK 53,000) 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. Directors are encouraged to own shares in the company, but this is not a requirement.

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 to 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 continued in 2017. Performance-based compensation is linked to profit growth, profit margin and individual goals. 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 27, "Declaration regarding the determination of salaries and other remuneration to senior executives" in the annual report for 2018. In 2018, the group had 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 2018, the bonus system included a maximum accrual percentage and direct payments of margin and an individual progress component. The progress component went into a bonus bank. The bonus bank scheme will be discontinued from 2019 onward, and the maximum accrual on personal goals has been reduced. The bonus is now linked to the degree of personal goal achievement. The personal goals are linked to growth in operating income and improvements in EBIT and ROACE.

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. Criteria were introduced for achievement, and the framework for remuneration was revised upwards to 30 per cent of the annual base salary for the CEO and 25 per cent for the other members of the Corporate Executive Management (level 1 in the organisation). The rationale is to be competitive with comparable companies. A more detailed description of the scheme is provided in Note 27 of the annual financial statements for 2018.

In order to adjust executive management salaries to market level, from 2019 onward the LTI scheme is being extended to cover salaries at level 2 in the organisation, as well as certain defined key positions. The levels in the LTI scheme will be 15 and 10 per cent of these respectively.

Conditions

Remuneration to corporate executive management and the Board is described in Note 27 and 28 to the consolidated financial statements for 2018.

13 INFORMATION AND COMMUNICATION

Annual Report and Directors' Report – interim reporting

The Group usually presents preliminary annual accounts in late February. "The Annual Report and Sustainability Report" are made available 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 company, the Board shall draw up a statement containing a well-grounded 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 theGroup 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 29 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. Appointment of the Board and the Boards' 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 2018

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.

2018 will go down in history as one of the most eventful years for KONGSBERG. Important contracts have been won and significant letters of intent, including in Qatar, have been signed. Within Kongsberg Maritime (KM), there has been a lot of focus in recent years on adapting the organisation to changing and, to a certain extent, more demanding market conditions. 2018 was a year of major moves toward strategic growth, and in July KONGSBERG announced an agreement to acquire Rolls-Royce Commercial Marine (RRCM). The acquisition is expected to be completed on 1 April 2019, and will more than double the Group's maritime revenues. In Q4, Kongsberg Defence & Aerospace (KDA) entered into an agreement to acquire Aerospace Industrial Maintenance Norway (AIM). This acquisition strongly positions KDA as an important strategic partner for the Norwegian Armed Forces, including for maintenance.
Order intake increased by NOK 3.1 billion (23 per cent) in 2018 compared with 2017. KM signed a number of important contracts for new, integrated solutions and has established itself as an important player within these types of deliveries. The subsea area points to an all-time-high order intake in 2018, driven by marine robotics and fisheries, among other factors. Within KDA, the missile area has particularly stood out, with a number of important orders and agreements. In June, KONGSBERG's NSM missile was selected by the U.S. Navy for their "Over-The-Horizon" programme.

KONGSBERG

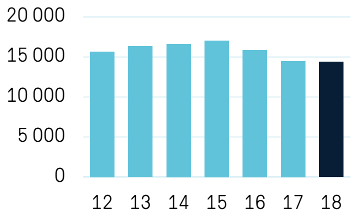
Headquarter	Kongsberg
Number of employees	6 842
Share of employees outside Norway	34%
Number of countries	29
Share of revenues outside Norway	81%

Revenues declined by 0.8 per cent to MNOK 14,381 compared with 2017. KM showed an increase of 1.6 per cent, while KDA showed a decrease of 3.6 per cent. Both areas show an increase in order intake of around MNOK 1,500 compared with the previous year. The order intake for the Group totalled MNOK 16,574, an increase of MNOK 3,144 compared with 2017. EBITDA increased by MNOK 115 to MNOK 1,394 in 2018.

Profit for the year after tax amounted to MNOK 704 (MNOK 559), corresponding to NOK 5.58 per share (NOK 4.62). The Group had a positive cash

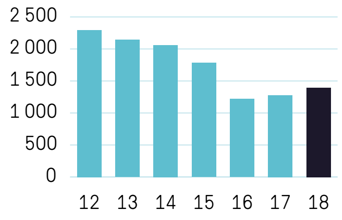
Operating revenues

MNOK



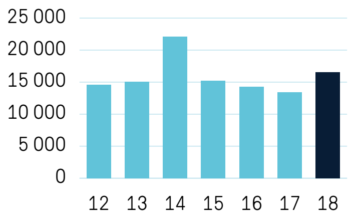
EBITDA

MNOK



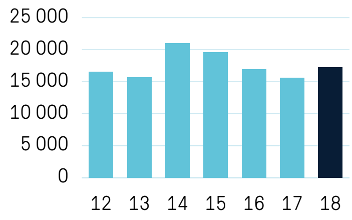
New orders

MNOK



Backlog of orders

MNOK



flow of MNOK 7,082 in 2018 (MNOK 1,068) and has a net interest-bearing debt of MNOK -5,706 (MNOK 384) at the end of the year. The Group's equity is MNOK 12,626 (MNOK 7,365). The financial position of KONGSBERG is solid, but due to the large acquisition expected to close on 1 April 2019, the board proposes to maintain the nominal dividend from 2017. This means an ordinary dividend of MNOK 450 for the 2018 financial year. This is equivalent to NOK 2.50 per share (NOK 3.75). The proposed dividend represents 64.2 per cent (81.2 per cent) of the ordinary profit for the year. The number of outstanding shares increased from 120,000,000 to 179,990,065 due to a rights issue in 2018.

The acquisition of Rolls-Royce Commercial Marine makes KONGSBERG a more holistic supplier to the maritime industry.

ACQUISITION AND SHARE ISSUE

Acquisition of 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 parties agree on an enterprise value for RRCM of MGBP 500 on

In December 2018, KONGSBERG signed an agreement with the Ministry of Defence for the acquisition of Aerospace Industrial Maintenance Norway AS (AIM).

a cash and debt-free basis, and with normalised working capital.

The acquisition of RRCM makes KONGSBERG a more holistic supplier to the maritime industry, which has experienced challenging market conditions in recent years. Although there is still uncertainty, KONGSBERG expects technology and innovation to drive some growth going forward.

RRCM is a technology enterprise within maritime operations that supplies equipment and maintenance services to most segments within the offshore and merchant vessel segments. The company is considered to be the leading supplier of propulsion systems for offshore vessels, which is also its biggest product group. RRCM also supplies deck equipment, stabilising systems, ship design, electrical engineering, automation and control systems, and invests in digital technologies for the future, e.g. within autonomous vessels. RRCM has around 3,600 employees across 34 countries, of whom around 700 are service engineers split between 30 locations. Around 42 per cent are employed in Norway.

KONGSBERG and RRCM have largely complementary products, solutions and expertise. The acquisition is in line with KONGSBERG's ambition to grow as a world-leading technology supplier. The acquisition will strengthen KONGSBERG's strategic position amongst ship owners, shipyards and other customers and partners.

The transaction is approved by the relevant competition authorities and the process is expected to close on 1 April 2019. Ahead of this, KONGSBERG has secured the necessary financing for the acquisition through a successful rights issue of MNOK 5,000 and by issuing two bond loans amounting to a total of MNOK 1,000. The State, represented by the Ministry of Trade, Industry and Fisheries, participated in the rights issue with the State's pro rata share, and has maintained its stake after the issue (50.001 per cent). The rights issue closed on 22 November and new share capital was registered on 28 November 2018. The preferential rights had coverage of 99.2 per cent, of which the remaining preferential rights were distributed pro rata on oversubscription to subscribers with subscription rights. The rights issue had 25.7 per cent oversubscription. Shares were not awarded to subscribers other than holders of subscription rights.

Acquisition of Aerospace Industrial Maintenance Norway AS

In December 2018, KONGSBERG, through KDA, signed an agreement with the Ministry of Defence for the acquisition of Aerospace Industrial Maintenance Norway AS (AIM). AIM is the Norwegian Armed Forces' business that deals with the maintenance, overhauling and upgrading of the Norwegian Air Force's planes and helicopters. KONGSBERG has signed an agreement with Patria on shared ownership, in order to further improve delivery capacity and expertise. KONGSBERG will become the majority owner with 50.1 per cent, and Patria will own the remaining shares. The acquisition of AIM will strengthen KONGSBERG's role as a strategic partner for the Norwegian Armed Forces' operational needs, and further strengthen KONGSBERG's position within Maintenance, Repair and Overhaul (MRO).

The parties agree on an enterprise value of MNOK 151. 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. This is reflected in the agreed value.

The acquisition requires approval by the relevant authorities, and the transaction is expected to close in the first half of 2019.

BUSINESS AREAS

Kongsberg Defence & Aerospace

MNOK	*2018*	*2017*
Operating revenues	6 104	6 333
EBITDA	863	612
EBITDA margin	14.1%	9.7%
New orders	6 885	5 376
Order backlog	10 744	9 956

In 2018, KDA had operating revenues of MNOK 6,104, which is MNOK 229 lower than last year. This decrease is mainly due to less activity within the air defence

The U.S. Navy has chosen NSM for its Littoral Combat Ships and future frigates. This shows that KONGSBERG currently has the greatest of expertise in advanced marine missiles and marks the beginning of what could be several decades of deliveries to the largest missile market in the world.

and weapon station areas. The Missiles area and Aerostructures show an increase in operating revenues. The EBITDA margin increased by 4.4 per cent to 14.1 per cent. The share of net income from Patria was MNOK 80 in 2018, against MNOK 75 in 2017. The order backlog was increased from NOK 9,956 at the end of 2017 to NOK 10,744 at the end of 2018. This provides a good starting point for positive development of operating revenues in the future.

Patria's operating revenues ended up 2 per cent in 2018. Patria delivered total operating revenues of MEUR 476 in 2018, compared with MEUR 468 in 2017. EBITDA was MEUR 48, compared to MEUR 55 in 2017. The increase in operating revenues is primarily linked to a contract with the Finnish Armed Forces for the upgrade and maintenance of Hamina-class vessels signed in January 2018. Patria's maintenance activities are showing signs of development, but the segment of Patria responsible for armoured military vehicles is still experiencing a weak order intake.

In 1996, KONGSBERG started development of a new, advanced anti-ship missile for the Norwegian Armed Forces: the Naval Strike Missile (NSM). The development process lasted more than ten years. Up to 2018, the missile was operational in two countries: Norway and Poland. It was also selected as the new anti-ship missile in Malaysia and Germany. In April, a contract worth MEUR 124 was signed for the delivery of the Naval Strike Missile to Malaysia. In late May/ early June, the U.S. Navy announced that the NSM would be used as the anti-ship missile for its Littoral Combat Ships and future frigates. This shows that KONGSBERG currently has the greatest of expertise in advanced marine missiles and marks the beginning of what could be several decades of deliveries to the largest missile market in the world.

Joint Strike Missile (JSM) has been in development for the last decade. Development of the missile is now complete, and we are entering the phase where it is to be integrated with the F-35. There is great international interest in the missile, and it is expected to become operational with the F-35 in 2023–2024.

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 the U.S., including through the CROWS programme, which has also been used for deliveries to the U.S. Navy, U.S. Air Force and 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. The order intake from the CROWS programme reached close to MUSD 200 in 2018, more than three times the orders in 2017. Of the new orders, MUSD 160 was connected with the new framework agreement. In addition to USA, weapon stations were delivered to seven other countries in 2018, which makes KONGSBERG the world's leading supplier within this market. In March 2018, the Qatari authorities announced the selection of KONGSBERG as a supplier in areas including remote controlled weapon stations, communications and digitalisation for its new military vehicle programme. This is a significant opportunity for KONGSBERG and negotiations are now under way on the final contract.

In 2008, KONGSBERG opened a new factory for the production of advanced composite and titanium aircraft parts for the new F-35 combat aircraft. From initially producing a handful of parts kits in the early years, production at the end of the year had reached over 100 parts kits per year, and will reach 150 within a year's time. When KONGSBERG won the first delivery contract for the programme, the company also had to commit to continuously streamlining production and reducing prices throughout the lifetime of the programme. From

2008, the price the company receives per ship set has reduced significantly compared with the start of the programme. At the same time, profitability within the operation went from negative during the first few years to now representing an important contribution to this business area's profits. KONGSBERG is also one of the very few suppliers to the F35 programme to have produced flawless deliveries. This leads to an extremely strong position in a programme that will generate income for the Group for the next 20–30 years.

The Integrated Defence Systems (IDS) area delivers, among other things, the air defence system NASAMS and command and control systems for submarines. Activity in 2018 declined somewhat as a result of the major NASAMS programme KONGSBERG won together with Raytheon in 2014 approaching the final deliveries. Towards year-end, activity picked up as a result of initiation of deliveries to Lithuania and Indonesia related to the contracts won in 2017. NASAMS has also been chosen as an air defence system in Qatar and Australia, and both countries are expected to enter into contracts with Raytheon/KONGSBERG within the next 6-18 months. IDS is also the KONGSBERG hub for submarine technology. In 2018, kta naval systems was established. kta is a joint venture between KONGSBERG, the German company thyssenkrupp Marine Systems (tkMS) and Atlas Elektronik, and an exclusive agreement has been entered into to supply command-control systems for future submarines built by thyssenkrupp Marine Systems.

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

KONGSBERG has, over time and in cooperation with the Norwegian Armed Forces and the Norwegian Defence and Research Establishment, developed systems for Norway that have proved to be competitive internationally. It is of great importance to the Group that this national partnership continues. The cooperation provides the Norwegian Armed Forces with the possibility to develop and deploy technology that is particularly suitable for Norwegian conditions as well as maintaining a quality and cost that allows it to succeed in the international competition. Investing in defence programmes is an extensive and time-consuming process. The customers of large defence systems are the defence 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 by more national protectionism than is to be 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 offset 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 ties up a significant part of the defence budget, and purchases from domestic suppliers may be

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.

The Subsea division shows an all-time high order intake, with total orders of over MNOK 3,000 in 2018.

negatively affected. 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 is the platform for developing leading products that are necessary for a modern military defence. 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	*2018*	*2017*
Operating revenues	7 545	7 429
EBITDA	594	589
EBITDA margin	7.9%	7.9%
New orders	8 884	7 336
Order backlog	5 739	4 820

KM increased its turnover by 1.6 per cent in 2018, while the EBITDA margin was 7.9 per cent, the same as in 2017. EBITDA was affected by MNOK 110 of integration costs connected to the acquisition of RRCM in 2018. MNOK 93 of restructuring costs was registered in 2017. Adjusted for this, KM shows an increase in its EBITDA margin from 9.2 to 9.3 per cent in 2018. The order intake increased by over MNOK 1,500 in 2018 to MNOK 8.884, which gives a book/bill of 1.18. This gives an order backlog of MNOK 5,739 at the end of 2018, compared with MNOK 4,820 the year before.

After Q2 2015, significant cost reduction measures have been implemented in KM to adjust the cost base to the weak oil and gas market. The number of employees and hired personnel during this period was reduced by over 1,000 people. Throughout 2018, activity has been increasing somewhat in certain segments, and during the second half of 2018, the business area increased its number of employees by over 100. This recruitment is linked to both the after-market and individual delivery projects.

The Subsea division shows an all-time high order intake, with total orders of over MNOK 3,000 in 2018. There has been a particularly high order intake from hydrography and fisheries, as well as from the market for autonomous underwater vessels (AUV). This applies to both the Norwegian and US segments of the AUV business.

The order intake is over 30 per cent higher in 2018 than in 2017 for the divisions that deliver to the new build market (Vessel Systems and Solutions). In the traditional vessel markets, improvement comes particularly from the bulk carrier, shuttle tanker and LNG market. Traditional offshore markets such as supply and drilling are still weak, but the order intake has developed positively for both offshore production vessels and construction vessels compared to 2017.

Global Customer Support has had high capacity utilisation and increasing activity in 2018. KM's after-market revenues are not included in the business area's order backlog. KM has a well-established after-market network that supports more than 18,000 vessels fitted with KM-equipment, and after-market activity represents about one third of KM's turnover. The competitive situation within

KM delivers to markets beyond the traditional offshore market, and several of these have shown positive development. Examples are fisheries, research, marine robotics and freight and passenger ships.

traditional vessel solutions has been intensive in recent years, as a consequence of generally low contracting for new deliveries. This is in addition to the fact that comprehensive integrated vessel solutions, which include high proportions of third-party deliveries and which generally result in lower contributions, means that the life cycle is extremely important in terms of securing increased profitability in KM.

For several years, KM's strategy has been to expand the delivery scope for every single vessel. In 2016, an integrated vessel solution concept was launched, and KM has seen a good order intake for this concept in 2018. The business area has established itself, to an even greater extent than before, as a supplier of "complete" solutions for a wide range of vessel classes. Vessels that previously could involve contracts in the order of a few "tens of millions" gave KM single delivery contracts valued at more than MNOK 100 in 2018, for example Ro-Pax and offshore vessels. The acquisition of RRCM means that KM will be able to develop the concept further in the future. The largest contracts signed for the delivery of integrated vessel solutions in 2018 were:

- A contract of MUSD 21 for deliveries to a semi-submersible drilling rig that will be built by Keppel Fels Limited for Awilco Drilling.
- A contract valued at over MNOK 400 for deliveries to nine Ro-Ro vessels that will be built by Nanjing Jinling Shipyard for Grimaldi Group.
- A contract of MUSD 13 for deliveries to a heavy lift crane vessel that will be built by China Merchant Heavy Industries for Offshore Heavy Transport.

Several of the business areas' core markets are still very challenging, but considerable investments are still being made in development of new high-priority products and solutions in the existing and new markets. An area that has seen investment is remote services, where the number of vessels prepared for these types of services has increased significantly in recent years. Over the last three years, the number of vessels controlled in a way that allows remote-controlled services has increased by over 400 per cent to around 1,300 vessels. This enables significant efficiency gains for both KM and for shipowners.

Another area that has seen investment in recent years is autonomy. KM is involved in a number of commercial autonomy projects. The most high profile of these is Yara Birkeland, which is the world's first autonomous, electric and emissions-free container ship. KONGSBERG is responsible for developing and supplying all key technology on board the ship, including control systems, sensors and necessary integration for remote and autonomous operations.

KM delivers to markets beyond the traditional offshore market, and several of these have shown positive development. Examples are fisheries, research, marine robotics and freight and passenger ships. There has been positive development with regards to the delivery of modern low-emission and energy-efficient solutions in several vessel segments. This is partly due to new regulatory requirements for commissions from vessels, as well as attractive new build prices. The good order intake and profitability level in 2018 confirm that KM is able to adjust to changing market conditions. This has been achieved through restructuring, and a focus on expanded scope of delivery and concepts for new markets for KM.

The Norwegian maritime and offshore sectors are 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

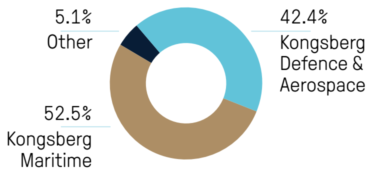
Other activities consist of Kongsberg Digital (KDI), property, group functions and eliminations between the business areas.

KDI was established in 2016 as an important step for development of the next generation of digitalised products and services within our core areas. In 2018, the area has focused on taking new and strengthening existing positions related to digitalisation within the oil and gas, wind and merchant marine markets. The area is of great strategic importance to KONGSBERG, and is an important investment with regards to both the development and the digitisation the company sees as being within its core area.

KDI is entering 2019 with a total order backlog of MNOK 838. This is an increase of 38 per cent on last year.

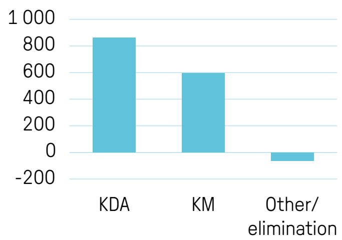
Distribution of revenue

Per cent



Distribution of EBITDA

MNOK



COMMENTS TO THE FINANCIAL STATEMENTS

Operating revenues

The Group's operating revenues in 2018 were MNOK 14,381, which is down 0.8 per cent from MNOK 14,490 in 2017. KM saw an increase in operating revenues of 1.6 per cent, while KDA saw a decrease of 3.6 per cent in 2018.

EBITDA development

EBITDA totalled MNOK 1,394 (MNOK 1,279) in 2018, resulting in an EBITDA margin of 9.7 per cent (8.8 per cent). EBITDA was affected by MNOK 110 of integration costs connected to the acquisition of RRCM along with MNOK 89 of acquisition costs. The 2017 EBITDA was negatively affected by restructuring costs, pay back of forward exchange contracts and reversals of provisions amounting to MNOK 256. KDA has increased its EBITDA from MNOK 612 to MNOK 863 from 2017 to 2018, while KM increased from MNOK 589 to MNOK 594.

Profit

Profit before tax was MNOK 844, compared with MNOK 654 in 2017. Profit after tax was MNOK 704, equivalent to NOK 5.58 per share in 2018, compared with MNOK 559, equivalent to NOK 4.62 per share in 2017. Return on average capital employed (ROACE) was 12.5 per cent in 2018 (9.0 per cent).

MNOK		*KONGSBERG consolidated*	*Kongsberg Defence & Aerospace*	*Kongsberg Maritime*	*Other/ eliminations*
Operating revenues	2018	14 381	6 104	7 545	732
	2017	14 490	6 333	7 429	728
	Change in per cent	(0.8%)	(3.6%)	1.6%	0.6%
EBITDA	2018	1 394	863	594	(63)
	2017	1 279	612	589	78
	Change in per cent	9.0%	41.0%	0.9%	(180.8%)
EBITDA margin	2018	9.7%	14.1%	7.9%	(8.6%)
	2017	8.8%	9.7%	7.9%	10.7%
New orders	2018	16 574	6 885	8 884	805
	2017	13 430	5 376	7 336	718
	Change in per cent	23.4%	28.1%	21.1%	12.1%

KONGSBERG's dividend policy states that dividend over time shall constitute between 40 and 50 per cent of the company's ordinary profit for the year. The Board proposes an ordinary dividend for the financial year 2018 at the same total level as for the financial year 2017: MNOK 450. This is equivalent to NOK 2.50 per share (3.75). The number of outstanding shares increased from 120,000,000 to 179,990,065 due to a rights issue in 2018. The dividend represents 64.2 per cent (81,2 per cent) of the profit for the year.

Cash flow

KONGSBERG had a positive cash flow from operating activities of MNOK 2,189 (MNOK 2,899) in 2018. This primarily consists of a MNOK 1,394 EBITDA, 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 2018, there was a negative cash flow related to investment activities of MNOK 382 (MNOK 528). Of these, MNOK 211 was related to the net purchase/sale of property, plant and equipment, and MNOK 130 is related to capitalised research and development. Cash flow from financing activities is MNOK 5,250, which is mainly related to payments of equity from the completed rights issue of MNOK 4,937 (net after issue costs), new bond loans totalling MNOK 1,000, dividend payments of MNOK 450 and interest payments of MNOK 100.

Net change in cash and cash equivalents, after the effect of exchange rate changes, was MNOK 7,082 (MNOK 1,068).

Capital structure

The Group's equity as of 31 December 2018 was MNOK 12,626, which is 45.7 per cent of total assets. The book value of equity increased by MNOK 5,261 in 2018, MNOK 4,951 of which was related to the November 2018 rights issue (net after issue costs and tax). The Group's net interest-bearing debt (cash less interest-bearing debt) as of 31 December 2018 was MNOK -5,706. Long-term interest-bearing debt mainly consists of six long-term bond loans totalling MNOK 4,000. The Group also has a bond loan of MNOK 250 maturing in 2019.

The Group also has an undrawn syndicated loan facility of MNOK 2,300 which matures on 15 March 2023.

KONGSBERG's business requires a long-term perspective in both performance and strategy. At the same time, the need for working capital may vary substantially. This calls for sound liquidity and predictable access to capital over time.Accordingly, one of the Group's goals is to maintain a good credit rating with its lenders and investors.

Foreign currency

The company's currency policy means that contractual currency flows are hedged by forward contracts (fair value hedges). In addition, the Group hedges a proportion of expected order intake for large contracts according to the established policy (cash flow hedges). The Group uses hedge accounting.

At the end of 2018, the balance of forward contracts related to fair value hedges was MNOK 8,283 measured at the hedged rates. On 31 December 2018, these forward contracts had a net negative fair value of MNOK 384. In addition, the Group had a negative value (net purchases) of MNOK 4,604 in cash flow hedges measured at agreed rates, consisting of forward contracts. On 31 December 2018, these forward contracts had a net positive fair value of MNOK 67.

KONGSBERG has established strong positions within both the civil and defence areas in recent years.

OUTLOOK FOR 2019

KONGSBERG has strengthened and established new, strong and important positions within both the civil and defence areas in recent years.

In our civil areas, in a period of generally challenging markets, we have focused heavily on existing and new markets. There is also a great deal of international interest in the modern product portfolio from our defence area. This bodes well for future order intake in both the short and long term, and provides a solid foundation for long-term growth. Fluctuations in the margin situation must be expected between quarters, as a consequence of milestones achieved and the current combination of projects.

In 2019, KM will highly prioritise the completion, and then integration, of the ongoing acquisition of RRCM. Extensive preparations are under way to ensure that the process is successful. KM delivers to the entire vessel market, including merchant marine, offshore and other specialised vessels, which makes KM more robust. With equipment installed on over 18,000 vessels, a figure which will increase to 25,000 with RRCM, the after-market also offers significant opportunities for this business area. We are expecting the new build market to continue to be challenging in 2019. However, operating revenues are expected to increase this year compared to last year, based on the order intake in 2018 and some improvement in the after-market.

KDA has been selected as the preferred supplier for several programmes, for which contracts are expected to be signed over the next 24 months. The contract signing dates could thereby affect operating revenues in the current year. Orders which have already been signed are providing the basis for some growth in 2019 compared to 2018, irrespective of these.

In recent years, KDI has been investing considerably in establishing new positions and strengthening existing positions related to the digitalisation of core areas within the oil and gas, wind and merchant shipping markets. Order intake was around 25 per cent higher in 2018 than in 2017. There will continue to be a focus on developing this area.

FUTURE STRATEGY AND PRIORITIES IN 2019

KONGSBERG is a global technology group that delivers systems and solutions with extreme performance for extreme conditions. What KONGSBERG delivers is often of strategic importance for our customers, and contributes to the satisfaction of important societal needs and

THE BUSINESS AREAS' PRIORITIES IN 2019

Kongsberg Defence & Aerospace

- Ensure good implementation of the major ongoing programmes.
- Further develop cooperation with Patria, and together with AIM develop into a strong, international player within military maintenance.
- Ensure international market opportunities and industrial co-operation related to Norwegian defence investments.
- Secure strategically important contracts.

Kongsberg Maritime

- Integrate the commercial maritime business from Rolls-Royce in a way that creates value.
- Turn around areas with unsatisfactory profitability.
- Secure and take new market positions, both within new and established main segments

Kongsberg Digital

- Ensure further development of the area through order intake from priority areas such as "digital twin".
- Nurture innovation and digital transformation through cooperation with small and large partners on our cloud-based platform Kognifai.
- Ensure that KDI has the necessary strength to occupy significant positions within priority areas.

The market value of KONGSBERG shares was MNOK 21,167 at the end of 2018.

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.

KONGSBERG's focus is to ensure increased competitiveness while also laying the foundation for profitable growth. Growth will come through a combination of organic growth and acquisitions. Organic growth should be 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 continuously investing in product development and aims to maintain a leading position with regards to innovation and technology development within the Group's core areas.

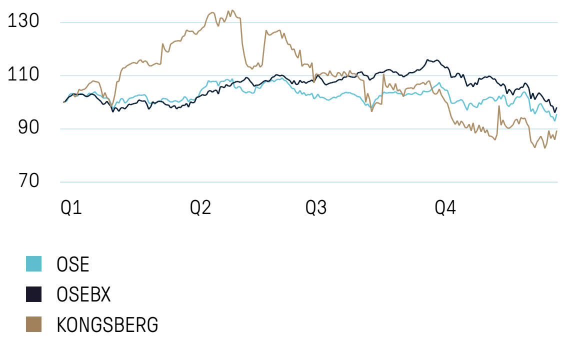
KONGSBERG has world-leading products and systems for the international defence market. The main focus for KDA is to secure strategically important contracts and achieve growth in selected geographical areas, both through our own activities and in collaboration with partners. KONGSBERG's goal is to be a leading defence supplier in Northern Europe. 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.

The AIM transaction is expected to be completed in the first half of 2019. The acquisition of AIM will further strengthen KONGSBERG's position as a strategic partner for the Norwegian Armed Forces. Also see the description of AIM under "Acquisition and share issue" on page 94.

KONGSBERG has leading positions in the marine market. KM's strategy is to expand deliveries and after-market activities through continued innovation and acquisitions. The marine market is changing and KM has identified four key areas: (i) integrated solutions, (ii) digitalisation, (iii) remote services and (iv) autonomy. In 2018, KM carried out a significant and strategically important acquisition of the commercial maritime business of Rolls-Royce. The transaction is expected to be completed on 1 April 2019. The acquisition is central to the success of the strategy of taking a leading position in integrated maritime solutions, further strengthening the international sales and service set-up and remaining at the forefront of the

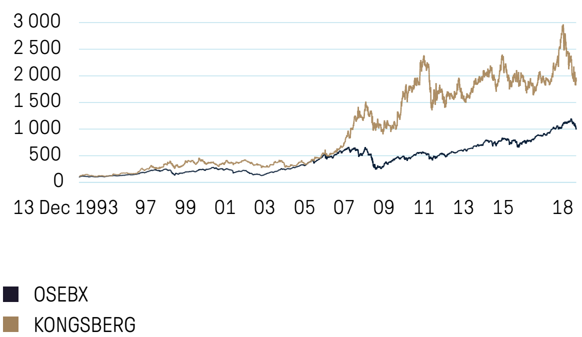
Share price development in 2018

NOK (indexed at NOK 100 per 1 January 2018)



Share price development since listing on the Oslo Stock Exchange

NOK (Indexed at NOK 100 – 31 December 1993)



development of new advanced solutions.

KDI is well positioned to become a key player within the digital transformation. In the future, the main focus for KDI will be the roll-out of an advanced solution for "digital twins" and advanced systems to connect vessels to land through the digital platform Kognifai. An important area of focus for KONGSBERG is to ensure that KDI has the necessary strength to take a significant position within these key areas.

KONGSBERG SHARES AND SHAREHOLDERS

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

On 28 November 2018, 59,990,065 new shares in KONGSBERG were issued in connection with a rights issue linked to the acquisition of RRCM, bringing the total of shares issued to 179,990,065. The number of shares issued before the rights issue was 120,000,000. The State, represented by the Ministry of Trade, Industry and Fisheries, participated in the rights issue with the State's pro rata share, and has maintained its stake after the issue (50.001 per cent). The rights issue closed on 22 November and new share capital was registered on 28 November 2018. The preferential rights had coverage of 99.2 per cent, of which the remaining preferential rights were distributed pro rata on oversubscription to subscribers with subscription rights. The rights issue had 25.7 per cent oversubscription. Offer shares were not awarded to subscribers other than holders of subscription rights.

The price of the KONGSBERG share decreased from NOK 131.18 at the end of 2017 to NOK 117.60 at the end of 2018. This gives a market value at the end of 2018 amounting to MNOK 21,167. Including a dividend of NOK 3.75 per share, the return in 2018 amounted to -8.4 per cent. In the same period, the main index (OSEBX) on the Oslo Stock Exchange saw a reduction of 1.8 per cent. As of 31 December 2018, KONGSBERG had 11,594 shareholders (9,247). The Group had 902 (820) foreign shareholders who collectively owned 17.37 per cent (14.28 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 71.34 per cent (75.88) of the shares. The number of shares outstanding is 179.99 million (120 million), each with a nominal value of NOK 1.25. By the end of 2018, KONGSBERG held a total of 19,869 (8,961) treasury shares.

KONGSBERG has paid dividends to its shareholders in 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 for the year. In determining the size of the dividend, the expected future capital requirements shall be considered.

At the Annual General Meeting on 16 May 2018, an ordinary dividend of NOK 3.75 per share (2017) was agreed upon.

For the financial year of 2018, the Board proposes paying an ordinary dividend totalling MNOK 450 (MNOK 450), equivalent to NOK 2.50 per share (NOK 3.75 per share). The dividend represents 64.2 per cent (81.2 per cent) of the ordinary profit for the year.

KONGSBERG is exposed to different types of risks, and the Board closely monitors trends in the various risk areas. 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.

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

In 2018, a total of 48.9 million (17.9 million) KONGSBERG shares were traded in 237,274 (65,354) transactions. On 28 November 2018, the number of shares increased by 59.99 million. 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 2019 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 2018, the Group's annual share programme for employees was carried out for the 22nd time. Shares are sold to employees with a 20 per cent discount on the market price. In 2018, employees were offered shares for up to NOK 30,000 after discount. A total of 446,868 (550,951) shares were sold at a price of NOK 138.50 (20 per cent discount on the market price). 2,269 (2,132) employees took advantage of the offer.

RISK FACTORS AND RISK MANAGEMENT

KONGSBERG is exposed to different types of risks, and the Board closely monitors trends in the various risk areas. 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 reviewed by the Board. The administration carries out annual risk analyses of more general nature. In addition, the administration (and the Board) perform risk analyses when considering major investments, customer contracts, ventures and acquisitions. The Board has an Audit Committee to support the Board to deal with the financial statements and relevant judgement issues, and to follow up internal control, compliance 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 market, merchant marine and defence. Market risk could therefore vary somewhat within these different segments.

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. The investment levels could also vary between the various geographical areas depending on e.g. oil reserves and the level of exploration and production activities. The negative trend in recent years in the oil, gas and offshore market have increased corporate risk and affected the corporate activity level, and this has particularly affected KM. 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 is a significant transaction for the Group, and it is crucial to able to integrate the business into KM successfully and quickly. This represents a significant risk factor for the Group, particularly in 2019. Since the decision on the acquisition was taken, the Group has devoted considerable resources to planning the take-over, and the risk is being, in the opinion of the Board, managed in a satisfactory way.

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.

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 the 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 various financial risks, and aims to balance the financial risk elements in order to promote predictability in the Group. Financial risk at KONGSBERG 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 detail in Note 5, "Financial risk management objectives and policies".

KONGSBERG has a diversified customer base mainly comprising public institutions and larger private companies in a number of countries. Historically, the Group has had minor 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 as well as the use of liquidity prognoses.

With a large portion of foreign customers and contracts in foreign currency, the Group's revenues are affected by fluctuations in exchange rates. KONGSBERG's currency policy implies that the contractual currency cash flows are hedged mainly by using forward contracts. In addition, a share of the expected order intake is hedged in accordance with the prescribed guidelines that govern how large a share of the expected order intake should be hedged, depending on the time to the expected order intake.

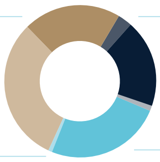
KONGSBERG has for several years established and developed compliance functions. Regulations, as well as monitoring and reporting systems are established for managing risks related to areas such as anti-corruption, supply chains and whistleblowing. Training within the area of ethics and compliance is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

We conduct periodic evaluations of our compliance and anti-corruption program. The most recent was an external evaluation of Kongsberg Group 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.

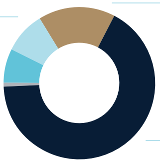
The Board considers KONGSBERG's compliance programme to be of a good level internationally.

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 manipulation and phishing scams. Executive management prioritises and focuses on monitoring and measures to prevent attacks. The main focus with regards to cyberattacks 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.

Geographical distribution of revenues



Geographical distribution of employees



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-oriented technology competence within digitalisation is being built in KDI. We are also working with our main technology partners to further develop our technology platform. KONGSBERG continuously invests in product 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.

CORPORATE SOCIAL RESPONSIBILITY

KONGSBERG shall represent a 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 "license 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 is of the opinion that health, safety and environment is handled in a manner 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 2018, KONGSBERG's first "Global HSE Day" was organised, a joint HSE campaign for the entire group, with "Awareness" as a common theme for the campaign. Other training measures and campaigns have been implemented, adapted to the different risk areas, and this contributes to and promotes a good HSE culture. Risk analyses are carried out regularly and form an important part of the preventive HSE work.

The reduction of work-related events with and without absence ("TRI") has continued, from 3.2 in 2017 to 1.6 in 2018. The number of registered events involving absence has dropped from 31 to 13. Absence due to illness continues to be low within the Group, 2.6 per cent (2.3 per cent i 2017). For businesses in Norway, there was a small increase to 3.0 per cent, from 2.8 per cent in 2017. 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 72.

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 2018, 34 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.

CLIMATE AND ENVIRONMENT

The climate and environmental statement provides an overview of KONGSBERG's consumption of energy, CO2 emissions and waste processing. The Groups' 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.

Our climate statement shows that CO_2 emissions have increased by 10 per cent from 2017 to 2018, mainly due to increased travel activity (reduced by 3 per cent from 2017 to 2018).

A detailed overview of the climate and environmental statement for 2018 can be found in the Group's report on sustainability for 2018, page 73.

The Group has adopted a target of reducing 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. The reduction achieved between 2015 and 2018 was 10 per cent of actual emissions (tonnes of CO_2). No serious incidents related to environmental pollution were reported in 2018.

PERSONNEL AND ORGANISATION

Number of employees	*31 Dec 18*	*31 Dec 17*
Kongsberg Defence & Aerospace	2 448	2 421
Kongsberg Maritime	3 794	3 819
Other	600	590
Total in the Group	**6 842**	**6 830**
Proportion outside Norway	34%	35%

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 attract people with the right competences and behaviours to address the technical challenges of tomorrow in a sustainable manner. Cooperation is fundamental to our business. In 2018, the "Collaboration Award" was awarded for the first 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 Business Conduct 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 competencies. 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 puts emphasis on strengthening competences and

The Groups' most significant positive contribution to the climate challenges is that a great number of our products and solutions are contributing in various ways to reduced emissions.

is continuously working to develop our employees.
66 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 2018, there were 42 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 adds value and increased competitiveness. It expands the mind-set and has 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 or gender. A total of 1,490 (22 per cent) of the employees are women, and three of five shareholder-elected directors on the Board are women. As of 31 December 2018, 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".

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 on pages 75-90 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 before the 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 27 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 1,313 in 2018. The Board proposes the following allocation of profit for the year in Kongsberg Gruppen ASA:

Dividends	MNOK	450
To other equity	MNOK	863
Total allocated	MNOK	1 313

The proposed dividend constitutes 64.2 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, 21 March 2019

Eivind Reiten
Chairman

Irene Waage Basili
Deputy chairman

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Director

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
President and CEO

Financial Statements and Notes

Consolidated income statement 1 January–31 December

KONGSBERG (GROUP)

MNOK	*Note*	*2018*	*2017*
Operating revenues	6, 7	14 381	14 490
Total revenues		**14 381**	**14 490**
Material cost	9	(4 297)	(4 417)
Personnel expenses	10, 11	(5 929)	(5 788)
Other operating expenses	29	(2 942)	(3 193)
Share of net income from joint arrangements and associated companies	8	181	187
Operating profit before depreciation and amortisation (EBITDA)	6, 32	**1 394**	**1 279**
Depreciation	6, 12	(350)	(353)
Impairment of property, plant and equipment	6, 12	(6)	(40)
Operating profit before amortisation (EBITA)	6, 32	**1 038**	**886**
Amortisation	6, 13	(93)	(114)
Earnings before interest and taxes (EBIT)	6, 32	**945**	**772**
Financial income	15	59	47
Financial expenses	15	(160)	(165)
Profit before tax		**844**	**654**
Income tax expense	16	(140)	(95)
Profit for the year		**704**	**559**
Attributable to			
Equity holders of the parent		701	554
Non-controlling interests		3	5
Earnings per share in NOK			
- ordinary earnings per share / diluted earnings per share	17	5.58	4.62

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

KONGSBERG (GROUP)

MNOK	*Note*	*2018*	*2017*
Profit for the year		**704**	**559**
Specification of other comprehensive income			
Items to be reclassified to profit or loss in subsequent periods			
Change in fair value:			
– Cash flow hedges, currency	20C	86	598
– Interest rate swap / basis swaps	20C	(21)	(89)
Income tax effect in cash flow hedges and interest rate swaps	16	(16)	(124)
Translation differences, currency		70	211
Total items to be reclassified to profit or loss in subsequent periods		**119**	**596**
Items not to be reclassified to profit or loss			
Actuarial gain/loss on pension expense	11	54	(76)
Tax effect on actuarial gain/loss on pension	16	(12)	18
Total items not to be reclassified to profit or loss		**42**	**(58)**
Other comprehensive income for the period		**161**	**538**
Comprehensive income for the period[1)]		**865**	**1 097**
Attributable to			
Equity holders of the parent		862	1 092
Non-controlling interests		3	5

1) Total comprehensive income for the period is the sum of the period's ordinary income (profit for the year) and other comprehensive income. The other comprehensive income is the sum of the changes to items recognised directly in equity in the period.

Consolidated statement of financial position at 31 December

KONGSBERG (GROUP)

MNOK	*Note*	*2018*	*2017[1)]*
Assets			
Fixed assets			
Property, plant and equipment	12	2 531	2 658
Goodwill	13, 14	2 011	1 981
Other intangible assets	13	878	822
Shares in joint arrangements and associated companies	8	3 400	3 358
Other non-current assets	18	188	204
Total non-current assets		**9 008**	**9 023**
Current assets			
Inventories	9	2 174	1 873
Trade receivable	19	2 802	2 755
Other short-term receivables	19	460	358
Customer contracts, assets	7	2 994	3 498
Derivatives	20A	182	213
Cash and cash equivalents	21	10 038	2 956
Total current assets		**18 650**	**11 653**
Total assets		**27 658**	**20 676**
Equity, liabilities and provisions			
Equity			
Issued capital		5 933	982
Other reserves		554	435
Retained earnings		6 119	5 914
Equity attributable to owners of the parent		**12 606**	**7 331**
Non-controlling interests		20	34
Total equity	22	**12 626**	**7 365**
Non-current liabilities and provisions			
Long-term interest-bearing loans	20D	4 020	3 340
Pension liabilities	11	538	647
Provisions	23	128	140
Deferred tax liability	16	1 293	1 272
Other non-current liabilities		11	21
Total non-current liabilities and provisions		**5 990**	**5 420**
Current liabilities and provisions			
Customer contracts, liabilities	7	5 157	4 283
Derivatives	20A	580	645
Provisions	23	515	543
Short-term interest-bearing debt	20D	312	-
Other current liabilities	24	2 478	2 420
Total current liabilities and provisions		**9 042**	**7 891**
Total liabilities and provisions		**15 032**	**13 311**
Total equity, liabilities and provisions		**27 658**	**20 676**

1) When implementing IFRS 15 Revenue from contracts with customers from 1 January 2018, some lines in the statement of financial position at 31 December 2017 were revised. See note 3 T) "Standards in IFRS that were implemented with effect from 1 January 2018".

Kongsberg,
21 March 2019

Eivind Reiten
Chairman

Irene Waage Basili
Deputy chairman

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Director

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
President and CEO

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 develop-capital*	*Hedging reserve*	*Translation differ-ences*				
Equity at 1 Jan 17		150	832	(509)	349	5 869	6 691	34	6 725
Profit for the year						554	554	5	559
Other comprehensive income				385	210	(58)	537		537
Transactions with treasury shares						(1)	(1)		(1)
Dividends paid	22					(450)	(450)		(450)
Dividends, non-controlling interests								(3)	(3)
Translation differences, non-controlling interests								(2)	(2)
Equity at 31 Dec 17		150	832	(124)	559	5 914	7 331	34	7 365
Equity at 1 Jan 18		150	832	(124)	559	5 914	7 331	34	7 365
Profit for the year						701	701	3	704
Other comprehensive income				49	70	42	161		161
Transactions with treasury shares						(3)	(3)		(3)
Dividends paid	22					(450)	(450)		(450)
Capital increase	22	75	4 922				4 997		4 997
Net costs connected to the capital increase (reduced to reflect effect of taxes)			(46)				(46)		(46)
Purchase/sale, non-controlling interests						(85)	(85)	(14)	(99)
Dividends, non-controlling interests								(5)	(5)
Translation differences, non-controlling interests								2	2
Equity at 31 Dec 18		225	5 708	(75)	629	6 119	12 606	20	12 626

Consolidated statement of cash flow 1 January–31 December

KONGSBERG (GROUP)

MNOK	*Note*	*2018*	*2017*
Profit for the year		**704**	**559**
Depreciation/impairment of property, plant and equipment	12	356	393
Amortisation/impairment of intangible assets	13	93	114
Net finance items	15	101	118
Income tax expense	16	140	95
Operating profit before depreciation and amortisation (EBITDA)		**1 394**	**1 279**
Adjusted for			
Change in customer contracts, assets		575	48
Change in customer contracts, liabilities		874	541
Changes in other current liabilities		59	240
Changes in inventories		(301)	705
Changes in receivables		(78)	303
Changes in other current receivables		(102)	-
Changes in provisions and other accruals		(113)	(114)
Income tax paid	16	(119)	(103)
Change in net current assets and other operations-related items		**795**	**1 620**
Net cash flows from operating activities		**2 189**	**2 899**
Cash flow from investing activities			
Proceeds from property, plant and equipment	12	19	11
Purchase of property, plant and equipment	12	(230)	(339)
Capitalised internal developed intangible assets (R&D)	13	(130)	(187)
Purchase of intangible assets	13	(11)	(2)
Proceeds from acquiring subsidiaries and associated companies		(30)	(11)
Net cash flow used in investing activities		**(382)**	**(528)**
Cash flow from financing activities			
Proceeds from interest bearing loans	20D	1 000	-
Repayment of interest bearing loans	20D	(4)	(740)
Capital increase	22	4 997	-
Costs connected to the capital increase (before the effect of taxes)		(60)	-
Interest paid		(100)	(110)
Transactions with treasury shares		(20)	(18)
Transactions with non-controlling interests		(115)	(3)
Dividends paid	22	(448)	(448)
Net cash flow from financing activities		**5 250**	**(1 319)**
Total cash flow		7 057	1 052
Effect of changes in exchange rates on cash and cash equivalents		**25**	**16**
Net change in cash and cash equivalents		**7 082**	**1 068**
Cash and cash equivalents at the beginning of the period		**2 956**	**1 888**
Cash and cash equivalents at the end of the period	21	**10 038**	**2 956**

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 2018 at its meeting on 21 March 2019. The consolidated financial statements for 2018 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 off to the nearest million, unless otherwise specified.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and their interpretations, as well as the Norwegian disclosure requirements pursuant 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 13 "Intangible assets"
- Note 3 H "Summary of significant accounting policies – Leases, sale and leaseback"
- Note 3 J "Summary of significant accounting policies – Financial Instruments" and Note 20 "Financial Instruments"
- Note 7 "Customer contracts"
- Note 11 "Pensions"
- Note 14 "Impairment testing of goodwill"
- Note 19 "Receivables and credit risk"
- Note 23 "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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and de-consolidated when control ceases.

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 purchased, the results, assets and liabilities in the consolidated accounts are recognised from the time of purchase. 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. When enterprises are acquired and there are non-controlling interests, goodwil mainly is limited to KONGSBERG's proportionate share.

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 consideration classified as an asset or liability are recognised according to IFRS 9 in the income statement. Transaction costs incurred in connection with the business combination are expensed as they accrue.

Entities that constitute the Group are listed in Note 30 "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 statements include 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 in which the Group has an obligation to cover the losses.

Elimination of transactions
All intra-group purchases, sales, balances and unrealised gains between Group and associated entities are eliminated in full. 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. 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 will be assessed to find the correct revenue recognition.
Step 1: Identifying customer contracts
Step 2: Identifying separate performance obligations
Step 3: Stipulating 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 of the evaluation model specifies criteria that a customer contract must meet. The main criteria are that the contract must have commercial substance, and key terms of delivery must be agreed upon (the parties' rights and obligations, terms of payment etc.). It must also be probable that KONGSBERG will receive compensation for the delivery. In principle, a customer contract does not have to be in writing, but KONGSBERG has set this as a requirement in internal guidelines.

Step 2: Identifying separate performance obligations
The accounting standard 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 deal with 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 contract terms. 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 package that are used by the customer independently of one another, goods with service agreements, licences and services. The latter type of contracts are relevant for certain individual areas of KONGSBERG. However, products that are delivered under the same customer contract are usually either assembled as one system, giving the customer a total value, or they are part of a series of more or less identical products.

Step 3: Stipulating the transaction price
The third step is to stipulate the transaction price, which is equivalent to the expected consideration from the customer. This amount will in most cases be easy to determine as our customer contracts often apply fixed prices. However, certain cases need to be assessed. These are chiefly various forms of discounts and incentives, and financing items in contracts and options. The two latter elements are the most relevant for KONGSBERG. For contracts with a significant financing item, the interest rate component must be separated out from the contract income.

Step 4: Allocating the transaction price
When the transaction price has been determined, the transaction price 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 is 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 because the systems operate together and because the delivery is usually approved as a whole. One delivery obligation can still be allocated different prices for different parts of the customer contract. This is performed according to the relevant stand-alone principles described above. The result of this is that the level of earnings in different project phases may vary as a result of which products are delivered.

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 set date 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 recognises 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. 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) and 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 mainly has contracts that give KONGSBERG a legal right to coverage of costs incurred plus margin, in case the customer terminates the contract without sufficient reason.

"Customer contracts, assets", and "customer contracts, liabilities"
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 the projects without any value creation. 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 without being installed in the projects, balances with subcontractors and other accruals that fall within the new rules. Sometimes prepayments are received from the customer, in which case the project is presented as a customer contract liability.

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 will be 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 it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately. A customer contract is expected to result in a loss when expected costs exceed expected revenues in the contract. Net allocated funds for contracts with losses are classified in the balance sheet 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 (debt 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 complete payment. 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.

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 the effective interest method, while dividends are recognised on the date when the Annual General Meeting approves them.

Financial expenses consists of interest expenses, 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 the effective interest method.

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 recognised value. The recoverable amount is the highest utility value or net sales 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 14 "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 14 "Impairment testing" 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 profit and loss 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, sale and leaseback

Leases or sales with leaseback contracts, in which KONGSBERG generally takes over all risk and all benefits related to ownership, are classified as financial leases. At the time of initial recognition, the value of the agreement is measured at the lower of the fair value and the net present value of the agreed minimum rent, and value is recognised as an asset in the statement of financial position. At the same time, the rent commitment is recognised as a loan in the statement of financial position. After the time of first incorporation, the asset is treated under the same accounting principle as other assets in the balance sheet in the same category, and the commitment is depreciated over the length of the contract.

Other leases are operating leasing agreements and are not recognised in the Group's statement of financial position. The results from a sale and leaseback transaction that lead to operating leasing agreements are recognised immediately by derecognising the asset and recognising gains or losses. When a sale and leaseback agreement is defined as an onerous contract, the present value of the expected loss is recognised. KONGSBERG's sale and leaseback agreements are considered to satisfy the criteria for operating leasing agreements.

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, cash and cash equivalents, financial liabilities, 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 profit and loss 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 (ECL) 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 forward currency exchange contracts, currency options and interest swap agreements. 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

KONGSBERG's policy is to hedge net exposure in all contractual foreign currency cash flows. In addition, the Group hedges a proportion of expected order intake for large contracts according to the established policy. KONGSBERG has hedged parts of its loans with interest rate swaps.

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 a firm commitment not recognised (fair value/project 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 contract, 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
By hedging highly probable future cash flows, the effective part of the change in fair value of the hedging instrument is recognised in other 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 a highly probable future transaction subsequently leads to the recognition of an asset or liability, the associated gain or loss is reclassified from other comprehensive income to profit and loss during the same period(s) in which the asset or liability affects profit or loss.

In connection with hedges where the future transaction becomes a customer contract, the hedges are allocated to contracts at the 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 profit and loss 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.

At cash flow hedging of financial liabilities, the change in value is transferred from other comprehensive income (OCI) to profit and loss over the term of the liability.

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 entered 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.

(iv) Interest hedging
KONGSBERG also hedges parts of its liabilities with interest swap agreements. Interest rate swaps are entered into, moving from fixed to floating interest rates (fair value hedges).

Reference is made to Note 20 "Financial instruments" for further information.

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 point 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. Available-for-sale reserve
Shares at fair value include the total accumulated net changes in the fair value of financial instruments classified as available for sale.

v. 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 are recognised when the Group has approved a detailed, formal restructuring plan, and restructuring has either started or been announced publicly among the parties involved.

Onerous contracts
Provisions for loss on a contract are included in their entirety at the time that KONGSBERG's expected revenues from a contract are lower than the unavoidable expenses of meeting the obligations under the contract.

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 (OMF), plus a supplement that reflects the duration of the pension liability. Risk coverage is described in Note 11 "Pension". Actuarial gains or losses related to changes in the basis data, estimates and changes in assumptions are recognised in other comprehensive income (OCI).

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 27 "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

Standards and interpretations that are issued up to the date of the issuance of the consolidated financial statements, but not yet effective, are disclosed below. The Group's intention is to implement the relevant amendments when they come into effect.

IFRS 16 Leases
"IFRS 16 Leases" is being implemented with effect from 1 January 2019
IFRS 16 sets principles for recognition of rental agreements. The standard states that the lessee recognises the value of significant leases with a duration exceeding 12 months as assets and liabilities, and that the asset is depreciated over the period of the lease and that the lease payment is reclassified to payment of debt and interest in accordance with the annuity method. Hire of property and buildings is substantial for KONGSBERG. In addition, there is some hire of production facilities and vehicles. According to IAS 17, these are classified as operational lease agreements. These leases will be largely recognised

on the balance sheet, and associated leasing costs will be reflected as depreciation and interest expense. KONGSBERG will apply the modified retrospective method for the transition to IFRS 16, which means that the comparative figures for 2018 are not updated, and that the overall effect on results of depreciation and interest expense will exceed the lease payments in the first few years of the leases with remaining terms.

Taking into account lease obligations as of 1 January 2019, KONGSBERG expects the following accounting effects:

- Increased long-term assets and total assets in the statement of financial position by approximately MNOK 1,600 at the time of implementation, 1 January 2019.
- Increased financial liabilities and total liabilities in the statement of financial position by approximately MNOK 1,600 at the time of implementation, 1 January 2019.
- Reduced annual other operating costs (leasing costs) for 2019 by approximately MNOK 300
- Annual depreciation increases in 2019 by approximately MNOK 260
- Annual interest expenses increases in 2019 by approximately MNOK 100
- Increased annual EBITDA in 2019 by approximately MNOK 300
- Reduced annual profit before tax in 2019 by approximately MNOK -60

IFRIC 23

IFRIC 23 clarifies how uncertain tax positions should be reflected in accounts. 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.

The statement of interpretation applies from 1 January 2019, but is not expected to have significant effects on KONGSBERG's accounting.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

T) IFRS standards implemented with effect from 1 January 2018

IIFRS 9 Financial instruments

IFRS 9, Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities, as well as hedge accounting.

The standard supersedes IAS 39. KONGSBERG has implemented IFRS 9 retrospectively, with the exception of hedge accounting, which the Group has implemented prospectively from the date of transition to IFRS 9. The Group has not prepared comparative figures for the period starting on 1 January 2017. The implementation of IFRS 9 did not involve any major changes compared to how the Group previously recognised financial instruments. IFRS 9 uses slightly different classifications compared to IAS 39. The changes are shown in the table on the next page.

IFRS 9 classification *MNOK*	*Amortised cost*	*Fair value in comprehensive income*	*Fair value with changes in value through profit and loss*	***Total***	*Fair value*
31 Dec 18					
IAS 39 classification					
Derivatives used as hedging					
Derivatives, current assets		182		**182**	182
Derivatives, current liabilities		580		**580**	580
Loans and receivables					
Other non-current assets	162			**162**	162
Receivables	3 262			**3 262**	3 262
Customer contracts in progress[1)]	2 653			**2 653**	2 653
Cash and cash equivalents	10 038			**10 038**	10 038
Available for sale					
Non-publicly-listed equity investments			26	**26**	26
Other financial liabilities					
Interest-bearing loans, long-term	4 020			**4 020**	4 080
Other non-current liabilities	11			**11**	11
Interest-bearing loans, short-term	307			**307**	316
Derivatives, short-term			5	**5**	5
Accounts payable	927			**927**	927
31 Dec 17					
IAS 39 classification					
Derivater benyttet som sikring					
Derivatives, current assets		213		**213**	213
Derivatives, current liabilities		645		**645**	645
Loans and receivables					
Other non-current assets	175			**175**	175
Receivables[1)]	3 113			**3 113**	3 113
Customer contracts in progress[1)]	2 819			**2 819**	2 819
Cash and cash equivalents	2 956			**2 956**	2 956
Available for sale					
Non-publicly-listed equity investments			29	**29**	29
Other financial liabilities					
Interest-bearing loans, long-term	3 330			**3 330**	3460
Derivatives, long-term			10	**10**	10
Other non-current liabilities	20			**20**	20
Accounts payable	947			**947**	947

1) The change in carrying amount value is a result of reclassifications described in Note 3 T) "Standards in IFRS that were implemented with effect from 1 January 2018", IFRS 15 Revenue from contracts with customers.

IFRS 15 Revenue from contracts with customers
IFRS 15 Revenue from contracts with customers
IFRS 15 has been implemented using a fully retrospective method. Implementation of the standards did not have a significant impact on the income statement or equity for 2017. The income statement has therefore not been revised. Reclassifications have been made in the statement of financial position. The comparison figures for 2017 have been revised accordingly.

According to IFRS 15, revenue is recognised when the customer gains control over goods or services. The standard also introduces a five-step method for assessing the timing of revenue. This includes an assessment of whether or not contracts should be split into part-deliveries, price allocation for delivery obligations and whether revenue should be recognised during production or upon delivery. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations.

KONGSBERG has carried out comprehensive assessments of contracts with customers as regards the impact of the standard on the consolidated financial statements, and has reached the following conclusions:

- The Group largely recognised revenue based on the project's percentage completion in accordance with IAS 11, with progress of completion normally being calculated based on costs incurred compared to total anticipated costs. KONGSBERG has maintained this practice following the implementation of IFRS 15 on 1 January 2018.
- According to IFRS 15, customer contracts that apply to the delivery of several almost equal units (serial delivery) are considered as one performance obligation. The Group has several customer contracts of this type, which in 2017 were considered to be separate deliveries and recognised as revenue upon delivery according to IAS 18. The change will have no significant impact on contracts delivered in 2017, but may influence revenue recognition of customer contracts with serial deliveries in the future.
- IFRS 15 contains more detailed provisions than IAS 11 and IAS 18 This concerns the recognition of contingent considerations, costs associated with tenders, waste cost, financing elements in contracts and costs associated with meeting contractual obligations. These provisions will only affect KONGSBERG to a small degree.

Effects on profit and loss, 31 December 2017

	Reported 31 Dec 17	*Change increase (reduction)*	*Revised 31 Dec 17*	*Comments*
Inventories	3 961	(2 088)	1 873	a)
Trade receivable	2 117	638	2 755	b)
Customer contracts, assets	2 018	1 480	3 498	c)
Other current assets	768	(197)	571	d)
Net reduction, assets		**(167)**		
Customer contracts, liabilities	3 388	895	4 283	e)
Other current liabilities and provisions	4 670	(1 062)	3 608	f)
Net reduction, equity and debt		**(167)**		

In connection with the implementation of IFRS 15, we have revised our definitions of the individual accounting lines under working capital, and reclassifications were made which affected “Inventories”, “Trade receivables”, “Customer contracts, assets”, “Other current assets”, “Customer contracts, liabilities” and “Other current liabilities and provisions”, but not total working capital. The results of the changes are shown below.

a) Inventories

Until 1 January 2018, KONGSBERG classified goods purchased for specific customer contracts and parts of projects in progress as inventories. When implementing IFRS 15, this part of the inventories was reclassified as “Customer contracts, assets” and “Customer contracts, liabilities”.

As of 1 January 2018, KONGSBERG defines inventories as follows: “Inventories of raw materials, work in progress and finished products that are not related to specific customer contracts.”

b) Trade receivables

Until 1 January 2018, trade receivables relating to long-term production costs were recognised at net value against recognised prepayments within the same contract. As of 1 January 2018, trade receivables are reported at the value of outstanding invoiced amounts adjusted downwards for provisions for losses. Upon the updating of the comparative figures, reclassification was implemented with the counter-item “Customer contracts, liabilities”.

c) Customer contracts, assets

With the exception of trade receivables, KONGSBERG has collected together all asset items associated with customer contracts on this line. 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 semi-finished goods for projects that are recognised upon delivery. Until 1 January 2018, balance sheet items relating to long-term production costs were reported on a separate line as “Construction contracts in progress, assets”, while assets relating to sales that were recognised upon delivery were classified as “Inventories” and “Other short-term receivables”.

d) Other current assets

Prepayments to suppliers in connection with customer contracts and the accrual of revenue in connection with customer contracts were reclassified to the balance sheet line “Customer contracts, assets” when the comparative figures for 2017 were changed.

e) Customer contracts, liabilities

With the exception of trade creditors, 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. Revenue and cost accruals relating to customer contracts that are recognised upon delivery were reclassified from “Other current liabilities” when the comparative figures for 2017 were updated.

f) Other current liabilities

See the explanation of the reclassification under point e) above.

4 FAIR VALUE

KONGSBERG's consolidated 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 about 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.

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.

Investments in equity instruments

The fair value of financial assets at fair value in the profit and loss statement is measured at the quoted price on the balance sheet date. Listed shares consist either of those listed on the Oslo Stock Exchange, London Stock Exchange, or on the Norwegian Securities Dealers Association's OTC list. For unlisted investments, the most recent price of a share transaction or share issue will be used to estimate fair value. When there has been no trading in shares for a longer period of time, it will be considered whether the last quoted price provides a correct picture of the fair value. The alternative is to use the last traded share price and adjust it for significant events during the period from the last transaction and up to the balance sheet date.

Derivatives

The fair value of forward exchange contracts is based on observable data. KONGSBERG uses Reuters' prices for the foreign exchange forwards, options and basis swaps. Reuters' prices are based on several 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 risk-free interest rate based on government bonds. The fair values of interest swap agreements, basis swaps and currency options are assessed on the basis of the observed market value.

Non-current liabilities

Fair value of interest-bearing loans, cf. Note 20F "Financial instruments – Summary of financial assets and liabilities", is calculated using estimates of the interest curve and KONGSBERG's interest margin as stipulated on the balance sheet date. The estimated cash flows are discounted by the market interest rate expected for comparable loans at the date of the balance sheet. The market interest rate, before the credit mark-up, is based on NIBOR, the money market interest rate.

5 MANAGEMENT OF CAPITAL AND FINANCIAL RISKS

KONGSBERG has a centralised treasury department responsible for the Group's financing, currency risk, interest rate risk, credit risk and liquidity management as well as insurance schemes. The Group's subsidiaries have limited opportunities to establish independent funding or to 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

KONGSBERG's operations are characterised by long-term contracts that may extend for several years, while the Group in all business areas has a long-term marketing strategy. This requires reliable access to capital over time, and KONGSBERG aspires to be considered by its lenders and investors to have a good credit rating. The capital structure of the Group consists of interest-bearing debt, cash and cash equivalents and equity attributable to the shareholders of Kongsberg Gruppen ASA. The Group has satisfactory access to capital in the NOK market, and has therefore concluded that there is no need to be subject to official rating from global credit rating companies.

In order to adjust the capital structure, the Group may pay dividends to the shareholders, or issue new shares. Since 2013, the Group has practised a dividend policy that, over time, will make up between 40 and 50 per cent of the company's ordinary profit for the year after tax. In determining the size of the dividend, the expected future capital requirements shall be considered.

In 2018, Kongsberg Gruppen ASA issued 60 million new shares and raised MNOK 4,951 net in new equity in connection with the acquisition of Rolls-Royce Commercial Marine.

KONGSBERG emphasises financial flexibility in order to carry out capital-intensive growth initiatives.

Loans are to be renegotiated well in advance of their due date, and the aim of the Group is that the average term to maturity for current loans is to be at least two years.

KONGSBERG aims to have a diversified selection of funding sources and a balanced maturity structure. This implies the use of banks based on syndicated credit facilities and the issue of debt instruments on the Norwegian capital market. Please refer to Note 20 D "Financial instruments – Interest rate risk associated with loans".

Due to covenants on existing loans, KONGSBERG shall have a moderate gearing ratio (net interest-bearing liabilities/EBITDA). Net interest-bearing liabilities should not exceed four times the EBITDA, but can be up to 4.5 times the EBITDA for a maximum of four quarters, of which three are consecutive ones. KONGSBERG has a loan facility of MNOK 2,300. The credit facility has a 5 year term to maturity, and the credit facility is undrawn.

Liquidity risk

At KONGSBERG, liquidity risk is understood as financial preparedness achieved by ensuring that the Group has financial parameters and liquidity appropriate to its operating and investment plans at all times. The centralised treasury department bears the overall responsibility for managing the Group's liquidity risk. The Group's Financial Policy specifies requirements for liquidity reserves which guarantee that the Group will always be able to meet its payment obligations.

Short-term liquidity needs are normally covered by bank deposits and the balance on the group cash pool systems. Any further liquidity needs may be covered by short-term loans within the framework of the syndicated credit facility. KONGSBERG has Group bank account schemes to which all subsidiaries are connected. These schemes optimise 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. Please also refer to Note 20 E "Financial instruments – Liquidity risk".

Currency risk

A large share of KONGSBERG's revenue is related to export contracts, and there is a relatively small percentage of purchasing in the same currency, which involves a considerable foreign currency exposure. The business areas identify exposure to each contract, whilst the central financial function offers instruments that reduce currency risk.

KONGSBERG has a policy of hedging net exposure in all contractual currency flows (fair value hedges).

According to policy, the Group also hedges a proportion of foreign currency exposure for expected large contracts (cash flow hedges). The Group's foreign currency policy is evaluated annually and presented to the Board for approval.

The hedging instruments that are used are mainly forward contracts. Options are used only to a limited extent. Bank accounts within the group account schemes are used to hedge small amounts with a short term to maturity. In addition to financial instruments, actions such as ensuring that costs incurred are in the same currency as the sales contract, are used to reduce foreign currency exposure. KONGSBERG uses a financial system that handles all foreign exchange transactions.

Note 20 B "Financial instruments – Foreign currency risk and the hedging of foreign currency" has more information.

Interest rate risk

As of 31 December 2018, KONGSBERG had seven bond loans totalling MNOK 4,250 and an undrawn syndicated credit facility of MNOK 2,300. The bond loan KOG07, has a fixed interest rate, and an interest rate swap agreement from fixed to floating interest in relation to this loan, whilst the bond loans KOG09 and KOG11 have fixed interest rates. The loans KOG08, KOG10, KOG12 and KOG13 have floating interest rates.

KONGSBERG has a policy of emphasising predictability for interest expenses at times when the interest level has a significant impact on consolidated profits. Each year, the funding plan is presented to the Board to consider the interest rate exposure. Note 20 D "Financial instruments – interest rate risk" has more information.

Credit/counterparty risk

Counterparty risk is the risk that KONGSBERG's contractual counterparty will not meet its obligations to KONGSBERG or settle its forward currency contracts, interest rate contracts and monetary investments. KONGSBERG's financial policy requires financial institutions to have a certain credit rating before KONGSBERG can engage in financial contracts with them.

The Group is exposed to credit risk from trade receivables, and the business areas are responsible for their own credit risk. These receivables carry varying degrees of risk, and depend on the customer, term to maturity and whether any payment guarantees or similar have been provided.

Historically, the Group has had a relatively low percentage of bad debts. Kongsberg Defence & Aerospace has mostly government customers and is therefore not that exposed to credit risk. Kongsberg Maritime generally serves customers from the private sector, and is more exposed to credit risk. Unrest in the shipyard and shipping industry increases the credit risk in the markets addressed by Kongsberg Maritime. Kongsberg Maritime has made provisions to take this into account. Kongsberg Maritime has its own credit manual and dedicated employees to monitor and reduce the credit risk. Credit insurance is used only to a limited extent, but is considered in certain cases.

The Group has a policy decision of maintaining a responsible balance between increasing sales at good 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. Concerning credit risk, KONGSBERG has strict requirements for creditworthiness.

Note 19 "Receivables and credit risk" has more information.

Market risk arising from financial investments

KONGSBERG's investments in other companies are based on strategic considerations. The value of the Group's financial investments is exposed to fluctuations in the equity market. Investments are evaluated and followed up centrally. The Group regularly reports on trends in the value of financial investments.

6 OPERATING SEGMENTS

For management purposes, the Group is organised into business areas based on the industries in which the Group operates. As at 31 December 2018, reporting requirements apply to the following two operating segments:

Kongsberg Maritime develops and delivers systems for positioning, monitoring, navigation and automation for merchant vessels and the offshore industry. The business area is a market leader in dynamic positioning, automation and surveillance systems, process automation, fisheries, satellite navigation and hydroacoustics, as well as back-deck handling equipment for use on offshore vessels. Countries with significant offshore and shipbuilding industries are important markets. 28 per cent of Kongsberg Maritime's operating revenues comes from Global Customer Support, 27 per cent from Subsea, 25 per cent from Solutions and 19 per cent from Vessel Systems.

Kongsberg Defence & Aerospace is a leading supplier of defence and space-related systems and products. The business area supplies products and systems for command and control, weapon control systems and surveillance, communications solutions, remote weapon stations and missiles. The business area has expertise and production equipment to make advanced composite and engineering products for the aircraft, offshore and helicopter markets. One key element of the market strategy is to form alliances with major international defence enterprises. For Kongsberg Defence & Aerospace, 11 per cent of the operating revenues are related to Missile Systems, 27 per cent to Integrated Defence Systems, 27 per cent to Protech Systems, 10 per cent to Space and Surveillance, 14 per cent to Aerostructures and 11 per cent to Defence Communications.

Other

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. In recent years, the area has focused on taking new and strengthening existing positions related to digitalisation within the oil and gas, wind and merchant marine markets.

The 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*	*Elimina-tions*	*Consolidated*
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**
Operating profit before depreciation and amortisation (EBITDA)	**594**	**863**	**(63)**	**-**	**1 394**
Depreciation	(118)	(170)	(62)	-	(350)
Impairment of property, plant and equipment	(5)	(1)	-	-	(6)
Operating profit before amortisation (EBITA)	**471**	**692**	**(125)**	**-**	**1 038**
Amortisation	(18)	(71)	(4)	-	(93)
Earnings before interest and taxes (EBIT)	**453**	**621**	**(129)**	**-**	**945**
Segment assets [1]	6 970	8 520	1 790	-	17 122
Segment investments [2]	80	199	92	-	371
Current segment liabilities and provisions [3]	3 221	4 380	639	(117)	8 123
2017					
Operating revenue from external customers	7 411	6 307	772	-	14 490
Revenue from group companies	18	26	479	(523)	-
Total revenues	**7 429**	**6 333**	**1 251**	**(523)**	**14 490**
Operating profit before depreciation and amortisation (EBITDA)	**589**	**612**	**78**	**-**	**1 279**
Depreciation	(149)	(146)	(58)	-	(353)
Impairment of property, plant and equipment	(40)	-	-	-	(40)
Operating profit before amortisation (EBITA)	**400**	**466**	**20**	**-**	**886**
Amortisation	(32)	(57)	(25)	-	(114)
Earnings before interest and taxes (EBIT)	**368**	**409**	**(5)**	**-**	**772**
Segment assets [1]	6 822	8 818	1 736	-	17 229
Segment investments [2]	134	285	106	-	525
Current segment liabilities and provisions [3]	2 708	4 053	588	(119)	7 230

1) Segment assets do not include derivatives and cash and cash equivalents, as these assets are controlled by the Group's corporate treasury unit.
2) Investments comprise acquired property, plant and equipment, intangible assets and goodwill.
3) 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.

Other activities consist of Kongsberg Digital (KDI), real estate and group functions. From Q1 2018, profit from real estate intercompany rental is no longer distributed to the business areas. The comparative figures have been updated.

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' EBITAs 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	*Note*	*2018*	*2017*
Segment assets		**17 122**	**17 229**
Derivatives	20A	182	213
Fair value adjustments related to financial instruments		316	278
Cash and cash equivalents	21	10 038	2 956
Total assets		**27 658**	**20 676**

Reconciliation of current liabilities and provisions

MNOK	*Note*	*2018*	*2017*
Current segment liabilities and provisions		**8 123**	**7 230**
Short-term interest-bearing debt		312	-
Derivatives	20A	580	645
Fair value adjustments related to financial instruments		8	(4)
Calculated income tax payable		19	20
Total current liabilities and provisions		**9 042**	**7 891**

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***
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**
2017								
Operating revenue from external customers	2 772	3 569	4 448	194	2 974	159	374	**14 490**
Operating revenues as % of the total	19%	25%	31%	1%	21%	1%	3%	
Fixed assets [1]	4 216	134	788	18	304	-	1	**5 461**

1) Fixed assets in this report comprises of property, plant and equipment, goodwill and other intangible assets.

7 CONTRACTS WITH CUSTOMERS

MNOK	*Kongsberg Maritime*	*Kongsberg Defence & Aerospace*	*Other*	*Total*
2018				
Accrual of revenue recognition				
Revenue recognition based on project progress (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] whose revenue is recognised at the time of delivery	2 850	978	133	3 961
Revenue from rental of property, plant and equipment	44	-	78	122
Sum of external revenue from customer contracts	**7 528**	**6 090**	**754**	**14 372**
Profits from sale of property, plant and equipment	9	-	-	9
Total external revenues	**7 537**	**6 090**	**754**	**14 381**
Geographical distribution of external revenue 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
Sum of external revenue from customer contracts	**7 537**	**6 090**	**754**	**14 381**
2017				
Accrual of revenue recognition				
Revenue recognition based on project progress (over time)	4 578	4 371	537	9 486
Revenue recognition upon delivery of goods and services	300	1 246	39	1 585
Aftermarket activities[1] whose revenue is recognised at the time of delivery	2 491	688	123	3 302
Revenue from rental of property, plant and equipment	39	-	73	112
Sum of external revenue from customer contracts	**7 408**	**6 305**	**772**	**14 485**
Profits from sale of property, plant and equipment	3	2	-	5
Total external revenues	**7 411**	**6 307**	**772**	**14 490**
Geographical distribution of external revenue from customer contracts				
Norway	1 375	1 168	229	2 772
Europe	1 820	1 584	165	3 569
America	1 390	2 902	156	4 448
South America	126	26	42	194
Asia	2 608	209	157	2 974
Africa	32	342	-	374
Australia	60	76	23	159
Sum of external revenue from customer contracts	**7 411**	**6 307**	**772**	**14 490**

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.

MNOK	2018	2017
Divisions		
Integrated Defence Systems	1 694	1 837
Protech Systems	1 699	1 960
Aerostructures	888	746
Defence Communications	680	701
Missile Systems	728	659
Space & Surveillance	625	633
Other/eliminations	(210)	(203)
Kongsberg Defence & Aerospace	**6 104**	**6 333**
Global Customer Support	2 327	2 250
Subsea	2 329	2 236
Solutions	2 037	2 001
Vessel Systems	1 556	1 790
Other/eliminations	(704)	(848)
Kongsberg Maritime	**7 545**	**7 429**
Other/eliminations	**732**	**728**
Total revenue from contracts with customers	**14 381**	**14 490**

Contract balances

MNOK	Note	31 Dec 18	31 Dec 17[1]
Trade receivable	19	2 802	2 755
Customer contracts, assets		2 994	3 498
Customer contracts, liabilities		5 157	4 238

1) Reclassifications between inventory and customer contracts and assets are described in more detail in Note 3 T) "Standards in IFRS that were implemented with effect from 1 January 2018", IFRS 15 Revenue from contracts with customers.

Specification of net contract balances

MNOK	Note	31 Dec 18	31 Dec 17[1]
Customer contracts in progress	19	2 653	2 819
Prepayments received from customers		(4 834)	(4 242)
Accrued assets, customer contracts		2 016	3 448
Accrued liabilities, customer contracts		(1 998)	(2 810)
Net contract balances		**(2 163)**	**(785)**

MNOK	31 Dec 18	31 Dec 17[1]
Customer contracts, assets	2 994	3 498
Customer contracts, liabilities	(5 157)	(4 283)
Netto kontraktsbalanser	**(2 163)**	**(785)**

Revenue recognition from customer contracts includes:

MNOK	31 Dec 18	31 Dec 17
Sums included in customer contracts, obligations at the beginning of the year and which are recognised as income in the fiscal year	3 056	3 213
Income from deliveries completed before the accounting year	67	29

Expected date of recognition of the transaction price related to unsettled delivery obligations as of 31 December 2018:

MNOK	2018	2017
During 2019 (2018)	10 356	9 461
2020 (2019) or later	6 927	6 168
Total	**17 283**	**15 629**

8 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 Dec 18*	*Access in the period*	*Received dividends*	*Profit the period[1)]*	*Compre-hensive income the period[2)]*	*Net holding 31 Dec 18*
Patria Oyj	Helsinki, Finland	49.90%	2 806		(81)	80	2	2 807
Kongsberg Satellite Services AS	Tromsø, Norway	50.00%	388		(55)	104		437
Other			164	17	(22)	(3)		156
Total			**3 358**	**17**	**(158)**	**181**	**2**	**3 400**

1) The results from companies that are separate tax entities, such as private limited companies, are adopted after tax and amortisation of excess values.
2) Comprehensive income is exchange differences. Parts of the investment in Patria are hedged in basic swaps. See Note 20 B "Financial instruments - Currency risk and hedging of currency".

Income in the ownership period

	1 Jan 18–31 Dec 18		1 Jan 17–31 Dec 17	
	MEUR	*MNOK*	*MEUR*	*MNOK*
Earnings after tax in Patria (100%)[1)]	29		30	
Minority interests	(4)		(5)	
Earnings after tax in Patria (100%), majority	25	245	25	242
KONGSBERG's share (49.9%)[2)]		122		121
Amortisation of added value after tax		(42)		(46)
Share of net income in the period		80		75

1) Differs from Patria's reported income for 2017 due to provisions in Patria that do not affect KONGSBERG's share of net income.
2) Share of Patria's profit after tax and adjustment for non-controlling interests.

9 INVENTORIES

The Group's total inventories include the following:

MNOK	31 Dec 18	31 Dec 17[1)]
Raw materials	925	828
Work in progress	265	291
Finished products	984	754
Total	**2 174**	**1 873**
Recognised changes in value for inventories	**35**	**55**
Total cost of goods in year amounts to	**4 297**	**4 417**

1) Reclassifications between inventory and customer contracts and assets are described in more detail in Note 3 T) "Standards in IFRS that were implemented with effect from 1 January 2018", IFRS 15 Revenue from contracts with customers.

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.

10 PERSONNEL EXPENSES

Salaries and other personnel expenses represent expenses associated with the remuneration of personnel employed by the Group.

MNOK	Note	2018	2017
Salaries[2)]		4 638	4 417
Employer contributions[2)]		683	659
Pension expenses, defined benefit plans[1)]	11	35	144
Pension expenses, defined contribution pension schemes	11	374	358
Other benefits[2)]		199	210
Total personnel expenses		**5 929**	**5 788**
Average no. of FTEs (full-time employees)		**6 785**	**6 878**

1) The sum for 2017 includes MNOK 122 in costs related to gift pension agreements, including social security expenses. See note 32 "Definitions" regarding restructuring costs.
2) The 2017 figures have been recalculated to show comparable figures.

11 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 2018, approximately 4,560 employees in total were part of the plans in Norway. KONGSBERG endeavours to ensure that as many of its employees as possible outside Norway are also covered by service pension plans.

The 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. 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 27 "Statement on the remuneration of the Group CEO and Executive Management". 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. At 31 December 2018, approx. 4,420 employees in Norway and most of the employees abroad are 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 basic wage 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 27 "Statement on the remuneration of the Group CEO and Executive Management". 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

In 2009, the Group introduced new rules for early retirement for newly hired members of executive management and others in certain key positions. The rules entail early retirement from the age of 65 at the latest, but with reciprocal rights for the Group and the employees to request retirement from the age of 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 contribution years. If the employee resigns between 63 and 65, this will reduce pension earnings for other plans.

The Group decided not to continue the scheme with early retirement agreements for executives employed after 1 July 2013. This also applied to employees in certain key positions who previously were offered agreements on early retirement. These individuals instead receive an additional contribution of 12 per cent of the basic salary in excess of 12G, to the unfunded pension scheme as long as they hold the post, but only until the age of 65 at the latest. After an overall assessment of the State's ownership report, the Group decided on 1 October 2015 not offer any early retirement options.

The calculation of future pensions in the benefits plan is based on the following assumptions:

Economic assumptions	*31 Dec 18*	*31 Dec 17*
Discount rate	2.70%	2.25%
Asset return	2.70%	2.25%
Wage adjustment	2.00%	1.75%
Pension base level (G) adjustment	2.50%	2.25%
Pension adjustment	1.75%	1.25%

Demographic assumptions	*31 Dec 18*	*31 Dec 17*
Mortality	K2013	K2013
Disability	IR 73	IR 73
Voluntary turnover	4.5% for all ages	4.5% for all ages

The pension calculations are based on mortality table K2013. The reason is an increased life expectancy which will lead to higher pension obligations. IR 73 concerns tables for expected disability. The mortality and disability risks are based on public tables and observations of disabilities at KONGSBERG. The probability that an employee in a given age group will become disabled or die within one year, and the life expectancy is as follows:

	Disability %		Mortality %		Estimate life	
Age	*Men*	*Women*	*Men*	*Women*	*Men*	*Women*
20	0.1	0.2	<0.1	<0.1	89	94
40	0.3	0.4	0.1	<0.1	88	92
60	1.4	1.8	0.4	0.3	87	90
80	-	-	4.3	2.9	90	92

The disability rate in IR 73 was chosen because it offers the best approach to KONGSBERG's disability statistics. This is based on KONGSBERG's history in which approx. 25 per cent of the disability pension is reimbursed through an international pool.

The year's pension costs were calculated as follows:

MNOK	*2018*	*2017*
Present value of the year's earned pensions	27	36
Interest cost on accrued pension liabilities	41	47
Estimated return on pension plan assets	(30)	(36)
Administration costs	10	14
Accrued social security expenses	7	9
Total	**55**	**70**
Settlement of old early retirement plan incl. social security tax1)	-	122
Settlement pension scheme incl. social security costs.	(9)	(37)
Total net pension costs for the year including finance items	**46**	**155**
Adjusted for net interest classified as finance expense	(11)	(11)
Total net pension costs for the year	**35**	**144**
Costs of defined contribution plans in Norway	335	319
Defined contribution pension scheme costs abroad	39	39

1) For a definition, see note 32 "Definitions" regarding restructuring costs.

Net interests costs are classified as finance expenses.

Change in net pension liabilities recognised on the balance sheet

	2018			2017		
MNOK	*Funded*	*Unfunded*	*Total*	*Funded*	*Unfunded*	*Total*
Changes in gross pension liabilities						
Gross pension liabilities at 1 January	1 637	388	2 025	1 718	240	1 958
Reclassification of gift pension	-	-	-	-	42	42
Present value of current year's contribution	14	13	27	22	14	36
Interest expenses on pension liabilities	35	6	41	41	6	47
Actuarial losses/gains	47	(21)	26	(22)	(2)	(24)
Settlement of pension scheme	(8)	-	(8)	(32)	-	(32)
Gift pension/plan change	-	-	-	-	107	107
Payments of pensions/paid-up policies	(107)	(44)	(151)	(93)	(32)	(125)
Net change in social security expenses	(5)	(8)	(13)	3	13	16
Gross pension liabilities at 31 December	**1 613**	**334**	**1 947**	**1 637**	**388**	**2 025**
Changes in gross pension fund assets						
Fair value, pension plan assets 1 January	1 378	-	1 378	1 491	-	1 491
Expected return on pension funds	30	-	30	36	-	36
Actuarial losses/gains	74	-	74	(90)	-	(90)
Premium payments	41	-	41	46	-	46
Fund transferred from YTP to ITP	-	-	-	-	-	-
Plan change	-	-	-	-	-	-
Payments of pensions/paid-up policies	(114)	-	(114)	(105)	-	(105)
Fair value, pension plan assets 31 December	**1 409**	**-**	**1 409**	**1 378**	**-**	**1 378**
Net capitalised pension liabilities at 31 December	**(204)**	**(334)**	**(538)**	**(259)**	**(388)**	**(647)**

The distribution of pension plan assets by investment categories at 31 December 2018 and in previous periods:

MNOK	2018	2017	2016	2015	2014
Long-term bonds	464	182	436	492	599
Loans and receivables	344	361	314	271	-
Money market	97	186	377	366	386
Short-term bonds	179	368	180	98	248
Shares	179	146	77	125	194
Property	139	121	96	149	258
Other	7	14	11	5	36
Total	**1 409**	**1 378**	**1 491**	**1 506**	**1 721**
Recognised return on pension plan assets	**2.7%**	**4.4%**	**3.6%**	**4.5%**	**5.4 %**

The secured pension scheme is insured in DNB Liv, 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 DNB Liv carries the risk for the return on the pension funds.

MNOK	2018	2017	2016	2015	2014
Net liabilities at 1 January	(647)	(467)	(497)	(915)	(757)
Reclassification of gift pension	-	(42)	-	-	-
Recognised pension cost	(48)	(61)	(75)	(149)	(144)
Settlement of pension scheme	8	32	7	147	(10)
Gift pension	-	(107)	-	-	-
Premium payments	41	46	49	128	135
Disbursements	47	34	27	18	22
Transition to the equity method	-	-	-	-	7
Actuarial losses/gains	48	(66)	18	222	(147)
Net change in social security expenses	13	(16)	4	52	(21)
Net capitalised pension liabilities at 31 December	**(538)**	**(647)**	**(467)**	**(497)**	**(915)**

Actuarial loss/gain is recognised in the statement of comprehensive income by MNOK 54 incl. social security expenses.

Historical information

MNOK	2018	2017	2016	2015	2014
Gross pension liabilities at 31 December	1 947	2 025	1 958	2 003	2 636
Fair value, pension plan assets 31 December	1 409	1 378	1 491	1 506	1 721
Net pension liabilities 31 December	**(538)**	**(647)**	**(467)**	**(497)**	**(915)**
Actuarial gains/losses pension liabilities 31 December	26	(24)	4	(211)	160
Actuarial gains/losses pension assets 31 December	74	(90)	22	11	13
Accumulated estimated gains/losses recognised in the statement of comprehensive income after tax	**(1 331)**	**(1 374)**	**(1 316)**	**(1 331)**	**(1 521)**
Of which constitute experience deviations	(881)	(928)	(943)	(898)	(1 002)

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 deposit-based pension plan 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 2018, the premium was 2.5 per cent, and the same rate is set for 2019 (estimated at MNOK 80). There is no accumulation of capital in the plan and further increases in the premium level are expected over the coming years.

Other

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 the end of the year. The gross value of pension fund assets is calculated on the assumption that there will be an annual return of 2.70 per cent, being the expectation on 31 December 2018. The value adjusted return on investments was 1.8 per cent, but will not be included in the capitalised assets until 2019.

The premium payments for the closed defined benefit plan for 2019 are approx. MNOK 40 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, projected 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 pension liability would have been approx. 8 per cent higher using a government bond rate of 1.5 per cent, all other factors held constant. Pension adjustments are now calculated after adjustment for inflation compared to minimum adjustments in previous years. The pension liability would have been approx. 7 per cent lower using minimum adjustment, all other factors held constant.

The balance sheet shows net pension liabilities including social security.

Expected pension payments within the defined benefit pension scheme are as follows:

	MNOK
2019	117
2020	119
2021	119
2022	125
2023	128
Next 5 years	574

Sensitivity analysis of pension calculations

The following estimates are based on facts and circumstances that applied at 31 December 2018, provided that all other parameters are constant. Actual results may deviate significantly from these estimates.

	Discount rate		Annual salary growth		Annual basic amount	
Changes in % are percentage points	*1%*	*(1%)*	*1%*	*(1%)*	*1%*	*(1%)*
Change in pension						
Defined benefit obligation (PBO)	(9%)	10%	1%	(1%)	(0.5%)	0.5%
Net pension cost for the period	(11%)	13%	8%	(7%)	(3%)	4%

	Annual adjustment of pensions		Resignation rate		Mortality	
Changes in % are percentage points	*1%*	*(1%)*	*1%*	*(1%)*	*1 year lower expected lifetime at 67 years*	*1 year increased expected lifetime at 67 years*
Change in pension						
Defined benefit obligation (PBO)	9%	(8%)	(0.1%)	0.1%	(4%)	4%
Net pension cost for the period	9%	(8%)	(0.8%)	0.8%	(3%)	3%

When calculating the sensitivity for mortality, we adjust K2013 so that the life expectancy for a 67 year old is increased by 1 year and reduced by 1 year, respectively. This is relevant for life expectancy for a 67 year old in 2018 according to the mortality table K2013.

12 PROPERTY, PLANT AND EQUIPMENT

MNOK	*Land*	*Buildings and other fixed property*	*Machinery and plant*	*Equipment and vehicles*	*Plant under in progress*	*Total*
Acquisition cost						
1 Jan 17	**229**	**2 159**	**1 422**	**1 950**	**250**	**6 010**
Reclassification	-	19	(2)	(17)	-	-
Additions	75	90	156	122	(104)	339
Disposals	-	(16)	(19)	(11)	-	(46)
Translation differences	-	(4)	9	2	2	9
Acquisition cost 31 Dec 17	**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 31 Dec 18	**310**	**2 278**	**1 611**	**2 128**	**122**	**6 449**
Accumulated depreciation and impairment						
1 Jan 17	**-**	**922**	**839**	**1 520**	**6**	**3 287**
Reclassification	-	3	(1)	(2)	-	-
Depreciation for the year	-	96	110	147	-	353
Impairment for the year	-	33	6	1	-	40
Accumulated depreciation through disposal	-	(13)	(13)	(9)	-	(35)
Translation differences	-	(1)	7	3	-	9
Total accumulated depreciation and impairment 31 Dec 17	**-**	**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 31 Dec 18	**-**	**1 117**	**1 000**	**1 795**	**6**	**3 918**
Carrying amount 31 Dec 17	**304**	**1 208**	**618**	**386**	**142**	**2 658**
Carrying amount 31 Dec 18	**310**	**1 161**	**611**	**333**	**116**	**2 531**
Useful life	**N/A**	**10-33 years**	**3-20 years**	**3-10 years**		
Annual rent paid for off-balance sheet property, plant and equipment		**345**		**11**		**356**

Estimation uncertainty

For property, plant and equipment, there is estimation uncertainty with regard to the determination of estimated remaining useful life and expected residual value. These factors are assessed annually.

13 INTANGIBLE ASSETS

MNOK	*Goodwill*	*Technology*	*Capitilised develop-ment*	*Other intangible assets*	*Total*
Acquisition cost					
1 Jan 17	**2 909**	**662**	**952**	**100**	**4 623**
Additions	-	-	187	2	189
Disposals	-	-	-	(1)	(1)
Translation differences	(16)	(6)	-	-	(22)
Acquisition cost 31 Dec 17	**2 893**	**656**	**1 139**	**101**	**4 789**
Additions through business combinations	-	-	8	-	8
Additions	11	4	130	7	152
Disposals	-	-	(2)	-	(2)
Translation differences	19	9	-	1	29
Acquisition cost 31 Dec 18	**2 923**	**669**	**1 275**	**109**	**4 976**
Accumulated amortisation and impairment					
1 Jan 17	**911**	**595**	**286**	**85**	**1 877**
Amortisation	-	45	58	11	114
Disposals	-	-	-	1	1
Translation differences	1	(5)	-	(2)	(6)
Total accumulated amortisation and impairment 31 Dec 17	**912**	**635**	**344**	**95**	**1 986**
Amortisation	-	21	67	5	93
Disposals	-	-	-	-	-
Translation differences	-	8	-	-	8
Total accumulated amortisation and impairment 31 Dec 18	**912**	**664**	**411**	**100**	**2 087**
Carrying amount 31 Dec 17	**1 981**	**21**	**795**	**6**	**2 803**
Carrying amount 31 Dec 18	**2 011**	**5**	**864**	**9**	**2 889**
Useful life		**8–10 years**	**5-10 years**	**8–10 years**	

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

	2018			2017		
MNOK	*Product main-tenance*	*Research and develop-ment costs*	*Total*	*Product main-tenance*	*Research and develop-ment costs*	*Total*
Kongsberg Maritime	220	499	719	226	480	706
Kongsberg Defence & Aerospace	35	98	133	42	89	131
Others	25	68	93	4	94	98
Total	**280**	**665**	**945**	**272**	**663**	**935**

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 largest capitalised projects are associated with the development of the "Joint Strike Missile", weapons stations, remotely operated airport towers, digital platform and within new integrated vessel solutions.

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. Regarding estimate uncertainty associated with this matter, see Note 14 "Impairment testing of goodwill".

14 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 6 "Operating segments".

Goodwill is allocated to the operating segments as follows:

MNOK	*31 Dec 18*	*31 Dec 17*
Kongsberg Maritime	1 753	1 722
Kongsberg Defence & Aerospace	172	173
Other [1]	86	86
Total goodwill in balance sheet	**2 011**	**1 981**

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 an 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 it 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	10.8	9	10.8
Discount rate after tax	8.5	7	8.5
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.

15 FINANCIAL INCOME AND FINANCIAL EXPENSES

MNOK	*2018*	*2017*
Interest income from assets at amortised cost	24	11
Derivatives at fair value through profit and loss	16	14
Foreign exchange gain	16	11
Other finance income	3	11
Financial income	**59**	**47**
Interest expense from liabilities at amortised cost	100	110
Derivatives at fair value through profit and loss		1
Foreign exchange loss	28	12
Discounts of non-current provisions	4	3
Other financial expenses	28	39
Financial expenses	**160**	**165**
Net finance item recognised in income statement	**(101)**	**(118)**

16 INCOME TAX

Income tax expense

MNOK	*2018*	*2017*
Tax payable Norway	31	-
Tax payable abroad	88	103
Change in deferred tax	21	(8)
Income tax expense	**140**	**95**

Reconciliation from nominal to effective tax rate

MNOK	*2018*	*2017*
Profit before tax	**844**	**654**
Tax calculated at tax rate 23% (24%) of profit before tax	194	157
Effect of reducing the tax rate to 22% (23%)	(60)	(50)
Effect of tax differences and unrecognised tax benefits abroad	(1)	26
Joint arrangements and associated companies	(42)	(45)
Correction of taxes payable for previous years	38	-
Other permanent differences	11	7
Income tax expense	**140**	**95**
Effective tax rate	16.6%	14.5%

Effect of changed tax rates

As of 1 January 2019, the nominal tax rate in Norway will be reduced from 23 per cent to 22 per cent. As a result of the major differences between the accounting and tax-related profits, the approved change will cause a reduction in this year's tax costs of MNOK 60.

Correction of taxes payable for previous years

The effect is mainly due to changes in previous years' NOKUS taxation, as well as judgements by Norwegian tax authorities relating to internal pricing. The judgements are being appealed.

Customer contracts / Temporary differences

Customer contracts are based on the assumption that tax wise, revenue recognition will occur when the responsibility 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 source tax on dividends from foreign subsidiaries, adjustments for previous years and the fact that shares of net income from associated companies are recognised after tax. In addition, the tax-reducing differences consist of emissions costs recognised directly in equity, partly offset by non-deductible transaction costs in connection with the purchase of shares.

Deferred tax asset and deferred tax liability

MNOK	*31 Dec 18*	*31 Dec 17*
Deferred tax assets		
Pensions	118	149
Derivatives	128	148
Accumulated tax loss to carry forward	134	191
Deferred tax assets - gross	**380**	**488**
Deferred tax liability		
Fixed assets	157	184
Customer contracts in progress	1 454	1 502
Provisions/currency	22	25
Derivatives	40	49
Deferred tax liabilities - gross	**1 673**	**1 760**
Net recognised deferred tax liabilities	**(1 293)**	**(1 272)**
Tax rate in Norway	22%	23%

Change in deferred tax recognised in other comprehensive income or equity

MNOK	*31 Dec 18*	*31 Dec 17*
Pensions	12	(18)
Cash flow hedges	16	124
Total	**28**	**106**
Access deferred tax assets on capital increase	(14)	-
Access tax deduction abroad, not offset	(14)	-

The tax effect related to a change in tax rate from 23 per cent to 22 per cent as of 2019 will give a reduction of MNOK 1 relating to cash flow hedges and is included in comprehensive income.

Payments of dividends to the parent company's shareholders have no impact on the Group's payable or deferred tax.

17 EARNINGS PER SHARE

MNOK	*2018*	*2017*
Profit for the year attributable to the shareholders		
Profit after tax	704	559
Non-controlling interests' share of the result	(3)	(5)
Profit for the year/diluted profit attributable to the ordinary shareholders	**701**	**554**

Number of shares	*Note*	*2018*	*2017*
Average weighted number of shares outstanding at 1 January	22	120	120
Average weighted number of shares at 31 December [1)]	22	126	120

1) The issue generated an increase in the number of shares from 120,000,000 to 179,990,065 shares. See Note 22 "Share capital". In calculating the earnings per share, the average shares outstanding were used as a basis for the year as a whole.

NOK	*2018*	*2017*
Profit for the year per share	5.58	4.62
Earnings per share for the year, diluted	5.58	4.62

18 OTHER NON-CURRENT ASSETS

MNOK	*31 Dec 18*	*31 Dec 17*
Shares at fair value through profit and loss	26	29
Loans to employees	15	16
Prepaid land rental	17	14
Long-term loans to customers	110	129
Other non-current assets	20	16
Total other non-current assets	**188**	**204**

19 RECEIVABLES AND CREDIT RISK

MNOK	*31 Dec 18*	*31 Dec 17[1)]*
Trade receivable	3 001	2 996
Provision for bad debts	(199)	(241)
Net trade receivable	**2 802**	**2 755**
Other receivables	460	358
Net receivables	**3 262**	**3 113**

1) Reclassifications between inventory and customer contracts and assets are described in more detail in Note 3 T) "Standards in IFRS that were implemented with effect from 1 January 2018".

Credit risk

Exposure to credit risk

For an explanation of KONGSBERG's credit risk and its handling, see Note 5 – Financial risk management objectives and policies.
Carrying value of financial assets represents the maximum credit exposure:

MNOK	*Note*	*31 Dec 18*	*31 Dec 17*[1]
Trade receivable		3 001	2 996
Other short-term receivables		460	555
Customer contracts in progress	7	2 653	2 819
Other non-current assets	18	188	204
Cash and cash equivalents	21	10 038	2 956
Forward contracts and interest rate swaps are used as currency hedging	20A	182	213
Total exposure to credit risk		**16 522**	**9 743**

1) When implementing IFRS 15 Revenue from contracts with customers from 1 January 2018, some lines in the statement of financial position at 31 December 2017 were revised. See Note 3 T) "Standards in IFRS that were implemented with effect from 1 January 2018".

Trade receivables distributed by region

MNOK	*31 Dec 18*	*31 Dec 17*
Norway	413	376
Europe	893	644
North America	756	936
South America	79	81
Asia	534	536
Other countries	325	423
Total	**3 001**	**2 996**

Trade receivables distributed by customer type

MNOK	*31 Dec 18*	*31 Dec 17*
Public	863	874
Private	2 138	2 122
Total	**3 001**	**2 996**

Age-distributed receivables and provisions for losses on trade receivable

	31 Dec 18		31 Dec 17	
MNOK	*Gross*	*Provision for bad debts*	*Gross*	*Provision for bad debts*
Not due	1 737	(2)	1 630	(2)
Due 1–30 days	554	(5)	495	(32)
Due 31-90 days	388	(10)	415	(23)
Due 91-180 days	157	(27)	125	(22)
Due more than 180 days	165	(155)	331	(162)
Total	**3 001**	**(199)**	**2 996**	**(241)**

Changes in provision for trade receivables

MNOK	*2018*	*2017*
Provision 1 January	(241)	(234)
Actual losses	52	16
Allocation	(34)	(41)
Dissolved	25	18
Provision 31 December	**(199)**	**(241)**

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.

20 FINANCIAL INSTRUMENTS

For definitions of financial instruments, please see Note 3 J "Financial instruments".

A) Derivatives

MNOK	*Note*	*31 Dec 18*	*31 Dec 17*
Current assets			
Forward exchange contracts, cash flow hedging	20C	117	43
Forward exchange contracts, fair value hedges		60	149
Interest rate swaps, fair value hedges	20D	5	10
Loan hedges	20B	-	11
Total derivatives, current assets		**182**	**213**
Current liabilities			
Forward exchange contracts, cash flow hedging	20C	50	17
Interest rate swaps, cash flow hedging	20D	-	1
Forward exchange contracts, fair value hedges		443	563
Fair value basis swaps		86	64
Loan hedges	20B	1	-
Total derivatives, current liabilities		**580**	**645**

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. KONGSBERG's exposure to currency risks related to capitalised trade receivables and payable in US dollars (USD) and Euro (EUR), based on the nominal amount was, at year-end:

	31 Dec 18		31 Dec 17	
Amounts in mill.	*USD*	*EUR*	*USD*	*EUR*
Trade receivable	127	46	174	32
Accounts payable	(17)	(9)	(23)	(9)
Net	**110**	**37**	**152**	**22**

Forward rates as fair value hedges must protect contractual currency flows. This means that the forward rates will hedge capitalised trade receivables in foreign currency, as well as invoicing remaining on the contracts. KONGSBERG is also exposed to other currencies, but these are insignificant compared with the exposure to USD and EUR. In the overview of 2018, GBP is included due to a significant exposure to cash flow hedges.

Important foreign exchange rates used in the consolidated financial statements throughout the year:

	Average exchange rate		Spot rate as of 31 Dec	
	2018	*2017*	*2018*	*2017*
USD	8.13	8.27	8.64	8.20
EUR	9.60	9.33	9.90	9.83
GBP	10.85	10.65	11.02	11.08

Currency hedging

At 31 December, the company had the following net sale foreign currency hedges, divided by hedge category:

	2018							
Amounts in mill.	*Value in NOK at 31 Dec 18 based on the 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 protection, 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)**	

	2017					
Amounts in mill.	*Value in NOK at 31 Dec 17 based on the agreed rates*	*Fair value [1] in NOK 31 Dec 17*	*Total hedged amount in USD 31 Dec 17*	*Average hedged rate in USD 31 Dec 17*	*Total hedged amount in EUR 31 Dec 17*	*Average hedged rate in EUR 31 Dec 17*
Hedge category						
Forward exchange contracts, cash flow hedges[2)]	2 374	26	310	8.22	49	9.84
Total cash flow hedges	**2 374**	**26**	**310**		**49**	
Forward exchange contracts, fair value hedges[2)]	7 868	(413)	558	7.59	290	9.56
Loan protection, fair value hedges[2) 3)]	527	11	72	8.32	4	9.91
Total fair value hedges	**8 395**	**(402)**	**630**		**294**	
Total	**10 769**	**(376)**	**940**		**343**	

1) Fair value is the difference between the spot rate at 31 December and the agreed rate on the forward exchange contracts.
2) Values in the table linked 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) The purchase of Rolls-Royce Commercial Marine (MGBP 500) is secured through a "Deal Contingency Forward" (conditional currency hedging without risk for KONGSBERG).

Due date profile, hedges

At 31 December, the company had the following net sale foreign currency hedges, divided by hedge category:

Amounts in mill.	*Nominal foreign currency amount*	*Due date 2019*	*Due date 2020 and later*
Hedge category			
Forward exchange contracts, cash flow hedging			
USD	234	219	15
EUR	(60)	(60)	-
GBP	(502)	(502)	-
Forward exchange contracts, fair value hedges			
USD	565	462	103
EUR	306	194	112
GBP	43	42	1

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.

On 31 December, the Group had recognised the following amount as hedge-effective through profit and loss, divided by hedge category:

Amounts in mill.	*2018*	*2017*
Hedge category		
Forward exchange contracts, cash flow hedges[1]	-	237
Forward contracts, fair value hedges[2) 3)]	14	-
Total	**14**	**237**

1) Change 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 value increase on hedged projects was MNOK 29 during 2018 (MNOK 419 in 2017). 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) Recorded hedged ineffectiveness recognised on fair value hedges in 2018 of MNOK 14 (MNOK 0 in 2017) is due to the fact that the cash flows for the hedged item came in earlier than the settlement of the hedging instrument, and the sum consists entirely of interest discrepancies.

Foreign exchange options

At 31 December 2018, 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 ensure a net investment in foreign entities. These basis swaps have a fair value of MNOK -86.4 at 31 December 2018 (MNOK -64.4 at 31 December 2017). Changes in fair value on the basis of swaps is 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 20 G "Assessment of fair value".

Sensitivity analysis

A strengthening of the NOK against the USD and EUR as of 31 December 2018 of 10 per cent (also 10 per cent in 2017) would have increased the comprehensive income by the amount stated in the table.

Estimated effect on comprehensive income (after tax):

MNOK	*31 Dec 18*	*31 Dec 17*
Forward exchange contracts in USD	158	196
Forward exchange contracts in EUR	(47)	37
Forward exchange contracts in GBP	(432)	-
Total	**(321)**	**233**

Cash flow hedging is considered to be efficient and all the effects of a 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, fluctuations in the exchange rate will have minor effect on the profitability of the 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:

MNOK	31 Dec 18 Carrying amount	Expected cash flow	2019	2020 and later	31 Dec 17 Carrying amount	Expected cash flow	2018	2019 and later
Currency forward exchange contracts								
Assets	117	118	101	17	43	43	43	-
Liabilities	(50)	(51)	(25)	(26)	(17)	(17)	(17)	-
Interest rate swaps								
Liabilities	-	-	-	-	(1)	(1)	(1)	-
Total	**67**	**67**	**76**	**(9)**	**25**	**25**	**25**	**-**

List of the periods in which the cash flows related to derivatives that are cash flow hedges are expected to affect results:

MNOK	31 Dec 18 Carrying amount	Expected cash flow	2019	2020 and later	31 Dec 17 Carrying amount	Expected cash flow	2018	2019 and later
Currency forward exchange contracts								
Assets	117	118	71	47	43	43	26	17
Liabilities	(50)	(51)	(31)	(21)	(17)	(17)	(10)	(7)
Interest rate swaps								
Liabilities					(1)	(1)	(1)	-
Total	**67**	**67**	**40**	**27**	**25**	**25**	**15**	**10**

Cash flow hedges – hedging reserve

MNOK	*2018*	*2017*
Opening balance	(124)	(509)
Changes in fair value in the period		
Forward exchange contracts and rolling effects [1) 2)]	18	102
Interest rate swaps and basis swaps	(21)	(89)
Tax on items recognised directly in comprehensive income	(16)	(124)
Recognised gains/losses in the period		
Forward exchange contracts and effects of rollovers[1)]	68	496
Closing balance hedge reserve [2)]	**(75)**	**(124)**

1) Accrual occurs when cash flow hedges are realised new and forward exchange contracts, fair value hedges, are entered into for the projects (rollovers). The effect on results that occurs will be recognised and realised in line with the progress of the projects. The capitalised value associated with the rolled cash flow hedges amounts to MNOK 76 at 31 December 2018 (MNOK 122 at 31 December 2017).
2) The net effect from the cash flow hedges before tax that are recognised in comprehensive income amounts to MNOK 65 in 2018 (MNOK 509 in 2017). In the comprehensive income, there is a change of MNOK 86, and the deviation of MNOK -21 is due to a change in the fair value of interest rate swaps of MNOK 1 and basis swaps of MNOK -22.

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 project hedge, the hedge reserve is recognised in the income statement at the same time as the hedged transactions.

In 2018, no effects were recognised related to inefficient cash flow hedges in the ordinary results (MNOK -237 in 2017). Hedge inefficiency on cash flow hedges is also included in the record "recognised gains/losses in the period" in the table above.

D) Interest rate risk on loans

	2018			2017	
Amounts in MNOK	*Due date*	*Nominal interest rate*	*Carrying value*[1)]	*Nominal interest rate*	*Carrying value*[1)]
Bond loan KOG07 - fixed interest	11 Sep 19	4.80%	-	4.80%	250
Bond loan KOG08 - floating interest	2 Jun 21	2.45%	1 000	2.02%	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	2.12%	550	1.66%	550
Bond loan KOG11 - fixed interest	5 Dec 23	2.90%	450	2.90%	450
Bond loan KOG12 - floating interest	6 Dec 21	2.13%	500		0
Bond loan KOG13 - floating interest	6 Dec 24	2.45%	500		0
Other long-term loans[2)]			20		80
Interest rate swaps					10
Total long-term loans			**4 020**		**3 340**
Short-term loans					
Bond loan KOG07 - fixed interest[3)]	11 Sep 19	4.80%	250		-
Other short-term loans and interest rate swap agreements			62		-
			312		**-**
Total interest-bearing loans			**4 332**		**3 340**

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, with a face value of MNOK 250, maturing on 11 September 2019 and associated interest rate swaps (to a value of MNOK 4) were reclassified as short-term debt as of 30 September 2018.

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 2018. Please refer to Note 5 for further information.

Kongsberg Gruppen ASA had seven bond loans at the end of 2018. 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, + 0.88 per cent for KOG12 and + 1.20 per cent for KOG13. The fixed interest rate is 4.8 per cent for KOG07, 3.20 per cent for KOG09 and 2.9 per cent for KOG11. KOG07 matures in Q3 2019.

A new cash credit of MNOK 500 was established. As of 31 December 2018, this remains undrawn.

Amounts in MNOK	*Due date*	*Interest rate*	*Nominal amount 2018*	*Fair value 31 Dec 18*	*Nominal amount 2017*	*Fair value 31 Dec 17*
Interest rate swap agreement, floating to fixed rate[1)]	2 Jan 18	2.47%	-	-	247	(1)
Interest rate swap agreements, fixed to floating rate[2)]	11 Sep 19	4.80%	250	5	250	10
Total interest rate swap agreements			**250**	**5**	**497**	**9**

1) Interest rate swap agreement from floating to fixed rate with a nominal amount of MNOK 247 matured on 2 January 2018. As of 31 December 2018, the book and fair value are 0.
2) KONGSBERG has entered into two interest rate swaps from fixed to floating interest rates for a nominal amount each of MNOK 125. The agreements were entered into in connection with the bond loan KOG07, which is a fixed rate loan. The value change for the interest rate swap agreements is adjusted against the capitalised value of the loan.

Sensitivity analysis interest rate risk

Simulated effect on net income of the interest rate increase of 50 BP in NIBOR:

MNOK	*31 Dec 18*	*31 Dec 17*
Investments with floating interest rates	50	15
Variable interest rate loans	(13)	(8)
Cash flow sensitivity (net)	**37**	**7**

In addition, such a change in interest rate would increase comprehensive income and equity by MNOK 1 (MNOK 2 in 2017) linked to the interest rate swaps from fixed to floating interest rates.

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 18						
MNOK	*Carrying amount*	*Contractual related 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)**

	31 Dec 17						
MNOK	*Carrying amount*	*Contractual related cash flows*	*2018*	*2019*	*2020*	*2021*	*2022 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	3 250	(3 871)	(86)	(342)	(667)	(1 094)	(1 682)
Other loans and long-term liabilities	80	(80)	(5)	-	-	-	(75)
Accounts payable	937	(937)	(937)	-	-	-	-
Financial liabilities that are derivatives							
Currency derivatives	580	(589)	(431)	(146)	(11)	(1)	-
Interest rate swaps	1	(1)	(1)	-	-	-	-
Basis swaps	64	(64)	-	(64)	-	-	-
Total	**4 912**	**(5 542)**	**(1 460)**	**(552)**	**(678)**	**(1 095)**	**(1 757)**

F) List of financial assets and liabilities

Financial assets and liabilities divided into different categories for accounting purposes at 31 December 2018:

MNOK	Note	2018 Amortised cost	Fair value through compre-hensive income	Fair value with change in value through income	Total	Fair value
Assets – non-current assets						
Other non-current assets	18	162	-	26	**188**	188
Assets – current assets						
Derivatives	20A	-	182	-	**182**	182
Receivables	19	3 262	-	-	**3 262**	3 262
Customer contracts in progress	7	2 653	-	-	**2 653**	2 653
Cash and cash equivalents	21	10 038	-	-	**10 038**	10 038
Financial liabilities – non-current						
Interest-bearing loans	20D	4 020	-	-	**4 020**	4 080
Other non-current liabilities		11	-	-	**11**	11
Financial liabilities – current						
Interest-bearing loans	20D	307	-	5	**312**	316
Derivatives	20A	-	580	-	**580**	580
Accounts payable	24	927	-	-	**927**	927

MNOK	Note	2017 Amortised cost	Fair value through compre-hensive income	Fair value with change in value through income	Total	Fair value
Assets – non-current assets						
Other non-current assets	18	175	-	29	**204**	204
Assets – current assets						
Derivatives	20A	-	213	-	**213**	213
Receivables[1]	19	3 113	-	-	**3 113**	3 113
Customer contracts in progress	7	2 819	-	-	**2 819**	2 819
Cash and cash equivalents	21	2 956	-	-	**2 956**	2 956
Financial liabilities – non-current						
Interest-bearing loans	20D	3 330	-	-	**3 330**	3 460
Derivatives	20D	-	-	10	**10**	10
Other non-current liabilities		20	-	-	**20**	20
Financial liabilities – current						
Interest-bearing loans		-	-	-	**-**	-
Derivatives	20A	-	645	-	**645**	645
Accounts payable	24	947	-	-	**947**	947

1) The change in carrying amount value is a result of reclassifications described in Note 3 T) "Standards in IFRS that were implemented with effect from 1 January 2018", IFRS 15 Revenue from contracts with customers.

G) Assessment of fair value

The following table shows corporate assets and liabilities measured at fair value

		2018			2017		
MNOK	*Note*	*Level 1*	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
Assets							
Shares at fair value through profit and loss		-	-	26	-	-	29
Derivatives	20A	-	182	-	-	213	-
Total assets at fair value		**-**	**182**	**26**	**-**	**213**	**29**
Liabilities							
Derivatives	20A	-	580	-	-	645	-
Interest-bearing liabilities (intended for note purposes)		-	4 396	-	-	3 460	-
Total liabilities at fair value		**-**	**4 976**	**-**	**-**	**4 105**	**-**

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 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.

21 CASH AND CASH EQUIVALENTS

Nominal amounts in MNOK	*31 Dec 18*	*31 Dec 17*
Bank deposits	10 038	2 956
Total	**10 038**	**2 956**

Bank guarantees have been furnished for funds related to withholding tax for employees of MNOK 273 (MNOK 274 in 2017).

The Group's liquidity management is handled by the Group's corporate treasury unit.

22 SHARE CAPITAL

Shares capital

At 31 December 2018, 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 amount MNOK	Amount MNOK	Corr. factor	Shares 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 [1]	2018	179 990 065	1.25	75		225

1) In 2018, the equity book ratio has increased by MNOK 5,261, MNOK 4,951 of which was obtained through the rights issue in November 2018 (net after issue costs). The issue was completed and new share capital was registered on 28 November 2018. The issue generated an increase in the number of shares amounting to 59,990,065 (from 120,000,000 to 179,990,065). In calculating the earnings per share, the average shares outstanding were used as a basis for the quarter and for the year as a whole.

List of major shareholders as of 31 December 2018

Shareholders	*Type*	*Number of shares*	*% share*
Ministry of Trade, Industry and Fisheries		90 002 400	50.00%
National Insurance Fund		11 991 628	6.66%
MP Pensjon PK		5 291 748	2.94%
Must Invest AS		4 333 186	2.41%
State Street Bank and Trust Comp	Nom	4 102 217	2.28%
Danske Invest Norske Instit. II.		2 834 136	1.57%
Odin Norge		2 572 872	1.43%
Vicama AS		2 543 018	1.41%
Snefonn AS		2 375 534	1.32%
Nordea Nordic Small Cap Fund		2 357 230	1.31%
Arctic Funds Plc		1 839 245	1.02%
Danske Invest Norske Aksjer Inst.		1 510 217	0.84%
JP Morgan Chase Bank, N.A., London	Nom	1 445 746	0.80%
State Street Bank and Trust Comp	Nom	1 437 340	0.80%
The Northern Trust Comp, London Br	Nom	1 248 213	0.69%
JP Morgan Chase Bank, N.A., London	Nom	1 200 746	0.67%
Havfonn AS		1 165 835	0.65%
State Street Bank and Trust Comp	Nom	1 012 813	0.56%
Morgan Stanley & Co. Int. Plc.	Nom	893 336	0.50%
LF Miton Europ Opportunities Fund		873 860	0.49%
Total		**141 031 320**	**78.36%**
Other		38 958 745	21.64%
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	8 516	2 282 691	1.27%
1,001-10,000	2 709	7 819 992	4.34%
10,001-100,000	279	8 708 924	4.84%
100,001–1,000,000	72	21 914 334	12.18%
1,000,001–10,000,000	16	37 270 096	20.71%
Over 10,000,000	2	101 994 028	56.67%
Total	**11 594**	**179 990 065**	**100.00%**

Of the 11,594 shareholders at 31 December 2018, 902 were foreign, with a total holding of 17.37 per cent

Treasury shares

At 31 December 2018, KONGSBERG has a holding of 19,869 treasury shares. The shares have been purchased in accordance with the authority given at the annual general meeting and provides the opportunity to buy back of up to 5 per cent of the issued shares.

	Number of
Holding of treasury shares as of 31 Dec 17	8 961
Purchase of treasury shares	468 603
Treasury shares sold to employees in connection with the share programme	(446 868)
Treasury shares sold to employees in connection with the long-term incentive scheme	(10 827)
Holding of treasury shares at 31 Dec 18	**19 869**

Dividends

	2018	*2017*
Dividends paid in NOK per share	3.75	3.75
Dividends paid in MNOK	450	450
Of which dividends treasury shares in MNOK	1.75	1.79

The Board has proposed a dividend for the accounting year 2018 of NOK 2.50 per share. This gives a total of MNOK 450.

23 PROVISIONS

Non-current provisions

MNOK	*Sales and leaseback*	*Other*	*Total*
31 Dec 17	**129**	**11**	**140**
Provisions used	(9)	(1)	(10)
Allocation	13	1	14
Dissolved	(13)	(3)	(16)
31 Dec 18	**120**	**8**	**128**

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 17	**348**	**195**	**543**
Reclassified from customer contracts	62	-	62
Provisions used	(136)	(78)	(214)
Allocation	163	26	189
Dissolved	(24)	(41)	(65)
31 Dec 18	**413**	**102**	**515**

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 lifecycle 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.

24 OTHER CURRENT LIABILITIES

MNOK	*31 Dec 18*	*31 Dec 17*[1)]
Accounts payable	927	947
Public charges owing	314	313
Calculated income tax payable	19	20
Accrued holiday pay	410	395
Other accruals	808	745
Total	**2 478**	**2 420**

1) The change in carrying amount value is a result of reclassifications described in Note 3 T) "Standards in IFRS that were implemented with effect from 1 January 2018", IFRS 15 Revenue from contracts with customers.

25 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 in connection with projects. 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 18*	*31 Dec 17*
Guarantees issued by banks and insurance companies	2 472	2 308
Guarantees issued by Kongsberg Gruppen ASA (parent company)	5 054	5 331
Prepayments from and completion guarantees to customers	**7 526**	**7 639**

Kongsberg Gruppen ASA has non-committed framework agreements for guarantees with banks and insurance companies.

26 SALE AND LEASEBACK

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 contracts are classified as operating leasing agreements.

In addition to lease payments, KONGSBERG is responsible for certain expenses related to taxes and maintenance of the properties. The leases have durations ranging from three months to 12 years. The provisions related to the sales and leaseback agreements are discussed in Note 23 "Provisions".

Amounts in MNOK	*Year of disposal*	*Lease payments payments 2019*	*Lease payments 2020 –2024*	*Lease payments later than 2024*	*Re-maining period payments*	*Lease payments sublease 2019[1)]*	*Weighted average subleasing period*
Agreement 1 – A total of 10,000 sq m industrial/ office space	2006	19	32	-	2.7 years	**21**	2.7 years
Agreement 2 – A total of 40,200 sq m industrial/ office space	2007	65	341	-	6 years	**-**	6 years
Agreement 4 – A total of 57,000 sq m parking/office	2014	33	177	223	12 years	**12**	12 years
Total		**117**	**550**	**223**		**33**	

1) Lease amount to external tenants.

KONGSBERG has pre-emptive rights at market rates for agreements 1 and 2. The Group has the right to the extension of the rental periods for at least five years at a time. Agreements 1, 2 and 3 are adjusted by 100 per cent of the change in the consumer price index, which is assumed to be equal to 2 per cent annually. The rent is adjusted annually according to the consumer price index.

Agreement 3 consists of the leasing of three buildings, of which two are parking garages, and the rental amounts are adjusted annually according to the consumer price index. The Group has the right to the extension of the rental periods for at least five years at a time at the existing conditions.

27 STATEMENT ON REMUNERATION OF THE GROUP CEO AND EXECUTIVE MANAGEMENT

Statement on the setting of salaries and other remuneration of the 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 performance-based pay scheme for management. The Board's compensation committee prepares the cases for the Board. The CEO sets remuneration for other members of executive management after consultation with the chairman of the Board.

Management salaries at Kongsberg Gruppen ASA and Group companies ("KONGSBERG") are determined by the following principles:

- Executive management's salaries should be competitive, but not salary leaders, 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 basic salary as well as fixed benefits in kind and pension agreements. Variable benefits consist of the performance-based salary and share programmes (LTI). Regular measurement is made against relevant markets to ensure that the total compensation is competitive, but not leading.

Base salary

The basic 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 particular restrictions on the kind of benefits in kind that can be agreed.

Pension schemes

Executive management should normally have pension schemes that ensure a pension payout that is in line with salaries. This is mainly covered by membership of KONGSBERG's collective main pension scheme for salaries up to 12G.

The Group's collective main pension scheme is a defined contribution scheme. The contributions are 0 per cent of salary between 0G and 1G, 5 per cent of salary from 1G to 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. Work on assessing the contribution rates in light of market developments for defined contribution pensions started in 2018 and will continue in 2019.

KONGSBERG will not enter into early retirement agreements for senior executives, but senior executives 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 different schemes, depending on when they were signed. Some agreements include the opportunity for retirement from the age of 65, but with the reciprocal right for KONGSBERG and employees in the corporate 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 contribution years. If the employee retires between the ages of 63 and 65, however, this will lead to reduced pension earnings in the defined contribution pension scheme, that will apply from the age of 67 years. These agreements were terminated for new senior executives in 2013 and now apply to two members of the corporate executive management, including the Chief Executive Officer. One of the corporate executive management members has an older agreement, active from the age of 60. Assuming at least a 10-year earning period, the benefit is 90 per cent of salary from the age of 60, reducing in 10 per cent steps per year to 60 per cent of salary from the ages of 63 to 67. Similarly, a group executive vice president has an agreement to retire at the age of 62. Assuming at least a 15-years earning period, the benefit is 65 per cent of salary up to the age of 67. These older schemes were discontinued in 2006 and 2008, respectively. One of the corporate executive management members has, for the part of their salary that exceeds 12G, an extra contribution of 12 per cent of their salary. This scheme was discontinued for new senior executives in 2015.

A member of the corporate executive management took office in March 2018 who was previously employed by the Group. The appointee has a maximum pensionable income of 12G and has no agreement on early retirement and is compensated by a higher fixed salary.

Long-term incentive (LTI)

From 2012, the Board introduced an LTI scheme for the Chief Executive Officer and other corporate executive management. From 2018, the LTI scheme was further expanded to include management groups in the business areas, as well as key positions. The rationale for this scheme is to be competitive with comparable companies and also to create long-term incentives for KONGSBERG managers. The LTI program amounts to a maximum of 30 per cent of the fixed 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 new criteria for obtaining LTI specify that an EBIT greater than 0 qualifies for 1/3 of the maximum allocation, ROACE equal to WACC (8 per cent) provides an additional 1/3 of the maximum allocation and ROACE between 8 per cent and 12 per cent provides a pro rata contribution to the last 1/3 of the total allocation. The associated company Patria Oyj is included with earnings before taxes and amortisation. The participants in the scheme will be committed to invest the net amount after tax in KONGSBERG shares that are purchased in the market and are owned with a binding time of three years. Participants who leave the company of their own volition will, for shares that do not meet the three-year requirement, have to pay back an amount equal to the share value after tax at the time of resignation. The scheme does not earn pension points. The scheme will be continued in 2019.

Performance-based part of salary

KONGSBERG's senior management and most important decision makers must have their own economic interests directly related to the development and improvement of KONGSBERG. To this end, in 2006. the Board adopted a performance-based salary scheme that includes approximately. 90 managers. The scheme was adjusted somewhat in 2018 so that EBIT is now measured against the previous EBITA. The objective of the scheme is for managers who perform well over time to achieve an average performance-based salary of 20-30 per cent of base salary.

The performance-based salary scheme is based on three components:

1. Change in EBIT (progress component):
   The progress component is calculated based on the change in the current year's EBIT, adjusted for 10 per cent calculated interest rate on the change in employed capital. The measurement is weighted on the individual's area of responsibility and general levels. The progress component is credited to a performance-related pay account for each participant. The progress component will be positive when there is progress in adjusted EBIT, while it can be negative if there is regress in the adjusted EBIT, and can be debited against previous accumulation of the performance-based salary bank.
2. Achieved EBIT margin (margin component):
   The margin component is achieved through an EBIT margin greater than 10 per cent or through maintaining or improving margin. The margin component can, at most, make up 20 per cent.
3. Personal objectives (individual component):
   The individual component is achieved through fulfilment of personal objectives related to important KPIs for the individual manager, which are of financial and non-financial nature. The individual component can, at most, make up 15 per cent.

The margin and progress components can, at most, make up 35 per cent (45 per cent for senior employees before 13 February 2015). The margin component will reduce the progress component when the sum of these two is higher than the maximum amount. The combined contribution from the three components can, at most, make up 50 per cent of the base salary (60 per cent for senior employees who joined before 13 February 2015).

The performance-related pay disbursed to the individual consists of 40 per cent of the balance in the performance-related pay account plus the margin component and individual component for the year. Performance-based salaries must not exceed 50 per cent of the basic salary.

The balance in the performance-based salary bank will not be paid out if the individual leaves before pensionable age. The performance-based salary bank will level out over time, act as a long-term incentive and ensure that there will be both positives and negatives for individuals.

Pension points cannot be earned on the performance-based salary scheme. The performance-based salary scheme is assessed annually by the Compensation Committee and the Board to ensure that it works as intended and ensure that necessary adjustments are made.

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 performance-related pay would be removed and replaced by a separate agreement capped at 35 per cent of the base salary.

Remuneration connected to shares or share price development

Senior executives have the opportunity to participate fully in KONGSBERG's discounted share saving scheme on the same terms as all Group employees. KONGSBERG has no scheme for allocation of share options or other instruments connected to the company's shares. There are no plans to introduce such schemes.

Severance arrangements

In order to safeguard KONGSBERG's requirement for ensuring at any time that the composition of its managers is in accordance with its business needs, agreements for severance arrangements can be, and have been entered into. Severance arrangements are designed to be acceptable both internally and externally, and agreements signed from 2011 are not entitled to severance payments whose value exceeds the equivalent of salary and benefits for more than six months. This scheme will continue in 2019. Such agreements have been entered into for directors in corporate executive management within the framework of the Working Environment Act.

Remuneration for the new Chief Executive Officer

The current Chief Executive Officer took over the position on 6 June 2016. The Chief Executive Officer's remuneration consists of a fixed salary of NOK 5,137,944, a performance-based component of the salary of a maximum of 50 per cent of the fixed salary and an LTI of up to 30 per cent of the fixed salary. In a previous position, the Chief Executive Officer had an agreement on pension-earned benefits of 18 per cent for salary exceeding 12G and early retirement at 65 per cent of the fixed salary from the age of 63–65 years until the standard retirement age of 67. The schemes have been continued with a maximum pensionable income / basis for early retirement equal to pay from the previous position, at NOK 2,424,200. The pension base is adjusted annually with the same percentage increase as the last increase in benefits paid out by the national insurance service (basic amount from the national insurance service minus 0.75 per cent).

Report for the 2018 financial year

The executive management salary policy has for the 2018 financial year, been conducted in accordance with the guidelines that were adopted by KONGSBERG's annual general meeting in 2018.

After the ordinary wage settlement on 1 July 2018, the CEO's base salary has been adjusted by 2.8 per cent to NOK 5,137,944 per year (2 per cent in 2017). For the other members of corporate executive management, the basic salary was adjusted upwards by an average of 2.8 per cent on 1 July 2018 (1.6 per cent in 2017). In addition, there is the performance-based part of the salary, as described above and as shown in note 28.

The consolidated financial statements for 2018 have calculated performance-based salaries for leading employees at MNOK 38.8, excluding social security tax, corresponding to 31 per cent of the total payroll for participants in the scheme (MNOK 37 in 2017, corresponding to 24 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.

28 REMUNERATION FOR EXECUTIVE MANAGEMENT AND THE BOARD

Remuneration specified for members of the Corporate Executive Management for 2018 and 2017 [1)]

Amounts in TNOK	*Year*	*Payment of salary incl. holiday pay*	*Other benefits recognised in financial year[2)]*	*Retained long-term incentive scheme (LTI)[3)]*	*Retained perfor-mance-based part of salary financial year[4)]*	*This year's pension accrual*	*Payment of long-term incentive scheme (LTI)[5)]*	*Out-standing total, loans*	*Shares acquired in financial related to LTI-arrange-ment*	*Total number shares including LTI as of 31 Dec*
Geir Håøy President and CEO	2018	5 162	315	752	2 216	441	1 374	-	3 158	24 040
	2017	4 723	309	571	1 741	530	1 012	-	2 979	12 508
Gyrid Skalleberg Ingerø, Chief Financial Officer	2018	2 622	279	19	827	81	581	-	177	9 649
	2017	423	35	-	130	13	57	-	-	4 000
Even Aas, Group Executive Vice President, Public Affairs	2018	1 675	314	221	722	353	369	-	678	23 958
	2017	1 604	278	224	561	765	217	-	835	16 900
Wenche Helgesen Andersen, EVP, Corporate functions until 28 February 2018	2018	778	56	160	262	13	83	-	945	9 345
	2017	2 440	243	58	692	79	303	-	689	4 013
Hans Petter Blokkum Group Executive Vice President, Chief HR & Security Officer from 1 March 2018	2018	1 758	201	-	694	89	393	49	-	1 589
Harald Aarø, Group Executive Vice President, Business Development & CSO	2018	2 414	307	211	908	448	537	-	945	7 681
	2017	2182	213	110	764	344	303	-	1 020	2 414
Hege Skryseth, President, Kongsberg Digital	2018	2 331	215	361	387	501	514	330	1 180	9 797
	2017	2 250	200	333	717	490	378	400	1 474	5 077
Egil Haugsdal, President, Kongsberg Maritime	2018	2 782	505	407	1 231	919	617	-	1 417	30 836
	2017	2 494	461	373	937	787	454	-	1 603	18 738
Eirik Lie, President, Kongsberg Defence & Aerospace	2018	3131	325	158	1 072	81	642	-	1 474	5 788
	2017	2733	206	-	526	79	473	-	-	834

1) Remuneration and other benefits to members of the corporate executive management are based on their time served as part of this management.
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 27.
4) Retained performance-based part of salary in the financial year. To be paid out when the accounts for the relevant year have been approved by the Board.
A statement on performance-based pay is provided in Note 27.
5) 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 27.

Shares owned by, and compensation to the members of the Board

Board of Directors *Amounts in NOK*	*Year*	*Number of shares*	*Fixed Board compensa-tion*	*Compensa-tion committee meetings*	*Total Board compensa-tion*	*Number of Board meetings*[1)]
Eivind K. Reiten, Chairman	2018	2 850	508 333	43 600	551 933	17
	2017	-	326 000	21 200	347 200	8
Irene Waage Basili, Director, Deputy Chairman	2018	-	272 000	-	272 000	16
	2017	-	254 333	-	254 333	11
Morten Henriksen, Director	2018	3 027	255 333	82 900	338 233	15
	2017	-	238 666	68 100	306 766	14
Anne-Grete Strøm-Erichsen, Director	2018	2 000	255 333	37 600	292 933	16
	2017	-	238 666	37 200	275 866	13
Helge Lintvedt, Director	2018	-	255 333	70 700	326 033	17
	2017	-	238 666	60 000	298 666	14
Martha Kold Bakkevig, Director	2018	2 119	255 333	50 500	305 833	16
	2017	1 400	164 000	30 300	194 300	7
Elisabeth Fossan, Director	2018	4 904	255 333	37 600	292 933	16
	2017	3 024	164 000	18 800	182 800	8
Sigmund Ivar Bakke Director	2018	3 078	255 333	-	255 333	17
	2017	2 862	164 000	-	164 000	7
Payment to deputy member in 2018 and retired Board members in 2017	2018	-	11 400	-	11 400	1
	2017	-	372 334	59 000	431 334	-
Total compensation to the Board	**2018**		**2 323 731**	**322 900**	**2 646 631**	
Total compensation to the Board	**2017**		**2 160 665**	**294 600**	**2 455 265**	

1) 17 board meetings were held in 2018 (14 board meetings in 2017).

29 AUDITOR'S FEES

TNOK	2018 Parent company	2018 Sub-sidiaries in Norway	2018 Sub-sidiaries abroad	Total 2018	2017 Parent company	2017 Sub-sidiaries in Norway	2017 Sub-sidiaries abroad	Total 2017
Group auditor EY								
Statutory audit	846	4 740	2 137	7 723	833	4 899	2 466	8 198
Other assurance services	71	693	-	764	-	477	-	477
Tax consultancy	299	1094	936	2 329	467	648	1 213	2 328
Other services outside the audit	2 805	778	54	3 637	2 426	622	-	3 048
Total fees, EY	**4 021**	**7 305**	**3 127**	**14 453**	**3 726**	**6 646**	**3 679**	**14 051**
Other auditors								
Estimated audit fees		30	1 787	1 817			2 247	2 247

30 LIST OF GROUP COMPANIES

The following companies have been consolidated:

Name of company	*Country of origin*	*Ownership stake 31 Dec 18*	*Ownership stake 31 Dec 17*
Kongsberg Gruppen ASA	Norway	Parent	Parent
Kongsberg Defence & Aerospace AS	Norway	100	100
Kongsberg Spacetec AS	Norway	100	100
Kongsberg Norspace AS	Norway	100	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
Kongsberg Basetec AS	Norway	100	100
Kongsberg Next AS	Norway	Merged	100
Kongsberg Seatex AS	Norway	100	100
Vehicle Tracking and Information Systems AS	Norway	100	100
Nerion AS	Norway	Merged	100
Kongsberg Maritime AS	Norway	100	100
Kongsberg Norcontrol AS	Norway	100	100
Kongsberg Evotec AS	Norway	100	100
Eelume AS	Norway	51	TS
Simrad AS	Norway	100	100
Kongsberg Maritime S.R.L	Italy	100	100
Kongsberg Maritime Holland BV	The Netherlands	100	100

Name of company	*Country of origin*	*Ownership stake 31 Dec 18*	*Ownership stake 31 Dec 17*
Kongsberg Maritime Poland Sp.z o.o.	Poland	100	100
Kongsberg Defence Sp.z o.o.	Poland	100	100
Simrad Spain S.L.	Spain	100	100
Kongsberg Defence Oy	Finland	100	100
Kongsberg Maritime GmbH	Germany	100	100
Kongsberg Maritime Embient GmbH	Germany	100	100
Kongsberg Maritime Contros GmbH	Germany	100	100
Kongsberg Defence Switzerland AG	Switzerland	100	0
Kongsberg Reinsurance DAC	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 Oil & Gas Technologies Ltd.	Great Britain	Phased out	100
Kongsberg GeoAcoustics Ltd.	Great Britain	100	100
Kongsberg Hungaria kft.	Hungary	100	100
Kongsberg Maritime Hellas SA	Greece	100	100
Kongsberg Digital LLC	Russia	Sold	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	100	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 Corporation	USA	100	100
Kongsberg Digital Inc.	USA	100	100
Kongsberg Defense Systems Inc.	USA	100	100
Hydroid Inc.	USA	100	100
Kongsberg Geospatial Corperation	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 Mexico S.A. DE C.V.	Mexico	100	100
Kongsberg Defence Chile SpA	Chile	100	100
Kongsberg Maritime Panama Corp.	Panama	100	100
Kongsberg Asia Pacific Ltd.	Hong Kong	100	100
Kongsberg Maritime Hoi Tung Holding Ltd.	Hong Kong	90	90
Kongsberg Maritime China Shanghai Ltd.	China	100	100
Kongsberg Maritime China Jiangsu Ltd.	China	100	97
Kongsberg Maritime China Ltd.	China	100	100
Kongsberg Maritime China Waigaoqiao Ltd.	China	100	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 India Pvt. Ltd.	India	91	91
Kongsberg Digital Pvt. Ltd.	India	100	100
Kongsberg Digital Software & Services Pvt. Ltd.	India	100	100
Kongsberg Norcontrol Surveillance Pvt. Ltd.	India	100	100
Kongsberg Defence Ltd. Co.	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	70
Kongsberg Defence Systems Australia Pty Ltd.	Australia	100	100
Kongsberg Oil & Gas Technologies Pty Ltd. (Kongsberg Nemo Pty Ltd.) (under avvikling)	Australia	100	100
Kongsberg Maritime Pty Ltd.	Australia	100	100
Kongsberg Maritime South-Africa Ltd.	South Africa	100	100

31 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.

At 31 December 2018, KONGSBERG had an outstanding balance from state-owned customers of MNOK 97, while other liability items in respect of state suppliers amounted to MNOK 7 at 31 December 2018.

In 2018, KONGSBERG issued invoices to state customers for a total of MNOK 1,319. Goods and services purchased from state suppliers in 2018 amounted to MNOK 37.

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

At 31 December 2018, KONGSBERG had trade receivables for associated companies of MNOK 24, while trade payables amounted to MNOK 0 on 31 December 2018.

In 2018, KONGSBERG issued invoices to associated companies for a total of MNOK 28. Goods and services purchased from state suppliers in 2018 amounted to MNOK 3.

32 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 parties agreed on a value of MNOK 500 for RRCM. The final purchase sum will depend on RRCM's cash holdings, debt and working capital at the time of the transaction. See Directors' report for more information.

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 AS (AIM). The parties agree 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 acquisition requires approval by the relevant authorities, and the transaction is expected to be completed in the first half of 2019. See Directors' report for more information.

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/EBITA/EBIT

EBITDA / EBITA / 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 2018. The same applies for EBITA and EBIT.

Net interest-bearing debt

Net interest-bearing debt is the net amount of the accounting lines "Cash and cash equivalents", "Long-term interest-bearing loans" and "Short-term interest-bearing loans".

Restructuring costs

KONGSBERG defines restructuring costs as salary and social security tax when the employment relationship is terminated (including severance pay and gift pension) 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.

Return on Average Capital Employed (ROACE)

ROACE is defined as 12 months rollover EBIT divided by 12 months average of the entered equity and interest-bearing debt.

Working capital

Working capital is defined as current assets minus cash and cash equivalents, current non-interest liabilities (except taxes payable) and financial instruments recognised at fair value.

Book-to-Bill Ratio

New orders divided on operating revenues.

34 EVENTS AFTER BALANCE DATE

On 21 January 2019, KONGSBERG entered into an agreement with Rome AS regarding the sale of the company Kongsberg Evotec AS owned by Kongsberg Maritime. The sale is as a consequence of the ongoing process regarding the acquisition of Rolls-Royce Commercial Marine. The transaction will be completed in the first half of 2019.
External turnover for Kongsberg Evotec AS was MNOK 104 in 2018 and MNOK 83 in 2017.

Income statement 1 January–31 December

KONGSBERG GRUPPEN ASA

MNOK	*Note*	*2018*	*2017*
Operating revenues from subsidiaries	9	176	221
Other operating revenues		6	2
Total revenues		**182**	**223**
Payroll expenses	4,5	(128)	(126)
Depreciation		(1)	(1)
Other operating expenses	4	(206)	(141)
Total operating expenses		**(335)**	**(268)**
Operating profit		**(153)**	**(45)**
Dividends from subsidiaries		10	-
Interest from group companies		53	99
Net currency gains		4	6
Interest to Group companies		(12)	(8)
Interest income, bank and investment		23	-
Interest costs, external loans		(82)	(95)
Other financial income		1	4
Other finance expenses		(11)	(23)
Group contribution		1 500	690
Net finance items		**1 486**	**673**
Ordinary profit before tax (EBIT)		**1 333**	**628**
Income tax expense (+income/expense)	6	(20)	10
Profit for the year		**1 313**	**638**
Allocations and equity transfers			
Proposed dividend		(450)	(450)

Balance sheet at 31 December

KONGSBERG GRUPPEN ASA

MNOK	Note	2018	2017
Assets			
Fixed assets			
Deferred tax assets	6	98	109
Fixed assets		10	4
Shares in subsidiaries	3	8 970	2 970
Shares in associates		11	-
Interest-bearing loans, subsidiaries	9	1 173	1 977
Other long-term receivables		3	2
Total non-current assets		**10 265**	**5 062**
Current assets			
Receivables from subsidiaries	9	1 568	794
Other short-term receivables		83	56
Cash and cash equivalents	11	6 663	758
Total current assets		**8 314**	**1 608**
Total assets		**18 579**	**6 670**
Equity and liabilities			
Equity			
Shares capital		225	150
Premiums		4 876	-
Total paid-in capital		**5 101**	**150**
Other equity		2 162	1 289
Total retained earnings		**2 162**	**1 289**
Total equity	2	**7 263**	**1 439**
Non-current liabilities			
Pension liabilities	5	228	240
Bond loans	7	4 000	3 250
Other non-current liabilities		3	7
Total non-current liabilities		**4 231**	**3 497**
Current liabilities			
Dividend		450	450
Debt to credit institutions	7	250	-
Bond loans	9	6 234	1 195
Other current liabilities		151	89
Total current liabilities		**7 085**	**1 734**
Total equity and liabilities		**18 579**	**6 670**

Kongsberg, 21 March 2019

Eivind Reiten
Chairman

Irene Waage Basili
Deputy chairman

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Director

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
President and CEO

Statement of cash flow

KONGSBERG GRUPPEN ASA

MNOK	*Note*	*2018*	*2017*
Profit before tax		1 333	628
Depreciation		1	1
Changes in accruals, etc.		96	52
Net cash flows from operating activities		**1 430**	**681**
Cash flow from investing activities			
Purchase of fixed assets		(6)	(1)
Investment in shares		(11)	-
Net cash flow used in investing activities		**(17)**	**(1)**
Cash flow from financing activities			
Capital increase		4 997	-
Costs connected to the capital increase (before the effect of taxes)		(60)	-
Repayment of loans		-	37
Payment of loans		(2)	
Dividends received		10	-
Proceeds from interest-bearing loans		1 000	-
Payment of loans		-	(755)
Paid dividend		(448)	(448)
Net disbursements for purchase/disposal of treasury shares		(20)	(18)
Changes in intercompany balances		(985)	2 125
Net cash flow from financing activities		**4 492**	**941**
Net increase (reduction) in cash and cash equivalents		**5 905**	**1 621**
Cash and cash equivalents at the beginning of the period		**758**	**(863)**
Cash and cash equivalents at the end of the period		**6 663**	**758**

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 losses. 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 balance sheet items

Current assets and current liabilities include items due for payment within one year after the date of acquisition, as well as items associated with the goods circulation. Other items are classified as fixed 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 enters into "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 losses 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 plan
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 short-term deposits comprise cash reserves, bank deposits and other short-term liquid investments.

2 EQUITY RECONCILIATION

MNOK	*Shares capital*	*Premiums*	*Other equity*	*Total equity*
Equity at 31 Dec 16	**150**	**-**	**1 102**	**1 252**
Profit for the year	-	-	638	638
Transactions with treasury shares	-	-	(2)	(2)
Dividend for 2017	-	-	(450)	(450)
Actuarial gain/loss on pension expense	-	-	1	1
Equity at 31 Dec 17	**150**	**-**	**1 289**	**1 439**
Profit for the year	-	-	1 313	1 313
Capital increase	75	4 922	-	4 997
Net costs connected to the capital increase (reduced to reflect effect of taxes)	-	(46)	-	(46)
Transactions with treasury shares	-	-	(3)	(3)
Dividend for 2018	-	-	(450)	(450)
Actuarial gain/loss on pension expense	-	-	13	13
Equity at 31 Dec 18	**225**	**4 876**	**2 162**	**7 263**

Other information about the company's share capital is provided in Note 22 "Share capital" of the consolidated financial statements. The total number of treasury shares at 31 December 2018 is 19,869.

3 SHARES IN SUBSIDIARIES

MNOK	*Acquisition time*	*Business office*	*Owner/ voting share %*	*Carrying amount 31 Dec*
Kongsberg Defence & Aerospace AS	1 997	Kongsberg	100	1 206
Kongsberg Basetec AS	1 992	Kongsberg	100	137
Kongsberg Maritime AS [1]	1 992	Kongsberg	98,9	7 101
Kongsberg Eiendom Holding AS	2 015	Kongsberg	100	497
Kongsberg Next AS [3]	2 014	Kongsberg		-
Kongsberg Martime China Ltd	2 016	Shanghai	100	25
Kongsberg Holding AS	1 987	Kongsberg	100	-
Kongsberg Forsvar AS [3]	1 995	Kongsberg		-
Norsk Forsvarsteknologi AS	1 987	Kongsberg	100	-
Nerion AS [3]	2 002	Trondheim		-
Kongsberg Hungaria Kft [2]	2 003	Budapest	10	-
Kongsberg Reinsurance Ltd.	2 001	Dublin	100	4
Total				**8 970**

1) The remaining shares in Kongsberg Maritime AS are owned by Kongsberg Basetec AS. Allocated Group contributions of MNOK 6,000 are recognised against investments in shares.
2) The remaining shares in Kongsberg Hungaria Kft. are owned by Kongsberg Defence & Aerospace AS
3) Merged into Kongsberg Basetec 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 28 "Remuneration for executive management and the Board" in the consolidated financial statements.

Auditor's fees

TNOK	*2018*	*2017*
Group auditor EY		
Statutory audit	846	833
Other assurance services	71	0
Tax consultancy	299	467
Other services outside the audit	2 805	2 426
Total fees, EY	**4 021**	**3 726**

Payroll expenses

MNOK	*2018*	*2017*
Salaries	71	71
Social security expenses	14	13
Pension	16	16
Other benefits	27	26
Total payroll expenses	**128**	**126**
Number of full-time equivalents (FTEs)	56	51

5 PENSIONS

KONGSBERG has a service pension plan that consists of a defined contribution plan 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 (ITP)

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 27 "Statement on the remuneration of the Group CEO and Executive Management" in the consolidated financial statement. 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)

n 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 basic wage 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 27 "Statement on the remuneration of the Group CEO and Executive Management" in the consolidated financial statement. 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

In 2009, the Group introduced new rules for early retirement for newly hired members of executive management and others in certain key positions. The rules entail early retirement from the age of 65 at the latest, but with reciprocal rights for the Group and the employees to request retirement from the age of 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 contribution years. If the employee resigns between 63 and 65, this will reduce pension earnings for other plans. The Group decided not to continue the scheme with early retirement agreements for executives employed after 1 July 2013. This also applied to employees in certain key positions who previously were offered agreements on early retirement. These individuals instead receive an additional contribution of 12 per cent of the basic salary in excess of 12G, to the unfunded pension scheme as long as they hold the post, but only until the age of 65 at the latest. After an overall assessment of the State's ownership report, the Group decided on 1 October 2015 not offer any early retirement options.

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 calculation of future pensions in the benefits plan is based on the following assumptions:

	31 Dec 18	*31 Dec 17*
Discount rate	2.70%	2.25%
Asset return	2.70%	2.25%
Wage adjustment	2.00%	1.75%
Pension base level (G) adjustment	2.50%	2.25%
Pension adjustment	1.75%	1.25%
Mortality	K 2013	K 2013
Disability	IR 73	IR 73
Voluntary turnover	4.50%	4.50%

The year's pension costs were calculated as follows:

MNOK	*2018*	*2017*
Present value of the year's earned pensions	6	7
Interest cost on accrued pension liabilities	4	3
Accrued social security expenses	1	1
Total net pension cost for the year	**11**	**11**
Defined contribution plan costs	**11**	**12**

The net pension liability appears as follows:

MNOK	*2018*	*2017*
Total gross pension liabilities	(232)	(241)
Gross value of gross pension assets	32	31
Net pension liabilities	**(200)**	**(210)**
Social security expenses	(28)	(30)
Net pension liabilities in balance sheet	**(228)**	**(240)**

6 INCOME TAX

Income tax expense

MNOK	*2018*	*2017*
Taxes payable	-	-
Change in deferred tax	20	(10)
Tax income/expense	**20**	**(10)**

MNOK	*2018*	*2017*
Profit before tax	**1 333**	**628**
Tax calculated – 23% (24%) of profit before tax	307	151
Correction of taxes from previous years	(4)	-
Group contribution without tax effect	(299)	(166)
Other permanent differences	11	-
Effect of reduced tax rate by 1%	5	5
Tax income/expense	**(20)**	**(10)**

Deferred tax and deferred tax asset

MNOK	*2018*	*2017*
Pension	50	55
Unused tax losses	87	55
Other	5	(1)
Recognised deferred tax asset	**142**	**109**
Tax rate in Norway	22%	23%

Change in deferred tax recognised directly in equity as follows:

MNOK	*2018*	*2017*
Issue	(14)	-
Pensions	4	-
Total	**(10)**	**-**

7 LONG-TERM INTEREST-BEARING LOANS AND CREDIT FACILITIES

At 31 December 2018, Kongsberg Gruppen ASA had the following loans and credit facilities:

	Due date	*Nominal interest rate*	*Years to maturity*	*Carrying value 31 Dec 18*	*Carrying value 31 Dec 17*
Bond loan KOG07 - fixed interest	11 Sep 19	4.80%		-	250
Bond loan KOG08 - floating interest	2 Jun 21			1 000	1 000
Bond loan KOG09 - fixed interest	2 Jun 26	3.20%		1 000	1 000
Bond loan KOG10 - floating interest	5 Mar 20			550	550
Bond loan KOG11 - fixed interest	5 Dec 23	2.90%		450	450
Bond loan KOG12 - floating interest	6 Dec 21			500	-
Bond loan KOG13 - floating interest	6 Jun 24			500	-
Total long-term loans				**4 000**	**3 250**
Bond loan KOG07 - fixed interest	11 Sep 19	4.80%		250	-
Total current liabilities				**250**	**-**
Total interest-bearing loans				**4 250**	**3 250**
Credit facility (undrawn borrowing limit)	7 Apr 19			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 2018.

Kongsberg Gruppen ASA had seven bond loans at the end of 2018. 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, 0.88 per cent for KOG12 and 1.20 per cent for KOG13. The fixed interest rate is 4.8 per cent for KOG07, 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 2018, this remains undrawn.

All loans in the Group are 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 23 "Provisions" of the consolidated financial statements.

Prepayment and completion guarantees

Group companies have provided guarantees for prepayments and completion in connection with projects. The guarantees are issued by Norwegian and foreign banks and insurance companies. Kongsberg Gruppen ASA is responsible for all guarantees.

MNOK	*2018*	*2017*
Guarantees issued by banks and insurance companies	2 472	2 308
Guarantees issued by Kongsberg Gruppen ASA	5 054	5 331
Prepayments from and completion guarantees to customers	**7 526**	**7 639**

Kongsberg Gruppen ASA has non-committed framework agreements for guarantees with banks and insurance companies.

9 RELATED PARTIES

Operating revenues

MNOK	2018	2017
Kongsberg Maritime AS	84	109
Kongsberg Defence & Aerospace AS	75	95
Kongsberg Digital AS	7	11
Other companies	14	6
Total operating income-related parties	**181**	**221**

Operating income from closely related parties mainly consists of joint Group expenses and insurance, as well as margins on guarantee and currency businesses.

Long-term receivables from related parties

MNOK	2018	2017
Kongsberg Defence & Aerospace AS	-	529
Kongsberg Digital AS	100	100
Kongsberg Næringseiendom AS	100	100
Kongsberg Næringsbygg 2 AS	54	79
Kongsberg Næringsbygg 3 AS	77	83
Kongsberg Norcontrol AS	-	198
Kongsberg Næringsbygg 5 AS	96	106
Kongsberg Næringsbygg 6 AS	-	5
Kongsberg Protech Systems USA Corporation Inc.	17	31
Hydroid Inc	459	462
Kongsberg Maritime Hoi Tung Holding Ltd	110	102
Kongsberg Maritime do Brasil SA	8	7
Kongsberg Maritime Malaysia Sdn. Bhd	17	16
Kongsberg Norspace AS	69	84
Kongsberg Maritime Embient GmbH	28	27
Kongsberg Maritime Contros GmbH	16	16
Kongsberg Maritime Australia Pty Ltd	6	6
Kongsberg Maritime India PVT. LTD	16	17
Other companies	-	10
Total	**1 173**	**1 977**

Short-term liabilities to related parties

MNOK	2018	2017
Kongsberg Defence & Aerospace AS	9	680
Kongsberg Maritime AS	6 010	280
Kongsberg Seatex AS	-	4
Kongsberg Spacetec AS	-	19
Kongsberg Next AS	-	15
Kongsberg Evotec AS	-	15
Kongsberg Holding AS	-	5
Kongsberg Maritime Inc	73	33
Kongsberg Mesotech Ltd.	101	105
KM Aberdeen	22	22
Kongsberg Underwater Technology Inc	17	16
Other companies	2	1
Total	**6 234**	**1 195**

Short-term receivables from related parties

MNOK	2018	2017
Kongsberg Maritime AS	182	25
Kongsberg Defence & Aerospace AS	1 300	686
Kongsberg Basetec AS	40	40
Kongsberg Seatex	-	31
Kongsberg Norcontrol AS	18	-
Kongsberg Næringsparkutvikling	-	1
Kongsberg Digital AS	6	-
Hydroid Inc	12	-
Kongsberg Maritime Hoi Tung	1	-
Kongsberg Satellitt Services AS	1	-
Other	8	11
Total	**1 568**	**794**

10 CURRENCY HEDGING

At 31 December, the company had the following net sale foreign currency hedges, divided by hedge category:

	2018							
Amounts in mill.	*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*	*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 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 protection, 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)**	

	2017					
Amounts in mill.	*Value in NOK based on agreed rates 31 Dec 17*	*Fair value in NOK 31 Dec 17*	*Total hedged amount in USD 31 Dec 17*	*Average hedged rate in USD 31 Dec 17*	*Total hedged amount in EUR 31 Dec 17*	*Average hedged rate in EUR 31 Dec 17*
Hedge category						
Forward exchange contracts, cash flow hedging	2 374	26	310	8,22	49	9,84
Total cash flow hedges	**2 374**	**26**	**310**		**49**	
Forward exchange contracts, fair value hedges	7 868	(413)	558	7,59	290	9,56
Loan protection, fair value hedges	527	11	72	8,32	4	9,91
Total fair value hedges	**8 395**	**(402)**	**630**		**294**	
Total	**10 769**	**(376)**	**940**		**343**	

Foreign exchange options

As of 31 December 2018, Kongsberg Gruppen ASA had no foreign exchange options.

Basis swaps

In 2016, basis swaps totalling MEUR 130 were entered into to secure net investment in foreign operations. These basis swaps have a fair value of MNOK -86.4 at 31 December 2018 (MNOK -64.4 at 31 December 2017). Changes in value have not been included in Kongsberg Gruppen ASA's accounts in accordance with Norwegian GAAP.

Currency hedges related parties

Subsidiary

MNOK	2018 Value in NOK based on the agreed rates 31 Dec 18	2018 Fair value in NOK 31 Dec 18	2018 Total hedged amount in USD 31 Dec 18	2018 Total hedged amount in EUR 31 Dec 18	2018 Total hedged amount in GBP 31 Dec 18	2017 Value in NOK based on the agreed rates 31 Dec 17	2017 Fair value in NOK 31 Dec 17	2017 Total hedged amount in USD 31 Dec 17	2017 Total hedged amount in EUR 31 Dec 17
Forward exchange contracts, cash flow hedging									
Kongsberg Maritime AS	47	-	5	-	-	260	(7)	24	7
Kongsberg Digital AS	-	-	-	-	-	58	-	5	2
Kongsberg Defence & Aerospace AS	1 309	(8)	229	(60)	(2)	2 059	35	281	41
Kongsberg Norcontrol AS	-	-	-	-	-	(2)	(2)	-	-
(No internal counterparty)	(5 420)	75	-	-	(500)	-	-	-	-
Total cash flow hedges	**(4 064)**	**67**	**234**	**(60)**	**(502)**	**2 374**	**26**	**310**	**49**
Forward exchange contracts, fair value hedges									
Kongsberg Maritime AS	2 685	(130)	283	37	1	2 170	4	184	64
Kongsberg Digital AS	334	(14)	17	7	2	292	(5)	18	10
Kongsberg Defence & Aerospace AS	4 308	(216)	251	177	40	4 203	(388)	338	113
Kongsberg Spacetec AS	146	(3)	8	7	-	199	-	11	11
Kongsberg Norcontrol AS	369	(6)	3	35	-	413	(5)	5	36
Kongsberg Norspace AS	417	(14)	-	43	-	557	(23)	2	57
Other companies	24	(1)	3	-	-	34	3	1	(1)
Total fair value hedges	**8 283**	**(384)**	**565**	**306**	**43**	**7 868**	**(413)**	**558**	**290**
Total of forward rates	**4 219**	**(317)**	**799**	**246**	**(459)**	**10 242**	**(387)**	**868**	**339**

Associated companies

MNOK	2018 Value in NOK based on the agreed rates 31 Dec 18	2018 Fair value in NOK 31 Dec 18	2018 Total hedged amount in USD 31 Dec 18	2018 Total hedged amount in EUR 31 Dec 18	2017 Value in NOK based on the agreed rates 31 Dec 17	2017 Fair value in NOK 31 Dec 17	2017 Total hedged amount in USD 31 Dec 17	2017 Total hedged amount in EUR 31 Dec 17
Forward exchange contracts, fair value hedges								
Kongsberg Satellite Services	1 150	(60)	87	45	1 273	(19)	80	61

11 CASH AND CASH EQUIVALENTS

Nominal amounts in MNOK	*2018*	*2017*
Bank deposits, operating accounts	5 862	758
Money market funds	801	-
Total	**6 663**	**758**

Bank guarantees amounting to MNOK 10 (MNOK 10 in 2017) 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 2018 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, 21 March 2019

Eivind Reiten
Chairman

Irene Waage Basili
Deputy chairman

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Director

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
President and CEO

AUDITOR'S REPORT 2018

Building a better working world

Statsautoriserte revisorer
Ernst & Young AS

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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 2018, 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 2018, 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 2018, 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 2018 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 2018. 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 income from customer contracts over time

A large part of the Group's revenues and expenses 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 expenses in fulfilling the contract. The recognition of customer contracts over time is a key audit matter, due the extent and complexity of ongoing projects in the Group with duration over several years, and where management exercises judgement to estimate the progress, including expected transaction price and expenses to fulfil the contract.

We evaluated the application of accounting principles, including the implementation of IFRS 15, methods for estimating the projects' progress, routines for monitoring projects and tested controls over project assessments and recognition. We discussed estimated total project expenses, 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 total project portfolio. For selected contracts, we tested estimated revenues against agreements, incurred expenses against invoices and hours against project reports, and assessed the total estimated project expenses. In addition, we have analysed actual margins on selected completed projects 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 7 on customer contracts in the Groups' financial statements.

Currency hedging of future cash flows in foreign currency

A large part of the Group's cash flows is in foreign currencies. The Group hedges contractual cash flows and a part of highly probable future cash flows by entering into forward currency contracts. The use of hedge accounting and documentation of hedges might require management judgement and require close follow up. Due to the amounts involved, we view currency hedging of future cash flows in foreign currency as a key audit matter.

We assessed the design and tested the effectiveness of internal controls over designation and follow up of the hedging relationships, including testing of hedge ineffectiveness. We assessed if the documentation relating to the currency hedging was in accordance with requirements in the accounting standards. We considered the Group's process of follow up of forward contracts entered into against expected cash flows and tested reconciliations between supporting source systems and documents used to manage and document hedging relationships. We obtained external fair value confirmations of unrealised hedging instruments at year end, and we assessed the Group's presentation and classification of currency hedges in the financial statements, including note disclosures.

We refer to Note 3 for details on accounting principles and note 20 on financial instruments in the Group's financial statements.

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, 21 March 2019

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 2019

PRESENTATION OF QUARTERLY RESULTS

Q1:	10 May 2019
Q2:	28 August 2019
Q3:	30 October 2019

Ticker code: KOG (Oslo Stock Exchange)

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