Financial Statements and Notes

Consolidated statement of income 1 January–31 December

KONGSBERG (GROUP)

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

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

KONGSBERG (GROUP)

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

Consolidated statement of financial position as of 31 December

KONGSBERG (GROUP)

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

Kongsberg,
19 March 2020

Eivind Reiten
Chairman

Per A. Sørlie
Director

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Deputy chair

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
Chief Executive Officer

Consolidated statement of changes in equity 1 January–31 December

KONGSBERG (GROUP)

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

Consolidated statement of cash flow 1 January–31 December

KONGSBERG (GROUP)

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

Notes

KONGSBERG (GROUP)

1 GENERAL INFORMATION

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

2 BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Significant accounting judgements, estimates and assumptions

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

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Basis of consolidation

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

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

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

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

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

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

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

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

B) Foreign currency

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

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

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

C) Revenue recognition of customer contracts

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

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

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

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

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

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

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

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

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

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

Step 5: Recognition when the performance obligation is fulfilled
The final step of the model states when revenue is to be recognised, where performance obligations that are recognised at a point in time are distinguished from those that are recognised over time. In KONGSBERG, revenue recognition is often based on the progress of the projects. The principle stated in IFRS 15 is that control over the asset will then be transferred to the customer before KONGSBERG can recognise revenue. Control normally means that the customer can use an asset directly, is able to achieve most of the remaining benefits of an asset and is able to prevent other parties from using or achieving benefits of an asset. This is considered for each individual performance obligation. Furthermore, IFRS 15 specifies three cases where the seller is to recognise revenue over time:

a) The seller produces an asset that is controlled by the customer, for example if the seller builds an asset on the customer's property.
b) The customer receives and consumes goods/services from the seller under a performance obligation over time. This will apply to most services.
c) The seller develops an asset that doesn't have an alternative area of use for the seller, and the seller is contractually entitled to be paid for work up to a point in time (costs incurred plus margin). In relation to alternative areas of use, it is the end product that is to be considered.

As stated in the above items, transfer of control does not have to be physical (items a and b) but can also be contractually based (item c). Most of KONGSBERG's contracts are recognised according to level of progress (over time) in category c, where the physical handover of the products is not done on an ongoing basis, but when the products are completed and often towards the end of the contract period. Assessments are based on different criteria depending on the product and project. However, the most important ones are:

- Various degrees of customer-specific adaptations
- There is a limited market for similar products
- The systems are installed/integrated on the customer's property on an ongoing basis or at the end of the project, and
- Remanufacturing the products for another customer requires considerable work

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

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

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

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

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

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

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

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

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

D) Taxes

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

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

Deferred tax are recognised net within the same tax regime.

E) Financial income and expenses

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

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

F) Intangible assets

Goodwill

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

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

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

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

Development

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

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

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

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

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

Maintenance

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

Technology and other intangible assets

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

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

G) Property, plant and equipment

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

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

H) Leases

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

Leasing asset

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

- Property 1-21 years
- Vehicles, machinery and equipment 1-5 years

Leasing assets are considered for impairment according to the principles described in Note 3 I.

Leasing liabilities
Leasing liabilities are recognised from the date the underlying assets are made available for use to KONGSBERG. Leasing liabilities are measured at the present value of the agreed lease payments.
Lease payments can include:

- Fixed payments
- Variable lease payments that depend on an index or interest rate
- Payments for withdrawing from the lease, if it its reasonably certain that KONGSBERG will terminate the agreement

The present value is calculated by discounting the lease payments using the interest rate implicit in the lease at the commencement date if this is readily determinable. This is not normally readily determinable and the incremental borrowing rate for loans with similar risk is then used or yield for property leases. After the commencement date, the leasing liability is increased to reflect the accretion of interest and reduced for the lease payments made. The leasing liability is remeasured if there is a change in the lease term, changes to future payments resulting from a change in an index or a change in the assessment of an option to purchase the underlying asset.

The lease term includes the non-cancellable period of a lease. In addition periods covered by extension options are also included if it is reasonably certain that KONGSBERG will exercise the option.

Short-term leases and leases of low- value assets
KONGSBERG applies the recognition exemption to leases that have a lease term of less than 12 months for property, machinery, vehicles and equipment. KONGSBERG applies the recognition exemption to leases of low-value assets primarily on office equipment. Lease payments related to the abovementioned leases are recognised as expense on a straight-line basis over the lease term and are therefore not recognised in the consolidated statement of financial position.

KONGSBERG as a lessor
The Group is a lessor of some property. These leases are classified as operating leases because the Group does not transfer substantially all the risks and rewards incidental to ownership of the property. Rental income is recognised in the income statement on a straight-line basis.

Sale and leaseback transactions
KONGSBERG has some sale and leaseback transactions related to property. In the event of the sale of a property, the asset is derecognised and a leasing asset and a leasing liability are recognised, along with a gain or loss on the transferred rights for use of the asset.

I) Impairment of non-financial assets

All non-financial assets are reviewed for each reporting period to determine whether there are any indications of impairment. If this is the case, recoverable amounts are calculated.

The recoverable amount of an asset or cash-generating unit is the higher of its value in use or fair value less net costs to sell. Value in use is calculated as the net present value of future cash flows.

The calculation of net present value is based on a discount rate before tax and reflects current market assessments of the time value of money and the risks specific to the asset. The pre-tax discount rate has been calculated using an iterative method.

Impairment is recognised if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group that generates a cash inflow that is largely independent of other assets or groups. Impairment related to cash-generating units primarily reduces the carrying amount of any goodwill allocated to the unit and then the carrying amount of the other assets in the unit on a pro rata basis. These assets normally constitute property, plant and equipment, and other intangible assets. In the event that an individual asset does not generate independent cash inflows, the asset is grouped with other assets that generate independent cash inflows.

Non-financial assets subject to impairment losses are reviewed during each period to determine whether there are indications that the impairment loss has been reduced or no longer exists. Reversals of previous impairment are limited to the carrying value the asset would have had after depreciation and amortisation, if no impairment loss had been recognised.

J) Financial instruments

Financial assets and liabilities
Financial assets and liabilities consist of derivatives, investments in shares, accounts receivable and other receivables, customer contracts in progress, cash and cash equivalents, interest-bearing loans, accounts payable and other liabilities. A financial instrument is recognised when the Group becomes party to the instrument's contractual provisions. Upon initial recognition, financial assets and liabilities are assessed at fair value plus directly attributable expenses. The exception is financial instruments, where changes in fair value are recognised through profit and loss or through other comprehensive income, and attributable costs are expensed directly or through other comprehensive income. An ordinary purchase or sale of financial assets is recognised and derecognised from the time an agreement is signed. Financial assets are derecognised when the Group's contractual rights to receive cash flows from the assets expire, or when the Group transfers the asset to another party and transfers all risks and rewards associated with the asset. Financial liabilities are derecognised when the Group's contractual obligation has been satisfied, discharged or cancelled.

Classification
The Group classifies assets and liabilities upon initial recognition based on the type of instrument and the intended purpose of the instrument. These are classified in the following categories:

I. Fair value through profit and loss
II. Financial assets measured at amortised cost
III. Derivatives earmarked as hedging instruments measured at fair value
IV. Financial liabilities measured at amortised cost

Financial assets at fair value with changes in value in the profit and loss statement
Except for investments in subsidiaries, joint ventures or associated companies in the balance sheet, all shares are defined as fair value in the income statement. Note 4 "Fair value" has a more detailed description of how fair value is measured for financial assets and liabilities.

Financial assets measured at amortised cost
The Group measures financial assets at amortised cost provided the following conditions have been met:

- The financial asset is part of a business model where the intention is to receive contractual cash flows, and
- the contractual terms for the financial asset give rise to cash flows solely consisting of the payment of principal and interest on given dates.

Subsequent measurement of financial assets measured at amortised cost is performed using the effective interest method and is subject to loss provisions. Profits and losses are recognised when the asset has been de-recognised, modified or written down.

Receivables related to operations are measured at their amortised cost, which in practice implies their nominal value and provision for expected losses.

Derivatives earmarked as hedging instruments measured at fair value
Derivatives are recognised in the balance sheet at fair value. Changes in the value of cash flow hedges are recognised as comprehensive income, while changes in the value of fair value hedges are recognised against foreign currency assets or liabilities in the balance sheet.

Financial liabilities measured at amortised cost
The company's financial liabilities are recognised at amortised cost, except for financial derivatives, which are recognised at fair value through comprehensive income.

Impairment of financial assets
KONGSBERG makes provision for expected credit losses on all debt instruments not classified as fair value through profit and loss. Expected credit loss is calculated based on the present value of all cash flows over the remaining expected useful life, i.e. the difference between the contractual cash flows and the cash flow that the Group expects to receive, discounted by the effective interest rate applicable to the instrument. The expected cash flows shall include cash flows from the sale of collateral or other credit enhancements integrated into the contract terms.

The Group uses the simplified method to calculate loss provisions for accounts receivable and contract assets. The Group thus measures loss provision based on expected credit loss over the lifetime of each reporting period. The Group has created a provision matrix based on historical credit losses, adjusted for future customer-specific factors and the general economic situation.

Derivatives
Derivatives in KONGSBERG comprise of forward currency exchange contracts. Currency options, interest and currency swap agreements (basis swaps) are used to a lesser extent. Upon initial recognition, derivatives are measured at fair value, and identifiable transaction costs are recognised through profit and loss as incurred. KONGSBERG applies the rules for hedge accounting to the extent that the requirements of IFRS 9 are fulfilled. Changes in the fair value of derivatives are recognised through profit and loss if they do not qualify for hedge accounting.

Hedging
The Group's financial policy states that material contracts must be hedged upon establishment, and these are primarily hedged using currency forward exchange contracts (fair value hedges). In special cases, the Group uses forward contracts as cash flow hedges, e.g. in connection with large tenders where there is a high probability of winning the contract.

Before hedge accounting can be used, KONGSBERG documents all qualification criteria for the use of hedge accounting. These include the identification of hedging instruments and objects, the risk to be hedged, and how the Group will assess whether the hedging arrangement meets the requirements for hedging efficiency. Hedging efficiency requirements are listed below:

- There is an economic relationship between the hedged object and the hedging instrument.
- The effect of credit risk does not have a dominant effect on the changes in value of the hedging instrument and the hedged object included in the hedging relationship.
- The relationship between the volume of the hedging instrument and the volume of the hedged object (hedge ratio) corresponds to the actual volumes used by the Group in risk management.

KONGSBERG determines whether a derivative (or another financial instrument) should be used to:

I. Hedge the fair value of an unrecognised firm commitment (fair value hedges)
II. Hedge a future cash flow of a recognised asset or liability, or an identified highly probable future transaction (cash flow hedges)

(i) Fair value hedges
The change in fair value of fair value hedges is recognised against the hedged items. For currency hedges of future contractual transactions, this implies that the changes in value of the future transaction due to changes in the exchange rate are recognised in the balance sheet. Since the hedging instrument is also recognised at fair value, this entails symmetrical recognition of the hedged item and the hedging instrument. For customer contracts, this implies that revenue is recognised at the hedged exchange rate.

Hedge accounting is ended in the event that:

a) The hedging instrument expires, or is terminated, exercised or sold, or
b) The hedge no longer satisfies the above-mentioned hedge accounting criteria

In connection with fair value hedges of financial assets or liabilities recognised at amortised cost, the change in the value of the hedging instrument is amortised during the remaining period up to maturity of the hedged item.

(ii) Cash flow hedges
Cash flow hedges are hedges of highly probable future cash flows. Changes in fair value are recognised via comprehensive income.

When a hedged transaction occurs, the accumulated change in value of the hedging instrument is transferred from other comprehensive income to profit for the year. If hedging of the transaction leads to recognition of an asset or liability, the hedging instrument is accrued in line with the hedged transaction.

In connection with hedges of future customer contracts, the hedges are allocated to contracts upon signing and are rolled forward from cash flow hedges to fair value hedges. Gains and losses that have previously been included in other comprehensive income are recognised in the income statement in line with the contract progress. This means that customer contracts that are hedged before signing are recognised at the originally hedged exchange rate.

If a hedging instrument expires without having been rolled forward or if the hedge relationship is discontinued, the accumulated gains and losses are recognised directly through profit and loss when the hedged transaction takes place. In the event that the hedged transaction is no longer expected to occur, the accumulated unrealised gains or losses on the hedging instrument previously recognised in other comprehensive income (OCI) will be transferred to profit and loss.

(iii) Hedging of a net investment in a foreign entity (equity hedging)
Hedging of a net investment in a foreign entity is recognised in an equivalent way as cash flow hedges. Profit or loss on the hedging instrument related to the effective share of the hedging that has been recognised against the comprehensive income as a part of the translation difference, shall be included in the result by realisation of the foreign entity.

Follow-up of hedging effectiveness
The forward exchange contracts are expected to be effective throughout the entire period. KONGSBERG rolls forward exchange contracts from cash flow to fair value hedges at the time of the contract entry. In addition, forward exchange contracts are rolled forward in cases where receipts/payments occur later (or earlier) than originally anticipated. At shorter time differences between the maturity of the forward contracts and the receipts/payments, KONGSBERG uses bank accounts in foreign currency. As a result, the exchange of foreign currency from the foreign currency bank account takes place in the same period as the final maturity of the forward contract or the receipts/payments. Hedging effectiveness will therefore be very high throughout the entire contractual period.

K) Classification

Assets related to normal operating cycles for goods and services or are due within 12 months are classified as current assets. Other assets are classified as non-current. Correspondingly, liabilities related to normal operating cycles for goods and services or that are due within 12 months are classified as current liabilities. Other liabilities are classified as non-current. Derivatives that are used to ensure currency flows according to Group policy, see Note 3 J, Financial instruments – hedging, are related to the Group's operating cycles and are therefore classified as short-term assets and liabilities even if the derivatives mature more than 12 months forward in time.

L) Inventories

Goods are defined by KONGSBERG as inventories of raw materials, work in progress and finished products that are not related to specific customer contracts. Inventories are measured at the lower of acquisition cost and net realisable value. For raw materials and work in progress, net realisable value is calculated as the estimated selling price in ordinary operations of finished products less remaining production costs and the costs of the sale. For finished goods, net realisable value is the estimated selling price in ordinary operations less estimated costs of completion of the sale. For work in progress and finished products, the acquisition cost is calculated as direct and indirect costs. Inventories are valued based on the average acquisition cost.

M) Receivables

Trade receivables and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are measured at amortised cost using the effective interest method, but due to the brief term to maturity, accounts receivable and other receivables will in practice be recognised at their nominal values less impairment. Trade receivable in foreign currencies are recognised at the exchange rates at the balance sheet date.

N) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise bank deposits and short-term liquid investments that can be immediately converted into a given sum of money, with a maturity of three months or less.

O) Equity

i. Treasury shares
When treasury shares are reacquired, the cost including direct attributable costs is recognised as changes in equity. Treasury shares are presented as a reduction in equity. Any gain or loss on treasury share transactions is not recognised in profit and loss.

ii. Costs related to equity transactions
Transaction costs directly related to an equity transaction and the tax effect on the equity transaction are recognised directly in equity net of tax.

iii. Hedge reserves
Hedge reserves include accumulated net changes in fair value for financial instruments used as cash flow hedges, which are recognised in other comprehensive income on an ongoing basis.

iv. Translation differences
Foreign currency translation differences are recognised in other comprehensive income. Upon the disposal of all or part of a foreign entity resulting in discontinued control, the accumulated translation differences are recognised in other comprehensive income, including the accompanying reversal.

See also Note 3 B "Summary of significant accounting policies – Foreign currency".

P) Provisions

Provisions are recognised when the Group has an obligation as a result of a past event, and when it is probable that there will be a financial settlement as a result of this obligation and the amount can be reliably measured. Estimates should be based on the basis of historical data and a weighting of results against their probability. When historical information is not available, other sources are used to estimate the provisions. If the time value is material, provisions are determined at the net present value of the liability.

Warranty
Provisions for warranty costs are recognised upon delivery of the underlying products or services. The provisions are based on historical data on warranties when available, and on a weighting of possible outcomes against the probability that they will occur. Warranty costs are expensed concurrently with the percentage of completion of the projects, and reclassified as provisions for warranty upon delivery.

Restructuring
Provisions for restructuring related to downsizing are recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring plan has been announced to the parties concerned. Restructuring costs consist of salary and social security tax when the employment relationship is terminated (including severance pay and gratuity). In addition to this are rent and other related costs and any

one-off payments in the event of the premature termination of tenancy agreements for premises that are vacated.

Onerous contracts

An onerous contract is defined as a contract where unavoidable costs in connection with the fulfilment of the contract exceed the economic benefits that are expected to be received, which means that there must be an actual loss rather than just a reduction in profit. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

Q) Employee benefits

Defined contribution pension schemes

The Group introduced a defined contribution pension scheme for all employees in Norway under the age of 52 as of 1 January 2008. Employees with defined benefit plans, aged 52 or older at the time of the transition, stayed with that plan. Most of KONGSBERG's companies abroad have defined contribution pension schemes. Contributions are recognised as expenses as they occur and are shown in the personnel expenses in the profit and loss statement.

Defined benefit pension plans

Pension benefits depend on the number of years of service and salary level when reaching retirement age. There are also early retirement plans for some executives. To ensure a uniform calculation of KONGSBERG's pension liabilities, all corporate entities have used the same actuary for the calculations. In the income statement, the year's net pension expenses, after a deduction for the net interest cost of the liability and the expected return on pension plan assets, have been recognised as "personnel expenses". The statement of financial position shows net pension liabilities including social security contributions. The financial and actuarial assumptions are subject to annual review. The discount rate is stipulated on the basis of the covered bond interest rate, plus a supplement that reflects the duration of the pension liability. Risk coverage is described in Note 12 "Pension". Actuarial gains or losses related to changes in the basis data, estimates and changes in assumptions are recognised in other comprehensive income.

Share transactions with employees

For a number of years, the Group has been conducting a share programme for all employees, i.e. offering shares at a discounted price. Discounts on shares are recognised as payroll expenses. The Group also has a share programme for leading employees. See the description in Note 28 "Statement on remuneration of the Group CEO and Executive Management".

Compensation to employees as selling shareholders in connection with acquisitions

When enterprises are acquired, the compensation to selling shareholders that are also employed in the acquired company shall be recognised as salary if one of the conditions for the payment is to maintain the employment. In such instances, the compensation shall be accrued as a salary expense over the required period.

R) Earnings per share

The Group presents annual earnings per share and diluted earnings per share. Annual earnings per share are calculated as the ratio of net profit/(loss) attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding.

The diluted earnings per share is the profit attributable to the ordinary shareholders, and the weighted number of shares outstanding, adjusted for all diluting effects related to share options.

S) Changed standards in IFRS that have not yet been implemented

IASB has clarified the definition of a business which means that acquisition of a set of assets and liabilities must be recognised according to IFRS 3 Business Combinations. When the definition of business is not met, the transaction will be recognised according to the relevant standards, e.g. for inventories or fixed assets. The standard applies from 2020 and must be applied to transactions which take place after this date and will thus not be of significance for the financial statements which have already been prepared as of the transition date.

IASB has revised the definition of 'materiality' in IAS 1 and IAS 8, to ensure that there is a consistent definition across the various IFRS standards. The new definition makes it clear that information in the financial statements will be material if the omission, mis-statement or concealment of information could be expected to influence decisions that the primary users make based on the financial statements. The change applies from 2020 inclusive, but is not expected to have any significant effect on the financial statements.

There are no other standards or interpretations that are not yet effective that would be expected to have a material impact on the consolidated statement.

T) IFRS standards implemented with effect from 1 January 2019

IFRS 16 Leases

In 2016, IASB adopted a new standard for leasing, with implementation from 1 January 2019. KONGSBERG has used the modified retrospective method for the transition to IFRS 16, which means that the comparative figures for 2018 have not been restated. According to the standard, the lessee must recognise the value of material leases with a duration of more than 12 months in its statement of financial position as a leasing asset and leasing liability. The leasing asset reflects the value of right of use for the underlying asset, while the leasing liability reflects the obligation related to future payments. The assets are written off over the lease term and the rent amount is reclassified as the repayment of debt and interest according to the annuity method. Lease of property and buildings is substantial for KONGSBERG. In addition, there is some lease of production facilities and vehicles. According to IAS 17, these were classified as operational lease agreements. With effect from 1 January 2019, leases are recognised in the balance sheet.

In isolation, the implementation of IFRS 16 results in a substantial earnings before interest, taxes, depreciation and amortisation. (EBITDA), because lease costs are no longer included and lease contracts are now reflected through depreciation and interest expenses in the income statement. This results in an increase in earnings before interest and taxes (EBIT), while profit before tax is reduced. This is because the interest element on the leasing liability is high at the start of the lease term. In subsequent leasing periods, the interest expense decline as the leasing liability is reduced. Cash flow is affected by the fact that the lease payment which represents the repayment of the principal is classified as cash flow from financing activities.

The leasing period for recognised contracts as of 1 January 2019 is in the range 1-12 years. The weighted average discount rate for the leasing liabilities was 5.85 per cent.

KONGSBERG has chosen not to re-evaluate whether existing service deliveries include a lease. This means that although the old evaluations under the rules of IAS 17 and IFRIC 4 are maintained, the accounting of these leases has been reworked in accordance with IFRS 16.

KONGSBERG applies the recognition exemption to leases that have a lease term of less than 12 months and leases of low value assets.

The implementation of IFRS 16 has the following effects on the opening balance as of 1 January 2019:

IFRS 16 effects on the statement of financial position and performance:

MNOK	*1 Jan 19*
Non-current assets	
Leasing assets	1 615
Total non-current assets	**1 615**
Equity	
Effects on retained earnings:	-
Non-current liabilities and provisions	
Non-current leasing liability	1 362
Total non-current liabilities and provisions	**1 362**
Current liabilities and provisions	
Current leasing liability	253
Total current liabilities and provisions	**253**
Total equity, liabilities and provisions	**1 615**

MNOK	*2019*
Reversed lease costs previously included in EBITDA	(423)
Increased EBITDA	**423**
Depreciation on leases	348
Increased EBIT	**75**
Interest expense on leasing liabilities during the period	(131)
Reduced EBT	**(56)**

IFRIC 23

IFRIC 23 clarifies how uncertain tax positions should be reflected in the statement. Uncertain tax positions arise when it is unclear how current tax law is to be interpreted for a specific transaction or event and when it is uncertain whether the tax authorities will approve a company's tax arrangement.

Implementation of the standard has not had any significant effect on KONGSBERG's financial statements.

4 FAIR VALUE

KONGSBERG's accounting principles and disclosures require the measurement of fair value on certain financial and non-financial assets and liabilities. For both measurement and disclosure purposes, fair value has been estimated as described in the disclosures below. Where relevant, further disclosures will be provided in the notes regarding the assumptions used to calculate fair value on the individual assets and liabilities.

Intangible assets

The fair value of intangible assets, e.g., technology, software and customer relations acquired through acquisitions, is calculated at the net present value of the estimated future cash flow from the asset, discounted by a risk-adjusted discount rate.

Brand names are calculated at the net present value of the estimated savings of royalty costs by using the brand name.

The fair value of customer relations is based on the discounted net excess earnings on the related asset.

Property, plant and equipment

At acquisitions, KONGSBERG measures property, plant and equipment at fair value. The fair value is equivalent to its market value. The market value of property is based on what the property could be sold for on the day of valuation agreed by a willing buyer and seller in an "arm's length transaction". The market value of the plant and equipment is based on assessments obtained from independent appraisers.

Leases

Leases are recognised at fair value at the time the agreement is signed. When aquistion of businesses lease contracts are measured at fair value on the date of aqusition. The market value is determined using the implicit interest rate in the lease contract or the incremental borrowing rate. For lease of property yield obtained from external parties is used.

Inventories

The fair value of inventories acquired through acquisitions is based on an estimated selling price for ordinary operations less selling costs and a reasonable profit for the sales efforts.

Derivatives

The fair value of forward exchange contracts is based on observable data. KONGSBERG uses prices from Reuters for the various forward exchange contracts. In turn, these are based on a number of market players. Where no listed price is available, fair value is calculated by discounting the difference between the agreed forward contract price and the current forward contract price for the remainder of the contract using the Norwegian government bond interest rate. The fair value of any interest rate swap agreements, basis swaps and currency options are assessed on the basis of prices from Reuters or updated valuations from the transaction counterparty.

Non-current liabilities

Fair value of interest-bearing loans, see Note 22 F "Financial instruments – Summary of financial assets and liabilities", is calculated using estimates of the interest curve and credit margin at the balance sheet date. Estimated cash flows are discounted by the interest rate expected for comparable loans as of the date of the balance sheet. The market interest rate, before the credit mark-up, is based on NIBOR, the money market interest rate. The credit mark-up is then estimated for KONGSBERG for each length.

5 MANAGEMENT OF CAPITAL AND FINANCIAL RISKS

KONGSBERG has a centralised treasury department responsible for the Group's financing, capital structure, currency risk, interest rate risk, credit risk, liquidity management, trade finance, guaranties issued and insurance schemes. The Group's subsidiaries have limited opportunities to establish independent funding or assume financial risk. The Board has adopted guidelines for financial risk management which have been included in the Group's financial policy.

Funding and capital management

In 2019, KONGSBERG revised its financial policy, which amongst other things comprised specification of the company's capital allocation priorities. KONGSBERG's policy is to allocate capital according to the following principles and sequence, and is explained in more detail below:

1. Maintain a solid statement of financial position
2. Invest for organic growth
3. Ensure competitive direct returns for shareholders
4. Active management of the company's business portfolio

1. A solid statement of financial position is important for KONGSBERG. The working capital requirement can vary considerably, which imposes requirements regarding good liquidity and predictable access to capital. The Group must therefore be considered to have good creditworthiness by investors and customers, which will ensure secure access to the debt capital market. The Group has set a target for net debt/EBITDA over time to fall within the range 1.0x +/- 1.0x, and around the centre of the range as a long-term average. Varying working capital as a result of large projects within the defence sector is the principal reason for the span in the range, amongst other as a result of different payment structures in the projects. Net working capital is also expected to continue to vary in the future. As of 31 December 2019, KONGSBERG's net debt/EBITDA ratio was -0.84.
2. A high proportion of KONGSBERG's value creation consists of the development of high-technology solutions. KONGSBERG's technology platforms have been built up over many years and are a prerequisite for maintaining the competitiveness. In recent years, the Group has invested 4-7 per cent of its turnover in research and development, and in order to maintain its competitiveness, the Group must continue to allocate capital to this and other essential investments.
3. KONGSBERG aims to generate a competitive direct return for its shareholders. When determining the magnitude of the ordinary dividend, the management and board will take into account future capital requirements. The dividend policy stipulates that annual dividends must amount to between 40 and 50 per cent of the company's ordinary earnings after tax. In addition to the ordinary dividend, KONGSBERG will consider extraordinary distributions or the buy-back of treasury shares as possible supplements.
4. KONGSBERG shall actively manage its business portfolio. Active management entails the acquisition, sale and restructuring of businesses, and KONGSBERG has carried out a number of acquisitions in recent years. The Groups businesses are primarily assessed for their capacity to generate value, but also for the way in which they fit in with KONGSBERG's strategy, their ability to maintain leading market positions, and the potential for synergies across the Group.

The capital structure of the Group consists of interest-bearing debt and equity which is primarily attributable to the shareholders of Kongsberg Gruppen ASA. The Group's equity as of 31 December 2019 was MNOK 12,810, which corresponds to 33 per cent of total assets. The Group's net interest-bearing debt (cash less interest-bearing debt) at the year-end was MNOK –1,565.

The Group primarily uses debt instruments in the Norwegian capital market as a debt financing source. The Group considers that it has satisfactory access to capital. See also the reference to interest rate risk below.

Interest rate risk

KONGSBERG is primarily exposed to interest rate changes as a result of the financing of the business and the management of liquidity in different currencies. Most loans are in Norwegian kroner, while most deposits are in Norwegian kroner, US dollars, euro and Swedish kronor. Deposits are subject to floating interest rates, while loans are issued with both floating and fixed interest rates.

The need for interest rate swap agreements for issued debt is assessed on an ongoing basis. As of the year-end, the Group had no interest rate swap agreements, and 64 per cent of issued debt had floating interest, while the remaining 36 per cent had fixed interest.

The Group aims to ensure that the term to maturity of issued long-term loans is at least two years. As of 31 December 2019, the weighted average term to maturity was 3.2 years for bond loans issued as long-term loans. Note 22 D "Financial instruments – interest rate risk" provides more information.

Liquidity risk

Liquidity risk is the risk that is related to the Group's solvency with respect to its financial liabilities as they fall due for payment. For KONGSBERG, this means having a financial framework and liquidity that is adapted to the operating and investment plans at all times. The centralised treasury department bears the responsibility for managing the Group's liquidity risk.

Short-term liquidity requirements are covered by bank deposits. Any additional liquidity requirements can be covered within the framework of the syndicated and committed loan facility of MNOK 2,300 and an overdraft facility of MNOK 500. KONGSBERG has Group cash pool systems to which most subsidiaries are connected. These systems increase availability and flexibility in terms of liquidity management.

The Group's liquidity trend is routinely monitored through monthly carry-forwards of liquidity forecasts from the most material units, as well as budgets and reporting by segment for major investments.

Currency risk

KONGSBERG has a global presence with subsidiaries in many countries. The Group receives a high proportion of its revenue from contracts in currencies other than Norwegian kroner, with a relatively low proportion of procurement in the same currency. The individual business areas identify exposure for each contract, whilst the central financial function offers instruments that reduce currency risk.

The Group's financial policy stipulates that significant contracts must be hedged upon establishment, and these are largely hedged using currency forward exchange contracts (fair value hedges). In special cases, the Group uses forward contracts as cash flow hedges, e.g. in connection with large tenders where there is a high probability of winning the contract. The Group will normally have some open currency exposure related to minor contracts, as well as other revenues and costs in foreign currency. This exposure is reduced as far as possible through spot transactions and/or forward contracts, and the exposure period is normally short. Cash holdings in currency which are considered to be part of the businesses' working capital are not normally hedged. KONGSBERG has the highest exposure to the US dollar and euro, but it also has exposure to many other currencies.

Currency options are used only to a limited extent. Currency accounts in the cash pool systems are used for the natural hedging of smaller amounts with short terms to maturity.

In addition to the use of financial instruments, the entities and the centralised finance function implement operational measures, such as ensuring that costs incurred are in the same currency as the sales contract, in order to reduce foreign currency exposure. KONGSBERG uses a known Treasury Management System and a specific trading platform for managing currency transactions.

See Note 22 B "Financial instruments - Currency risk and hedging of currency" for more information.

Credit/Counterparty risk

Counterparty risk is the risk that KONGSBERG's contractual counterparty will be unable to meet its obligations to KONGSBERG or settle its forward currency contracts, interest rate contracts and monetary investments. The Group's financial policy requires financial institutions to have a certain credit rating before KONGSBERG can engage in financial contracts with them. The company's core banks, which are a counterparty in most derivative transactions and in which most of KONGSBERG's operating liquidity is placed, have credit ratings from A to AA- (Standard & Poor's).

Credit risk is related to trade receivables, and the business areas are responsible for their own credit risk. The receivables carry varying degrees of risk depending on the customer, term to maturity and whether any payment guarantees have been provided. For major, long-term projects, credit risk related to customers and subcontracts is assessed from the start and throughout the contract period. These projects are monitored in accordance with agreed milestones. Historically, KONGSBERG has had a relatively low percentage of bad debts.

The business in KONGSBERG which has the greatest exposure to credit risk is Kongsberg Maritime. KM primarily has customers from the private sector and the market in which it operates is cyclical. Credit insurance is used only to a limited extent, but is considered in certain cases. Kongsberg Defence & Aerospace has mostly government customers and is therefore exposed to credit risk to a lesser degree.

The Group strives to maintain a responsible balance between increasing sales with strong margins and the risk of losses. In addition, large parts of the Group operate on the basis of specially adapted credit manuals including routines for debt collection. See Note 21 "Receivables and credit risk" for more information.

6 ACQUISITIONS

Rolls-Royce Commercial Marine

On 6 July 2018, KONGSBERG entered into an agreement concerning the acquisition of Rolls-Royce Commercial Marine (RRCM) from Rolls-Royce Plc. The acquisition was completed on 1 April 2019 and the business is recognised as part of Kongsberg Maritime's segment reporting from Q2 2019. See Note 31 "List of Group companies" for an overview of the companies that have been acquired.

RRCM is a technology enterprise within maritime operations that supplies equipment and maintenance services to most segments within offshore and merchant vessels. The acquisition of RRCM makes KONGSBERG a more holistic supplier to the maritime industry, as the two companies have largely complementary products, solutions and expertise. The acquisition strengthens KONGSBERG's strategic position amongst ship owners, shipyards and other customers, and is in line with KONGSBERG's ambition to grow as a world-leading technology supplier. The acquired business is hereinafter referred to as Commercial Marine (CM).

The negotiations with Rolls-Royce over a final purchase price were concluded in October 2019 and resulted in the cost price being reduced by MNOK 320. The preliminary net outgoing cash flow of MNOK 5,145 stated in Q1 2019 included MNOK 40, which was reclassified in Q4 as covering of costs. The net reduction of the preliminary net outgoing cash flow is thus MNOK 280 and the final net outgoing cash flow amounted to MNOK 4,865.

KONSGBERG has made updated the assessments of assets and liabilities acquired through the acquisition. This has led to changes in the allocation of added value. The final allocation of added value will be presented in the Q1 2020 report.

Estimated goodwill in the preliminary added value allocation is MNOK 2,272 and includes the following:

- Expectations of market improvement
- Leading market position
- Capacity to tender large-scale projects
- Workforce
- Technical expertise
- Access to future customers and products
- Geographic presence
- References

Preliminary added value allocation for the acquisition of Rolls-Royce Commercial Marine

MNOK	*Incorporated values upon takeover*	*Adjustment of fair value*	*Book value prior to acquisition*
Intangible assets	-	(146)	146
Customer relations	616	616	-
Trademark	66	66	-
Technology	769	769	-
Total intangible assets exclusive goodwill	**1 451**	**1 305**	**146**
Property, plant and equipment	1 253	(223)	1 476
Leasing assets	471	-	471
Deferred tax assets[1)]	-	(79)	79
Current assets exclusive cash and cash equivalents	4 605	(199)	4 804
Cash and cash equivalents	2 320	(2)	2 322
Total assets exclusive goodwill	**10 100**	**801**	**9 298**
Pension liabilities	(309)	-	(309)
Long-term leasing liabilities	(384)	-	(384)
Short-term leasing liabilities	(87)	-	(87)
Provisions	(531)	(213)	(318)
Other current liabilities	(4 876)	22	(4 898)
Total liabilities	**(6 187)**	**(191)**	**(5 996)**
Net identifiable assets and liabilities	**3 913**	**611**	**3 302**
Goodwill at time of acquisition	2 272		
Remuneration	**6 185**		
Cash and cash equivalents acquired	(2 320)		
Remuneration, exclusive cash and cash equivalents	**3 865**		
Repayment of liabilities at acquisition	1 000		
Net outgoing cash flow for the acquisition	**4 865**		

1) Deferred tax on added value is recognised against the deferred tax asset concerning the carryforward loss. The unrecognised deferred tax asset at the time of acquisition is approximately MNOK 600.

If the acquisition had been implemented on 1 January 2019, KONGSBERG's operating revenues would have increased by MNOK 1,871 and EBITDA would have been reduced by MNOK 80 (including an estimate for integration and restructuring costs of MNOK 47). During the period of ownership, MNOK 7,134 in operating revenues and MNOK 32 in EBITDA have been included from CM. The overall effect on KONGSBERG's operating revenues and EBITDA if the acquisition had taken place on 1 January 2019 would have been MNOK 9,005 and MNOK -48 respectively.

Aerospace Industrial Maintenance Norway AS

On 13 December 2018, KONGSBERG announced an agreement with the Ministry of Defence for the acquisition of Aerospace Industrial Maintenance Norway (AIM). The acquisition was completed on 29 May 2019 and the agreement concerning shared ownership with Patria was concluded on the same day. KONGSBERG is the majority shareholder with 50.1 per cent, whilst Patria owns 49.9 per cent of the shares in AIM. KONGSBERG owns 49.9 per cent of Patria.

The company is the Norwegian Armed Forces' business that support the maintenance, repair and overhaul of the Norwegian Air Force's planes and helicopters. The acquisition of AIM strengthens KONGSBERG's role as a strategic partner for the Norwegian Armed Forces' operational requirements, and will strengthen KONGSBERG's position within Maintenance, Repair and Overhaul (MRO).

The parties agreed on an enterprise value of MNOK 151 on a cash and debt-free basis, and with normalised working capital. Among other things, the agreed value reflects the fact that AIM is committed to investing around MNOK 540 in a new engine depot for the F-35 at Rygge over the next 2–3 years.

The preliminary added value allocation showing an expected consideration of MNOK 3.3 is presented below. Amongst other things, this consideration includes earn-outs related to EBITDA 2019 and strategic collaboration. In June, AIM was renamed to Kongsberg Aviation Maintenance Services AS (KAMS).

Preliminary added value allocation for the acquisition of Aerospace Industrial Maintenance Norway AS

MNOK	*Incorporated values upon takeover*	*Adjustment of fair value*	*Book value prior to acquisition*
Intangible assets	2	-	2
Total intangible assets exclusive goodwill	**2**	**-**	**2**
Assets held for sale	199	7	192
Property, plant and equipment	42	(176)	218
Leasing assets	172	-	172
Deferred tax assets	156	40	117
Current assets exclusive cash and cash equivalents	192		192
Cash and cash equivalents	210	-	210
Total assets exclusive goodwill	**973**	**(129)**	**1 103**
Pension liabilities	(125)	-	(125)
Non-current liabilities	(380)	(5)	(375)
Long-term leasing liabilities	(138)	-	(138)
Short-term leasing liabilities	(34)	-	(34)
Provisions	-		
Other current liabilities	(294)	(19)	(275)
Total liabilities	**(971)**	**(24)**	**(947)**
Net identifiable assets and liabilities	**3**	**(152)**	**156**
Goodwill at time of acquisition	-		
Remuneration	**3**		
Cash and cash equivalents acquired	(210)		
Remuneration, exclusive cash and cash equivalents	**(207)**		
Net ingoing cash flow for the acquisition	**(207)**		

If the acquisition had been completed on 1 January 2019, KONGSBERG's operating revenues would have increased by MNOK 197, while EBITDA would have been reduced by MNOK 2. During the period of ownership, MNOK 275 in operating revenues and MNOK 38 in EBITDA have been included from AIM. The overall effect on KONGSBERG's operating revenues and EBITDA if the acquisition had taken place on 1 January 2019 would have been MNOK 472 and MNOK 36.

7 OPERATING SEGMENTS

For management purposes, the Group is organised into business areas based on the industries in which the Group operates. As of 31 December 2019, reporting requirements apply to the following two operating segments:

Kongsberg Maritime (KM) consists of five divisions that supply solutions, systems, products and services to various maritime markets and most maritime vessel segments. Integrated Solutions develops and supplies solutions and systems for bridge and control systems, which primarily encompass dynamic positioning, propulsion control and navigation, as well as automation systems for safety, control and monitoring of processes onboard merchant and offshore vessels and cruise ships. The division also supplies energy solutions and ship design services in the same segments. Propulsion & Engines produces and supplies propellers, thrusters, water jet systems and systems for offshore manoeuvring of maritime vessels. The Deck Machinery and Motion Control division produces and supplies deck equipment such as winches for mooring, anchor handling and special systems for offshore vessels, tugs, marine vessels and many other classes of vessel, as well as cranes. The Sensors & Robotics division is a major player within hydroacoustics and supplies autonomous underwater vessels, solutions for autonomous maritime vessels, a wide variety of products related to fisheries, systems for underwater mapping, and sensors and solutions for specialist vessels. Global Customer Support primarily provides services, spare parts and upgrades related to the business area's deliveries. Revenues are distributed with 22 per cent within Marine Services, 22 per cent within Sensor & Robotics, 20 per cent Integrated Solutions, 14 per cent within Global Customer Support, 13 per cent Propulsion & Engines and 9 per cent within Systems & Deck Machinery.

In 2019, **Kongsberg Defence & Aerospace (KDA)** was divided into six divisions, which primarily supply various systems and services to the defence industry. The Integrated Solutions division develops and supplies air defence systems, combat systems, sonars and navigation for marine vessels and submarines, as well as integrated command and control systems. The division also develops remote tower solutions for airports. Protech Systems develops and supplies remote control weapon stations for land-based vehicles and marine vessels. Defense Communications develops and supplies products for military tactical communication. Missile Systems develops and supplies naval strike missiles and air-to-surface missiles. Aerostructures produces and supplies advanced lightweight composite and titanium components for F-35 combat aircraft, as well as Maintenance, Repair & Overhaul (MRO) services. The Space & Surveillance division supplies components and services to the space industry, as well as port monitoring systems. From 1 January 2020, the Protech Systems and Defense Communications divisions will be merged to form a single division: Land Systems. For KDA, 14 per cent of the operating revenues are related to Missile Systems, 27 per cent to Integrated Defence Systems, 20 per cent to Protech Systems, 14 per cent to Space and Surveillance, 17 per cent to Aerostructures and 8 per cent to Defence Communications.

Other

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

KDI is focused on taking up new and strengthening existing positions related to digitalisation within the oil and gas, wind and merchant marine markets.

Funding of the Group is based on evaluations for the Group as a whole. Consequently, financial items, net interest-bearing debt and cash are not assigned to segments. The same applies to tax expenses and balance sheet items associated with tax, as these items are influenced by tax-related transfers between the business areas.

Management monitors the operating segments' EBITDAs on a regular basis and uses this information to analyse the various operating segments' performance and to make decisions regarding allocation of resources. The operating segments' performance is assessed based on EBITDA and return on capital employed.

Information on the Group's operating segments that are required to report is presented below.

Operating segment data

MNOK	*Kongsberg Maritime*	*Kongsberg Defence & Aerospace*	*Other*	*Eliminations*	*Consolidated*
2019					
Operating revenue from external customers	16 018	7 237	826	-	24 081
Revenue from Group companies	20	8	542	(570)	-
Total revenues	**16 038**	**7 245**	**1 368**	**(570)**	**24 081**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**1 151**	**1 157**	**(29)**	**-**	**2 279**
Depreciation	(193)	(186)	(61)	-	(440)
Depreciation IFRS16	(243)	(146)	41[1]	-	(348)
Impairment of property, plant and equipment	(18)	-	-	-	(18)
Amortisation	(209)	(65)	(16)	-	(290)
Earnings before interest and taxes (EBIT)	**488**	**760**	**(65)**	**-**	**1 183**
Segment assets[2]	19 351	11 886	1910	(224)	32 923
Segment investments[3]	5 129	459	153	-	5 741
Current segment liabilities and provisions[4]	9 288	7 272	488	(174)	16 874
2018					
Operating revenue from external customers	7 537	6 090	754	-	14 381
Revenue from Group companies	8	14	466	(488)	-
Total revenues	**7 545**	**6 104**	**1 220**	**(488)**	**14 381**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**594**	**863**	**(63)**	**-**	**1 394**
Depreciation	(118)	(170)	(62)	-	(350)
Impairment of property, plant and equipment	(5)	(1)	-	-	(6)
Amortisation	(18)	(71)	(4)	-	(93)
Earnings before interest and taxes (EBIT)	**453**	**621**	**(129)**	**-**	**945**
Segment assets[1]	6 970	8 520	1790	(158)	17 122
Segment investments[2]	80	199	92	-	371
Current segment liabilities and provisions[3]	3 221	4 380	639	(117)	8 123

1) Internal elimination of depreciation related to IFRS 16 is included in the amount.
2) The segment assets does not include derivatives and cash and cash equivalents, as these assets are managed by the Group's central treasury department.
3) Investments comprise acquired property, plant and equipment, intangible assets and goodwill, excluding IFRS 16.
4) Segment liabilities do not include deferred tax liabilities, taxes payable, interest-bearing liabilities, other non-current liabilities or provisions and derivatives, as these liabilities are controlled by the Group's corporate treasury unit.

There are no differences between the measurement methods used at the segment level and those applied to the consolidated financial statements. The different operating segments' EBITs include income and expenses from transactions with other operating segments within the Group. Transactions between the segments are based on market prices. Intra-group transactions between the different segments are eliminated upon consolidation.

Reconciliation of assets

MNOK	*2019*	*2018*
Segment assets	**32 923**	**17 122**
Derivatives	376	182
Fair value adjustments related to financial instruments	302	316
Cash and cash equivalents	5 654	10 038
Total assets	**39 255**	**27 658**

Reconciliation of current liabilities and provisions

MNOK	*2019*	*2018*
Current segment liabilities and provisions	**16 874**	**8 123**
Short-term interest-bearing loans	968	312
Derivatives	493	580
Fair value adjustments related to financial instruments	399	8
Calculated income tax payable	77	19
Total current liabilities and provisions	**18 811**	**9 042**

Geographical information

In presenting information by geographical segments, earnings are distributed based on the customers' geographical location, while the data on fixed assets are based on the location of the physical investment or relationship to the relevant acquisition. The Group's activities are generally divided into Norway, the rest of Europe, America and Asia. Fixed assets include property, plant and equipment, intangible assets and goodwill. (Financial instruments, deferred tax benefits, pension funds and rights following from insurance agreements are not included.)

MNOK	*Norway*	*Europe*	*North America*	*South America*	*Asia*	*Australia*	*Africa*	***Total***
2019								
Operating revenue from external customers	4 348	6 761	6 022	328	5 638	403	581	**24 081**
Operating revenues as % of the total	18%	28%	25%	1%	24%	2%	2%	
Fixed assets[1]	10 315	948	859	27	393	9	1	**12 552**
2018								
Operating revenue from external customers	2 779	3 812	4 074	190	2 760	158	608	**14 381**
Operating revenues as % of the total	19%	27%	28%	1%	19%	1%	4%	
Fixed assets[1]	4 218	115	783	15	289	-	-	**5 420**

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

8 CUSTOMER CONTRACTS

MNOK	*Kongsberg Maritime*	*Kongsberg Defence & Aerospace*	*Other*	*Total*
2019				
Accrual of revenue recognition				
Revenue recognition based on progress in the projects (over time)	5 230	5 828	519	11 577
Revenue recognition upon delivery of goods and services	3 796	282	247	4 325
Aftermarket activities[1] which are recognised as income upon delivery	6 841	1 127	(4)	7 964
Revenue from rental of property, plant and equipment	44		62	106
Total external revenues from customer contracts	**15 911**	**7 237**	**824**	**23 972**
Gains from sale of property, plant and equipment	-	-	2	2
Gains from sale of business	107	-	-	107
Total external revenues	**16 018**	**7 237**	**826**	**24 081**
2018				
Accrual of revenue recognition				
Revenue recognition based on progress in the projects (over time)	3 737	4 644	386	8 767
Revenue recognition upon delivery of goods and services	897	468	157	1 522
Aftermarket activities[1] which are recognised as income upon delivery	2 850	978	133	3 961
Revenue from rental of property, plant and equipment	44	-	78	122
Total external revenues from customer contracts	**7 528**	**6 090**	**754**	**14 372**
Gains from sale of property, plant and equipment	9	-	-	9
Total external revenues	**7 537**	**6 090**	**754**	**14 381**

1) Aftermarket includes revenues from service, maintenance, upgrades, spare parts, accessories/other deliveries and training linked to previously-delivered systems and vessels that are not classed as new builds. Aftermarket activities are not reflected in the order backlog and are thus also not included in the summary of revenues for future periods; see the table below.

The table shows the anticipated date on which unsettled/unstarted performance obligations as of 31 December 2019 are recognised as income:

	2019 *Date of revenue recognition*				2018 *Date of revenue recognition*		
MNOK	*Order backlog 31 Dec 19*	*2020*	*2021*	*2022 and later*	*Order backlog 31 Dec 18*	*2019*	*2020 and later*
Kongsberg Defence & Aerospace	20 146	7 178	6 383	6 585	10 734	5 576	5 168
Kongsberg Maritime	12 095	8 904	2 332	859	5 739	4 268	1 471
Other/elimination	888	518	224	146	800	512	288
Total	**33 129**	**16 600**	**8 939**	**7 590**	**17 283**	**10 356**	**6 927**

Kongsberg Maritime (KM)
Many of KM's divisions have deliveries that are combined in a system that must operate together. This primarily applies to deliveries by the Sensor & Robotics and Integrated Solutions divisions, where the deliveries are recognised as revenue according to level of progress made over time. This is because the deliveries are extensively customised and have no alternative area of use for KM. In most cases, the measures of progress used in connection with revenue recognition over time is "cost to cost", but hours can also be used.

KM also has a significant proportion of deliveries where the revenues are recognised upon delivery. This particularly applies to the business acquired via the acquisition of Commercial Marine, such as Systems & Deck Machinery and Propulsion & Engines, but it also applies to certain areas of Sensor & Robotics and Integrated Solutions. Equipment deliveries are largely assessed as being independent and have a short time horizon; and the revenue is therefore recognised as income upon delivery. For a more detailed description of what the various divisions supply, see Note 7 "Operating segments".

Over 36 per cent of KM's revenues are within aftermarket. Most of these contracts are recognised upon the delivery of hours/equipment and are often of short duration. There are also cases where this type of contract is recognised over time, but it is then assumed that the contract is large and will extend over a number of accounting periods.

Customer contracts have different payment terms, depending on the product, market and negotiations with the customer. Many customer contracts that are recognised over time include an advance paid by the customer upon contract signing, followed by payments as milestones are achieved. There are considerable differences between the contracts. For goods and service deliveries, including aftermarket deliveries, customers are primarily invoiced upon delivery and payment takes place after an agreed credit period, which depends on the individual agreement.

Kongsberg Defence & Aerospace (KDA)
KDA's customer contracts primarily concern deliveries that are combined in a system and must operate together. Most customer contracts in the business area are recognised as revenue according to progress over time. This is because the deliveries are extensively customised and have no alternative area of use for KDA. Customer contracts are normally long-term and large. KDA is entitled to payment for work performed to date. "Cost to cost" is primarily used as a measure of progress, but accrued hours, progress made by subcontractors and, in some cases, milestones are also used. Deliveries of this type are air defence systems, missile systems, command and control systems and monitoring systems.

Series of identical units within the same contract are recognised as revenue over time. These are then treated as a single delivery obligation. The condition is that they would have individually qualified for revenue recognition over time. Revenue measures for such contracts could be delivery/withdrawals from inventories to customers, as this represents the progress that has been made, because the manufacturing period is relatively short. Many of the contracts concerning weapons stations are recognised as revenue according to these principles. The same applies to contracts related to the F-35 programme.

KDA makes little use of revenue recognition upon delivery, but this method is used in connection with the delivery of communication equipment and equipment for the space industry.

KDA also has deliveries of service and maintenance. Most of these deliveries are activities which are covered by the term 'aftermarket' in KONGSBERG. These services are primarily recognised as revenue as the hours/goods are delivered.

For a more detailed description of the divisions and deliveries in KDA, see Note 7 "Operating segments".

KDA would be entitled to reimbursement for accrued costs plus a margin if the customer were to cancel a contract without sufficient reasons to do so. Customer contracts have different payment terms, depending on the product, market and negotiations with the customer. For customer contracts recognised over time, many contracts will include an advance paid by the customer upon contract establishment, followed by payment as milestones are achieved. There are considerable differences between the contracts. For goods and service deliveries, including aftermarket deliveries, customers are primarily invoiced upon delivery and payment takes place after an agreed credit period, which depends on the individual agreement.

MNOK	*2019*	*2018[1)]*
Divisions		
Customer & Services	3 708	
Sensors & Robotics	3 693	2 875
Integrated Solutions	3 468	2 957
Global Customer Support (KM)	2 396	2 327
Propulsion & Engines (P&E)	2 244	
Systems & Deck Machinery	1 523	
Other/elimination	(994)	(614)
Kongsberg Maritime	**16 038**	**7 545**
Integrated Defence Systems	2 116	1 694
Protech Systems	1 562	1 699
Aerostructures	1301	888
Missile Systems	1147	728
Space & Surveillance	664	625
Defence Communications	635	680
Other/elimination	(180)	(210)
Kongsberg Defence & Aerospace	**7 245**	**6 104**
Other/elimination	**798**	**732**
Total revenue from contracts with customers	**24 081**	**14 381**

1) The comparison for KM has changed due to the composition of the divisions

For a more detailed description of the various divisions and their deliveries, see Note 7 "Operating segments".

MNOK	*Kongsberg Maritime*	*Kongsberg Defence & Aerospace*	*Other*	*Total*
2019				
Geographic distribution of external revenues from customer contracts				
Norway	2 586	1 428	334	4 348
Europe	5 193	1 405	163	6 761
America	2 802	3 036	184	6 022
South America	276	7	45	328
Asia	4 813	769	56	5 638
Africa	101	470	10	581
Australia	247	122	34	403
Total external revenues from customer contracts	**16 018**	**7 237**	**826**	**24 081**
2018				
Geographic distribution of external revenues from customer contracts				
Norway	1 495	948	336	2 779
Europe	2 133	1 526	153	3 812
America	1 248	2 667	159	4 074
South America	146	32	12	190
Asia	2 297	394	69	2 760
Africa	158	443	7	608
Australia	60	80	18	158
Total external revenues from customer contracts	**7 537**	**6 090**	**754**	**14 381**

Contract balances

Specification of net contract balances[1]

MNOK	*Note*	*31 Dec 19*	*31 Dec 18*
Customer contracts in progress	21	3 701	2 653
Prepayments received from customers		(9 334)	(4 834)
Accrued assets, customer contracts		4 326	2 016
Accrued liabilities, customer contracts		(3 286)	(1 998)
Net contract balances		**(4 593)**	**(2 163)**

MNOK	*31 Dec 19*	*31 Dec 18*
Customer contracts, assets	5 888	2 994
Customer contracts, liabilities	(10 481)	(5 157)
Net contract balances	**(4 593)**	**(2 163)**

1) The table on the left shows the gross amounts before netting. The table on the right shows balance sheet items for each customer contract, with the exception of trade receivables netted and presented on the corresponding balance sheet line.

Contract balances
"Customer contracts, assets"
"Customer contracts, assets" primarily consists of completed, non-invoiced work and accrued assets related to customer contracts. Accrued assets include components which are to be used in customer contracts, but which have not yet been installed in the projects, prepayments to suppliers and cost accruals. The closing balance as of 31 December 2019 includes just over MNOK 1,500 from companies acquired through the acquisition of Commercial Marine in the Kongsberg Maritime business area and partly explains the increase in net "customer contracts, assets".

"Customer contracts, liabilities"
For many customer contracts, advances are agreed with customers or invoicing takes place in accordance with a payment schedule before control is transferred to the customer. This is presented as an advance from the customer and is recognised under "Customer contracts, liabilities". "Customer contracts, liabilities" will also arise as a result of cost accruals under the contracts. Included in the cost accrual are provisions for onerous contracts.

The business area Kongsberg Defence & Aerospace has the largest advances. During 2019, Kongsberg Defence & Aerospace received new advances amounting to just over NOK 3 billion. At the year-end, an advance in Kongsberg Defence & Aerospace was registered of just under NOK 1.5 billion.

At the close of the year, this advance had not been paid, so the corresponding amount is recognised under trade receivables. This advance is paid after year end.

In Kongsberg Maritime, formal advances are rare, but they have payment schedules which generate accrued income on the liability side.

Advances totalling almost NOK 3 billion registered in the opening balance were recognised as income during the 2019 financial year.

The acquired companies Commercial Marine and AIM also contribute to an increase in the closing balance on the balance line "Customer contracts, liabilities".

Revenue recognition from customer contracts includes:

MNOK	*31 Dec 19*	*31 Dec 18*
Prepayments from customers included in customer contracts, obligations at the beginning of the year and which are recognised as income in the fiscal year	2 917	3 056
Revenue from performance obligations completed before the financial year	(4)	67

Estimate uncertainty related to customer contracts

The recognition of customer contracts is associated with uncertainty as regards the determination of the type of performance obligation and the transaction price. The type of performance obligation will impact on the timing of revenue recognition, while in cases where the transaction price must be estimated, estimates will impact on the size of the consideration that is to be recognised as revenue. Contract revenue is normally in accordance with the agreement. Variable considerations and financial penalties for delays can impact on the transaction price, but are rare. Uncertainty related to the probability that variable considerations or financial penalties for delays will occur and also regards the estimation of the magnitude of these.

For performance obligations that are recognised as revenue over time, revenue recognition will take place in line with estimated progress.

Progress of completion is normally calculated on the basis of costs incurred compared to total expected costs or incurred hours measured against the expected time consumption. Expected total costs are estimated, based on a combination of experience-based estimates, systematic estimation procedures and follow-up of efficiency metrics and good judgement. Normally, a high proportion of the total costs will relate to the number of hours remaining that employees must spend developing or completing the project. Uncertainty in the estimates is affected by the project's duration and technical complexity. Principles have been established for categorising projects in terms of technological complexity and degree of development. This forms the basis for an assessment of risk and recognition of revenue in the projects.

9 SHARES IN JOINT ARRANGEMENTS AND ASSOCIATED COMPANIES

Specification of movement in the balance line "Shares in joint arrangements and associated companies" 1 January – 31 December:

MNOK	*Business office*	*Share*	*Net holding 1 Jan 19*	*Acquisitions during the period*	*Dividends received*	*Profit or loss during the period*[1)]	*Comprehensive income during the period*[2)]	*Net holding 31 Dec 19*
Patria Oyj	Helsinki, Finland	49.90%	2 807	(31)[3)]	(68)	(35)	(18)	2 656
Kongsberg Satellite Services AS	Tromsø, Norway	50.00%	437		(55)	112	(2)	492
Other associated companies			156		(1)	(56)		100
Total			**3 400**	**(31)**	**(123)**	**21**	**(20)**	**3 247**

1) Profit or loss during the period from companies that are separate tax entities, such as private limited companies, is recognised after tax and amortisation of excess values.
2) Comprehensive income concerns translation differences and changes in estimates. Parts of the investment in Patria are hedged in basic swaps. See Note 22 B "Financial instruments - Currency risk and hedging of currency".
3) Cost adjustment according to the sales agreement.

Share of net income in Patria during the period of ownership

	1 Jan 19–31 Dec 19		1 Jan 18–31 Dec 18	
	MEUR	*MNOK*	*MEUR*	*MNOK*
Earnings after tax in Patria (100%)	4.5		29	
Adjusted for share of net income in KAMS[1]	(1.1)			
Minority interests Millog	(5.0)		(4)	
Earnings after tax in Patria (100%), majority	**(1.5)**	**(15.2)**	**25**	**245**
KONGSBERG's share (49.9%)[2]		(7.6)		122
Amortisation of added value after tax		(27.2)		(42)
Share of net income in the period		(34.8)		80

1) The net income from Kongsberg Aviation Maintenance Services (KAMS), of which KONGSBERG owns 50.1 per cent and Patria owns 49.9 per cent, has been deducted (KAMS is consolidated 100 per cent into KONGSBERG).
2) Share of Patria's profit after tax, adjustment for non-controlling interests and net income from KAMS.

10 INVENTORIES

The Group's total inventories include the following:

MNOK	*31 Dec 19*	*31 Dec 18*
Raw materials	2 156	925
Work in progress	405	265
Finished products	1 403	984
Total	**3 964**	**2 174**
Recognised changes in value for inventories	**67**	**35**
Total cost of goods in year amounts to	**9 328**	**4 297**

Estimation uncertainty

Inventories are measured at the lowest of acquisition cost and net realisable value. Judgement is used when assessing net sales value. Market conditions and technical condition are taken into consideration, amongst other things, for the assessments.

11 PERSONNEL EXPENSES

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

MNOK	*Note*	*2019*	*2018*
Salaries		6 908	4 638
Employer's National Insurance contributions on salaries[1]		936	642
Pension expenses, defined benefit plan	12	17	35
Pension expenses, defined contribution pension schemes	12	540	374
Other benefits[1]		364	240
Total personnel expenses		**8 764**	**5 929**
Average no. of FTEs (full-time equivalents)[1]		**9 645**	**6 750**

1) The figure for 2018 has been adjusted.

12 PENSIONS

KONGSBERG has a service pension plan that complies with legislation, and consists of a defined contribution plan and a closed defined benefit plan. The service pension plans include all employees of the Group in Norway. As of 31 December 2019, approximately 6,475 employees in Norway are covered by the plan. KONGSBERG aims to ensure that as many of its employees as possible outside Norway are also covered by service pension plans.

Defined contribution pension scheme (ITP)

The Group introduced a defined contribution pension scheme for all employees under the age of 52 as of 1 January 2008. The contribution rates are 0 per cent of salary up to 1G, 5 per cent of salary between 1G and 7.1G, and 11 per cent of salary from 7.1G up to 12G. From 2020, the contribution rate will be 5 per cent of the entire base salary under 7.1 G. The employees can influence the way the funds are managed by choosing between three investment options; with either 30, 50 or 80 per cent of their shares in the portfolio. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The Group's deposits in this plan is 18 per cent of the portion of the base salary that exceeds 12G, up to a ceiling of 15G. Special terms and conditions apply for executives. This is described in Note 28 "Statement on the Group CEO and Executive Management remuneration". The unfunded scheme has been closed for new members since 2015. The supplementary plan has the same investment choices as the main plan. KONGSBERG's companies abroad generally have defined contribution plans. As of 31 December 2019, approximately 6,200 employees in Norway and the majority of the employees abroad were covered by these plans. The contributions are expensed as incurred.

The defined benefit plan (YTP)

In connection with the transition to the defined contribution plan on 1 January 2008, employees aged 52 or more remained in the defined benefit plan. The pension plan is insured through DNB Life Insurance. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. Pension costs are distributed over the employee's accrual period. Given a calculated state pension based on the Norwegian National Insurance Scheme's rules before 1 January 2011 and full earning, the scheme provides approx. 65 per cent of the final salary including National Insurance benefits until the age of 77, after which the service pension section is reduced by 50 per cent for the remaining lifetime. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The collective, unfunded benefits plan corresponds to about 60 per cent of the share of the base salary that exceeds 12G until the age of 77, and then the benefit is reduced by 50 per cent for the remaining lifetime. Special terms and conditions apply for executives. This is described in Note 28 "Statement on the Group CEO and Executive management remuneration". These supplementary plans were discontinued in connection with the transition to defined contribution pension schemes.

Risk coverage

Disability pension from the Group was changed on 1 January 2016 and will provide an addition to the estimated disability benefits from national insurance. National insurance will cover 66 per cent of the pension basis up to 6G, while the Group plan covers 66 per cent of the pension basis between 6G and 12G. The Group plan also provides an additional 3 per cent of the pension basis from 0G to 12G, a pay increase of 25 per cent of G and any child supplement of 4 per cent per child (maximum 3 children). From 1 January 2016, KONGSBERG has decided to terminate the paid-up policy accrual for disability pensions as part of the adaptation to the new regulations. The employees have been issued individual paid-up policies for the already earned paid-up policy rights. The new scheme is a one-year risk cover and the premiums will be expensed as they accrue. Starting on 1 January 2013, the risk pensions are unfunded for the share of salary that exceeds 12G. In practice this implies that KONGSBERG is self-insurer for the risk pension for future periods. The unfunded scheme has been closed for new members since 2015.

Early retirement

A few years ago, it was decided that the Group would no longer offer early retirement schemes for senior executives. The Group still has outstanding obligations related to such early retirement pension agreements for a few people.

Pension assumptions

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

Economic assumptions	*31 Dec 19*	*31 Dec 18*
Discount rate, Norway	2.10–2.20%	2.70%
Discount rate, Sweden	1.30%	
Wage adjustment	1.50%	2.00%
Pension base level (G) adjustment	2.00%	2.50%
Pension adjustment	1.25%	1.75%

Other Norwegian assumptions	*31 Dec 19*	*31 Dec 18*
Mortality	K2013	K2013
Disability	IR 73	IR 73
Voluntary turnover	4.5% for all ages	4.5% for all ages

The year's pension costs were calculated as follows:

MNOK	*2019*	*2018*
Costs, defined benefit plans	17	35
Costs of defined contribution plans in Norway	411	335
Costs of defined contribution plans abroad	129	39

Net interests costs are classified as finance expenses.
Costs for defined benefit plans include a gain on the pension scheme settlement of MNOK 34 (9)

Change in net pension liabilities recognised in the statement of financial position

	2019			2018		
MNOK	*Funded*	*Unfunded*	*Total*	*Funded*	*Unfunded*	*Total*
Changes in gross pension liabilities						
Gross pension liabilities as of 1 January	1 613	334	1 947	1 637	388	2 025
Additions through acquisition	461	309	770	-	-	-
Present value of current year's contribution	18	15	33	14	13	27
Interest expenses on pension liabilities	48	10	58	35	6	41
Actuarial losses/gains	15	52	67	47	(21)	26
Settlement of pension scheme	(30)		(30)	(8)	-	(8)
Payments of pensions/paid-up policies	(113)	(51)	(164)	(107)	(44)	(151)
Net change in social security expenses	11	(2)	9	(5)	(8)	(13)
Gross pension liabilities as of 31 December	**2 023**	**667**	**2 690**	**1 613**	**334**	**1 947**
Changes in gross pension fund assets						
Fair value, pension plan assets as of 1 January	1 409	-	1 409	1 378	-	1 378
Additions through acquisition	358	-	358	-	-	-
Expected return on pension funds	42	-	42	30	-	30
Actuarial losses/gains	(37)	-	(37)	74	-	74
Premium payments	64	-	64	41	-	41
Payments of pensions/paid-up policies	(120)	-	(120)	(114)	-	(114)
Fair value, pension plan assets as of 31 December	**1 716**	**-**	**1 716**	**1 409**	**-**	**1 409**
Net capitalised pension liabilities as of 31 December	**(307)**	**(667)**	**(974)**	**(204)**	**(334)**	**(538)**

The secured pension scheme is insured through an insurance company, and the Group's pension funds are thereby regulated by an insurance policy. The insurance policy cannot be traded, and the value is determined in accordance with the legislation on insurance businesses. The insurance has an interest guarantee, implying that the insurance company carries the risk for the return on the pension funds. The funds have primarily been invested in bonds, with some being invested in shares and property.

Historical information

MNOK	*2019*	*2018*	*2017*	*2016*	*2015*
Gross pension liabilities as of 31 December	2 690	1 947	2 025	1 958	2 003
Fair value, pension plan assets as of 31 December	1 716	1 409	1 378	1 491	1 506
Net pension liabilities as of 31 December	**(974)**	**(538)**	**(647)**	**(467)**	**(497)**
Actuarial gains/losses pension liabilities as of 31 December	67	26	(24)	4	(211)
Actuarial gains/losses pension assets as of 31 December	(37)	74	(90)	22	11
Accumulated estimated gains/losses recognised in the statement of comprehensive income after tax	**(1 428)**	**(1 331)**	**(1 374)**	**(1 316)**	**(1 331)**
Of which, constitutes experience deviations	(926)	(881)	(928)	(943)	(898)

Contractual early retirement plan

The Group's general contractual early retirement plan gives a life-long supplement to the ordinary pension. Employees can choose to draw on the new plan from the age of 62, even if they continue to work. The new plan is a defined benefit multi-employer pension plan, and it is funded through premiums established as a percentage of wages. For the moment, there is no reliable measurement or allocation of liabilities and funding as regards the plan. For accounting purposes, the plan is therefore considered to be a defined contribution pension scheme in which premium payments are expensed against income on an ongoing basis, and no provisions are made in the financial statements. A premium is paid to the new plan of the total payments made between 1G and 7.1G to the Group's employees. For 2019, the premium was 2.5 per cent, and the same rate is set for 2020 (estimated at MNOK 110). There is no accumulation of capital in the plan and further increases in the premium level are expected over the coming years.

Other

Pension benefits depend on the number of years of service and salary level when reaching retirement age. Net pension liabilities are determined on the basis of actuarial estimates made on assumptions related to the discount rate, future wage growth, pension adjustments, expected return on pension fund assets and employee turnover. These assumptions are updated annually. The discount rate is stipulated on the basis of the covered bond interest rate, which reflects the time frame for paying out on the pension liabilities for the benefit plan. In KONGSBERG's opinion, the market for covered bonds is sufficiently deep and shows reliable pricing.

The balance sheet shows net pension liabilities including social security.

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

	MNOK
2020	142
2021	150
2022	154
2023	155
2024	148
Next 5 years	666

13 PROPERTY, PLANT AND EQUIPMENT

MNOK	*Land*	*Buildings and other real property*	*Machinery and plant*	*Equipment and vehicles*	*Plant in progress*	*Total*
Acquisition cost						
1 January 2018	304	2 248	1 566	2 046	148	6 312
Reclassification	-	21	-	-	(21)	-
Additions	5	18	128	84	(5)	230
Disposals	-	(30)	(84)	(13)	-	(127)
Translation differences	1	21	1	11	-	34
Acquisition cost as of 31 December 2018	**310**	**2 278**	**1 611**	**2 128**	**122**	**6 449**
Reclassification	(2)	1		12	(2)	9
Additions through acquisition	16	862	80	274	63	1 295
Additions	12	51	110	152	219	544
Disposals	(1)	(21)	(14)	(38)	(14)	(88)
Translation differences	-	37	7	13	-	57
Acquisition cost as of 31 December 2019	**335**	**3 208**	**1 794**	**2 541**	**388**	**8 266**
Accumulated depreciation and impairment						
1 January 2018	-	1 040	948	1 660	6	3 654
Reclassification	-	-	-	-	-	-
Depreciation for the year	-	87	123	140	-	350
Impairment for the year	-	5	1	-	-	6
Accumulated depreciation through disposal	-	(23)	(73)	(12)	-	(108)
Translation differences	-	8	1	7	-	16
Total accumulated depreciation and impairment as of 31 December 18	**-**	**1 117**	**1 000**	**1 795**	**6**	**3 918**
Depreciation for the year	-	74	146	220	-	440
Impairment for the year	-	1	-	17	-	18
Accumulated depreciation through disposal	-	(6)	(11)	(36)	-	(53)
Translation differences	-	3	7	9	-	19
Accumulated depreciation and impairment as of 31 December 2019	**-**	**1 189**	**1 142**	**2 005**	**6**	**4 342**
Carrying amount as of 31 December 2018	**310**	**1 161**	**611**	**333**	**116**	**2 531**
Carrying amount as of 31 December 2019	**335**	**2 019**	**652**	**536**	**382**	**3 924**
Useful life	**N/A**	**10–33 years**	**1–10 years**	**1–10 years**		

Estimation uncertainty

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

14 LEASES

KONGSBERG has leases which are primarily related to land and buildings, as well as leases for machinery, vehicles and equipment. The leases are hedged with the underlying asset. Many of the leases include extension options. These are included if it is reasonably certain that KONGSBERG will exercise the option. The lease conditions do not include variable rent except if the rent is dependent on any index or interest rate. The Group applies the recognition exemption to short-term leases and to leases with assets of low value. The former exemption is used for all types of leases, while the latter is primarily used for office equipment and small equipment.

MNOK	*Property*	*Vehicles, machinery and equipment*	*Total*
Opening balance	**1 605**	**10**	**1 615**
Additions through acquisition	674	21	695
Additions	179	-	179
Depreciation for the year	(337)	(11)	(348)
Impairment for the year			-
Carrying amount as of 31 December 2019	**2 121**	**20**	**2 141**
Lease term	1–21 years	1–5 years	

Leasing liabilities

MNOK	*2019*
Opening balance	1 615
Additions through acquisition	695
Additions	179
Interest on leasing liabilities	131
Lease payments	(423)
Carrying amount as of 31 December 2019	**2 198**
Current leasing liabilities	348
Long-term leasing liabilities	1 850

See Note 25 “Provisions” regarding non-current liabilities associated with properties that have been sold and leased back.

The total outgoing cash flows for leases was MNOK 492 in 2019.

Recognised in the income statement

MNOK	*2019*
Depreciation on leases during the year	348
Interest expense on leasing liabilities	131
Costs related to short-term leases and leases of assets of low value	69
Total recognised in profit/loss	**548**

For information on due dates for lease payments, see Note 22 E).

KONGSBERG has a number of leases which include extension options. These options have been negotiated to secure flexibility as regards the handling of the lease portfolio according to KONGSBERG's ongoing needs. The options are included if it is reasonably certain that KONGSBERG will exercise the option.

15 INTANGIBLE ASSETS

MNOK	*Goodwill*	*Technology*	*Capitalised internal development*	*Other intangible assets*[1)]	*Total*
Acquisition cost					
1 January 2018	2 893	656	1 139	101	4 789
Additions through acquisition	-	-	8	-	8
Additions	11	4	130	7	152
Disposals	-	-	(2)	-	(2)
Translation differences	19	9	-	1	29
Acquisition cost as of 31 December 2018	**2 923**	**669**	**1 275**	**109**	**4 976**
Additions through acquisition	2 272	769	-	684	3 725
Additions	-	-	173	1	174
Disposals	(29)	-	(1)		(30)
Translation differences	9	14	-	1	24
Acquisition cost as of 31 December 2019	**5 175**	**1 452**	**1 447**	**795**	**8 869**
Accumulated amortisation and impairment					
1 January 2018	912	635	344	95	1 986
Amortisation	-	21	67	5	93
Disposals	-	-	-	-	-
Translation differences	-	8		-	8
Total accumulated amortisation and impairment as of 31 December 2018	**912**	**664**	**411**	**100**	**2 087**
Amortisation	-	58	83	149	290
Disposals	(9)	-	(1)	-	(10)
Translation differences	-	15	-	-	15
Total accumulated amortisation and impairment as of 31 December 2019	**903**	**737**	**493**	**249**	**2 382**
Carrying amount as of 31 December 2018	**2 011**	**5**	**864**	**9**	**2 889**
Carrying amount as of 31 December 2019	**4 272**	**715**	**954**	**546**	**6 487**
Useful life		**1–10 years**	**1-10 years**	**1–10 years**	

1) Additions through acquisitions in the group "Other intangible assets" consist primarily of customer relations amounted to MNOK 616 and trademarks amounted to MNOK 66. See Note 6 "Acquisitions" for further information.

With the exception of goodwill, which cannot be amortised, the amortisation of intangible assets is linear with useful life. The amortisation starts when the intangible asset is available for use.

Product maintenance, research and development recognised in profit and loss

	2019			2018		
MNOK	*Product maintenance*	*Research and develop-ment costs*	*Total*	*Product maintenance*	*Research and develop-ment costs*	*Total*
Kongsberg Maritime	398	691	1 089	220	499	719
Kongsberg Defence & Aerospace	39	92	131	35	98	133
Other	23	67	90	25	68	93
Total	**460**	**850**	**1 310**	**280**	**665**	**945**

Capitalisation of development projects

Development projects financed by customers are not capitalised, but KONGSBERG seeks to obtain ownership rights to the developed products. During the development phase in an internally financed project, the decision is taken whether to complete development and begin capitalisation based on technical success and market conditions.

Internally financed development projects at Kongsberg Maritime mainly contain many projects with limited total scope and, to a great extent, the development of existing technology. Many of these development projects are not considered to be eligible for capitalisation. Several of the projects also entail considerable uncertainty about whether they are technologically feasible and how the final solution will turn out. Normally, the criteria for capitalisation will not be satisfied until fairly late in the development project.

The business area Kongsberg Defence & Aerospace has the largest share of capitalised internal development projects in KONGSBERG. Just over MNOK 700 of the book balance is related to internally developed technology in this business area. This includes technology associated to weapon stations, missile systems, control systems and communication equipment.

Estimation uncertainty

Capitalised development costs are amortised according to the estimated lifetime. Estimated lifetime may change over time. This is considered annually, and the amortisation is adjusted when considered necessary. When testing the value of capitalised development costs, the Group applies the same principles and methods as used for impairment testing of godwill. Regarding estimate uncertainty associated with this matter, see Note 16 "Impairment testing of goodwill".

16 IMPAIRMENT TESTING OF GOODWILL

Goodwill

Goodwill obtained through acquisitions is allocated to the Group's operating segments and followed up and tested collectively for the group of cash-generating units that constitute the operating segment. Goodwill is followed up for groups of cash-generating units that are similar to what is defined as the operating segment pursuant to Note 7 "Operating segments".

Goodwill is allocated to the operating segments as follows:

MNOK	*31 Dec 19*	*31 Dec 18*
Kongsberg Maritime	4 012	1 753
Kongsberg Defence & Aerospace	174	172
Other[1]	86	86
Total goodwill in balance sheet	**4 272**	**2 011**

1) Goodwill from others is connected to Kongsberg Digital.

The Group tests goodwill for impairment annually, or more frequently if there are indications of impairment.

The Group has used value in use to determine recoverable amounts for the cash flow-generating entities. Value in use is determined by using the discounted cash flow method. The expected cash flow is based on the business areas' budgets and long term plans, which are approved by KONGSBERG's executive management and Board. Budgets and long-term plans cover a five-year period (explicit prognosis period). Approved budgets and long-term plans are adjusted for cash flows related to investments, restructuring, future product improvements and new development, if the elements are considered significant for the impairment test. After the five years of explicit plans, the units' cash flows are stipulated by extrapolation. At the beginning of the extrapolation period, the entity is assumed to be in a stable phase. To calculate value in use, the Group has used anticipated cash flows after tax and, correspondingly, discount rates after tax. The recoverable amount would not have been significantly different if cash flows before tax and the discount rate before tax had been used. The discount rate before tax has been stipulated using an iterative method and is shown in a separate table.

The assumptions are based on historical results and observable market data.

Key assumptions

Discount rate

The discount rates are based on a weighted average cost of capital (WACC) method, whereby the cost of equity and the cost of liabilities are weighted according to an estimated capital structure. The discount rates reflect the market's required return on investment at the time of the test and in the industry to which the cash-generating unit belongs. The estimated capital structure is based on the average capital structure in the industry in which the cash generating unit operates and an assessment of what is a reasonable and prudent long-term capital structure. The CAPM model is used to estimate the cost of equity. In accordance with the CAPM model, the cost of equity consists of risk-free interest as well as an individual risk premium. The risk premium is the entity's systematic risk (beta), multiplied by the market's risk premium. The risk-free interest is estimated on a 10-year Norwegian government bond interest rate and is based on all cash flows being translated to NOK. The cost of liabilities represents an expected long-term after-tax interest rate for comparable liabilities and consists of risk-free interest and an interest spread.

Profit margin (EBITDA)
The profit margin is reviewed for each of the cash flow-generating entities that are based on expectations of future development. This gives the Group good prospects for order intake, especially within the defence segment, and is a solid basis for long-term growth. The major restructurings that have been carried out are expected to contribute to increased profitability for the Group as a whole. The explicit 5-year period is based on moderate growth in both Kongsberg Maritime and Kongsberg Defence & Aerospace.

Growth rate
Growth rates in the explicit prognosis period are based on management's expectations of market trends in the markets in which the undertaking operates. The Group uses stable growth rates to extrapolate cash flows in excess of five years. The long-term growth rate beyond five years is not higher than the expected long-term growth rate in the industry in which the undertaking operates.

Market shares
For entities operating in markets where it is relevant to measure market shares, it is expected that established positions in general will be maintained, but there could be increases and setbacks in certain areas.

Key assumptions per cash flow-generating unit

Per cent	*Kongsberg Maritime*	*Kongsberg Defence & Aerospace*	*Other*
Discount rate before tax	9,60	7,32	9,60
Discount rate after tax	7,49	5,71	7,49
Long-term nominal growth rate	1,5	1,5	1,5
Inflation	1,5	1,5	1,5

Sensitivity analysis

In connection with impairment tests of goodwill, sensitivity analyses are carried out for each individual cash generating unit.

For both Kongsberg Maritime and Kongsberg Defence & Aerospace, there will not be an impairment situation before relatively large changes in the key assumptions, and these changes are considered to be outside the probable outcome.

Estimation uncertainty

There will always be uncertainty related to the estimate of value in use. The assessments are based on key assumptions as described above, and are to a large degree influenced by market data for comparable companies, interest rates and other risk conditions. These calculations are based on discounted future cash flows, in which judgement was used as regards future profit and operation.

Significant changes in the cash flows will affect the value of goodwill.

17 FINANCIAL INCOME AND FINANCIAL EXPENSES

MNOK	*Note*	*2019*	*2018*
Interest income from assets at amortised cost		88	50
Foreign exchange gain		48	16
Other financial income		4	3
Financial income		**140**	**69**
Interest expense from liabilities at amortised cost		122	103
Foreign exchange loss		69	35
Discounts of non-current provisions		2	4
Other financial expenses		32	28
Financial expenses		**225**	**170**
Interest on leasing liabilities	14	**131**	**-**
Net finance item recognised in income statement		**(216)**	**(101)**

18 INCOME TAX

Income tax expense

MNOK	*2019*	*2018*
Tax payable Norway	(29)	31
Tax payable abroad	194	88
Change in deferred tax	85	21
Income tax expense	250	140

Reconciliation from nominal to effective tax rate

MNOK	*2019*	*2018*
Earnings before tax	**967**	**844**
Tax calculated at statutory rate 22% (23%) of profit before tax	213	194
Effect of reducing the tax rate to 22% (23%)	-	(60)
Effect of tax differences and unrecognised tax benefits abroad	-	(1)
Joint arrangements and associated companies	(5)	(42)
Correction of taxes payable for previous years	-	38
Withholding taxes for income deduction	48	-
Other permanent differences	(6)	11
Income tax expense	**250**	**140**
Effective tax rate	25.8%	16.6%

Customer contracts/ Temporary differences

For customer contracts that are recognised over time, fiscal revenue recognition will occur when the control and risk has been transferred to the customer. This has no effect on the tax expense in the income statement, but as a consequence, tax payable will fluctuate over time.

Permanent differences

The effective tax rate is affected by withholding tax on dividends from foreign subsidiaries, other permanent differences and the fact that shares of net income from associated companies are recognised after tax.

Deferred tax asset and deferred tax liability

MNOK	*31 Dec 19*	*31 Dec 18*
Deferred tax assets		
Pensions	170	118
Provisions/currency	137	(22)
Derivatives	109	128
Accumulated tax loss to carry forward	392	134
Deferred tax assets - gross	**808**	**358**
Deferred tax liability		
Fixed assets	235	157
Customer contracts	1 673	1 454
Derivatives	83	40
Deferred tax liabilities - gross	**1 991**	**1 651**
Recognised deferred tax liabilities	**(1 350)**	**(1 293)**
Recognised deferred tax assets[1]	**167**	**-**
Tax rate in Norway	22%	22%

1) The deferred tax asset is related to KAMS.

Non-recognized deferred tax asset is amounted to MNOK 712 as of 31 December 2019 which is related to CM.

Change in deferred tax recognised in other comprehensive income

MNOK	*2019*	*2018*
Pensions	(15)	12
Cash flow hedges	(26)	16
Total	**(41)**	**28**

Change in deferred tax recognized directly in the statement of financial position

MNOK	*2019*	*2018*
Addition deferred tax assets on capital increase	-	(14)
Addition tax deduction abroad, not offset	(9)	(14)
Addition deferred tax assets on acquisition	(156)	-
Disposals deferred tax assets on disposal	11	-

19 EARNINGS PER SHARE

MNOK	*2019*	*2018*
Earnings for the year attributable to the shareholders		
Earnings after tax	717	704
Non-controlling interests' share of the result	(17)	(3)
Earnings for the year/diluted earnings attributable to the ordinary shareholders	**700**	**701**

Number of shares	*Note*	*2019*	*2018*
Average weighted number of shares outstanding as of 1 January	24	180	120
Average weighted number of shares as of 31 December	24	180	126

NOK	*2019*	*2018*
Earnings for the year per share	3,89	5,58
Earnings per share for the year, diluted	3,89	5,58

20 OTHER NON-CURRENT ASSETS

MNOK	*31 Dec 19*	*31 Dec 18*
Shares at fair value through profit and loss	26	26
Loans to employees	12	15
Prepaid land rental	16	17
Long-term loans to customers	97	110
Long-term loans, associated companies	29	-
Other non-current assets	34	20
Total other non-current assets	**213**	**188**

21 RECEIVABLES AND CREDIT RISK

Credit risk

Exposure to credit risk

For an explanation of KONGSBERG's credit risk and the handling of this, see Note 5 "Management of capital and financial risk". Carrying value of financial assets represents the maximum credit exposure:

MNOK	*Note*	*31 Dec 19*	*31 Dec 18*
Trade receivable[1]		6 783	3 001
Other short-term receivables		998	460
Customer contracts in progress	8	3 701	2 653
Other non-current assets	20	213	188
Cash and cash equivalents	23	5 654	10 038
Forward contracts and interest rate swaps are used as currency hedging	22A	376	182
Total exposure to credit risk		**17 725**	**16 522**

1) The increase in trade receivables is primarily due to the acquisition of Commercial Marine and an advance of NOK 1.5 billion received by KDA, which has been paid after year end. Please refer to Note 8 for further information.

MNOK	*31 Dec 19*	*31 Dec 18*
Trade receivables	6 783	3 001
Provision for bad debts	(420)	(199)
Net trade receivables	**6 363**	**2 802**

Trade receivables distributed by region

MNOK	*31 Dec 19*	*31 Dec 18*
Norway	1 117	413
Europe	1 551	893
North America	2 483	756
South America	178	79
Asia	1 001	534
Other countries	452	325
Total	**6 783**	**3 001**

Trade receivables distributed by customer type

MNOK	*31 Dec 19*	*31 Dec 18*
Public	1 266	863
Private	5 517	2 138
Total	**6 783**	**3 001**

Credit risk exposure on the Groups trade receivables

	31 Dec 19		**31 Dec 18**	
MNOK	*Gross*	*Provision for bad debts*	*Gross*	*Provision for bad debts*
Not due	4 159	(5)	1 737	(2)
Due 1–30 days	810	(6)	554	(5)
Due 31-90 days	527	(14)	388	(10)
Due 91-180 days	690	(60)	157	(27)
Due more than 180 days	597	(334)	165	(155)
Total	**6 783**	**(420)**	**3 001**	**(199)**

Changes in provision for bad debts

MNOK	*2019*	*2018*
Provisions as of 1 January	(199)	(241)
Additions through acquisition	(177)	-
Actual losses	51	52
Allocation	(98)	(34)
Dissolved	3	25
Provision as of 31 December	**(420)**	**(199)**

Estimation uncertainty

The provision for bad debts is determined by an assessment of the probability of loss on a receivable or a group of receivables. Judgement and assumptions that can change over time are applied for the assessments. The provision for bad debts is, to a large degree, influenced by the market situation and the financial standing of the counterparty.

22 FINANCIAL INSTRUMENTS

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

A) Fair value, derivatives

MNOK	*Note*	*31 Dec 19*	*31 Dec 18*
Current assets			
Forward exchange contracts, cash flow hedging	22C	44	117
Forward exchange contracts, fair value hedges		314	60
Interest rate swaps, fair value hedges	22D	-	5
Loan hedges	22B	18	-
Total derivatives, current assets		**376**	**182**
Current liabilities			
Forward exchange contracts, cash flow hedging	22C	55	50
Forward exchange contracts, fair value hedges		374	443
Fair value basis swaps		64	86
Loan hedges	22B	-	1
Total derivatives, current liabilities		**493**	**580**

B) Currency risk and hedging of currency

For an explanation of KONGSBERG's currency risk and its handling of this risk, see Note 5 "Management of capital and financial risk". Forward rates as fair value hedges shall hedge all contractual currency flows. This means that the forward rates will hedge capitalised receivables in foreign currency, as well as invoicing remaining on the contracts. KONGSBERG is also exposed to other currencies, but these are insignificant compared to the exposure to USD and EUR. The summary for 2018 included the British pound (GBP) due to the considerable exposure of cash flow hedges in connection with the acquisition of Rolls-Royce Commercial Marine.

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

KONGSBERG uses monthly mean exchange rates to translate the profit/loss in another functional currency.

	Average exchange rate		Spot rate as of 31 Dec	
	2019	*2018*	*2019*	*2018*
USD	8.80	8.13	8.78	8.64
EUR	9.85	9.60	9.84	9.90
GBP	11.24	10.85	11.64	11.02

Currency hedging

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

	2019							
Amounts in million	*Value in NOK as of 31 Dec 19 based on agreed rates*	*Fair value[1] in NOK 31 Dec 19*	*Total hedged amount in USD 31 Dec 19*	*Average hedged rate in USD 31 Dec 19*	*Total hedged amount in EUR 31 Dec 19*	*Average hedged rate in EUR 31 Dec 19*	*Total hedged amount in GBP 31 Dec 19*	*Average hedged rate in GBP 31 Dec 19*
Hedge category								
Forward exchange contracts, cash flow hedges[2]	229	(11)	97	8.81	(59)	10.16	(2)	11.99
Total cash flow hedges	**229**	**(11)**	**97**		**(59)**		**(2)**	
Forward exchange contracts, fair value hedges[2]	15 122	(60)	1 428	8.74	215	10.06	31	11.57
Loan hedges, fair value hedges[2] [3]	657	18	73	9.02	3	10.10	3	11.85
Total fair value hedges	**15 779**	**(42)**	**1 501**		**218**		**34**	
Total	**16 008**	**(53)**	**1 598**		**159**		**32**	

	2018							
Amounts in million	*Value in NOK as of 31 Dec 18 based on agreed rates*	*Fair value[1] in NOK 31 Dec 18*	*Total hedged amount in USD 31 Dec 18*	*Average hedged rate in USD 31 Dec 18*	*Total hedged amount in EUR 31 Dec 18*	*Average hedged rate in EUR 31 Dec 18*	*Total hedged amount in GBP 31 Dec 18*	*Average hedged rate in GBP 31 Dec 18*
Hedge category								
Forward exchange contracts, cash flow hedges[2] [4]	(4 064)	67	234	8.52	(60)	9.83	(502)	10.87
Total cash flow hedges	**(4 064)**	**67**	**234**		**(60)**		**(502)**	
Forward exchange contracts, fair value hedges[2]	8 283	(384)	565	8.05	306	9.85	43	10.81
Loan hedges, fair value hedges[2] [3]	402	(1)	62	8.60	(2)	9.83	(2)	10.96
Total fair value hedges	**8 685**	**(385)**	**627**		**304**		**41**	
Total	**4 621**	**(318)**	**861**		**244**		**(461)**	

1) Fair value is the difference between the spot rate as of 31 December and the agreed rate on the forward exchange contracts.
2) Values in the table related to the value based on the agreed rates and fair value also include currencies other than USD, EUR and GBP.
3) Loan hedges are currency hedges connected to loans in foreign currency.
4) In 2018, the acquisition of Rolls-Royce Commercial Marine (MGBP 500) was hedged through a "Deal Contingency Forward".

Due date profile, hedges

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

Amounts in million	*Nominal currency amount*	*Due in 2020*	*Due in 2021 or later*
Hedge category			
Forward exchange contracts, cash flow hedging			
USD	97	(51)	148
EUR	(59)	(59)	-
GBP	(2)	(2)	-
Forward exchange contracts, fair value hedges			
USD	1 501	878	623
EUR	218	147	71
GBP	34	36	(2)

Hedging ineffectiveness

Ineffective hedges may occur when payments come in earlier than planned, or when purchases are paid for earlier than planned. These should be captured through normal operating routines, and opposite foreign exchange transactions must be carried out to reduce the currency risk.

The effectiveness of established hedges is tested monthly through the checking of payments made and received in currency against hedging maturities, as well as assessments relating to hedging relationships.

As of 31 December, the Group had recognised the following amount as not hedge-effective through profit and loss, divided by hedge category:

Amounts in million	*2019*	*2018*
Hedge category		
Forward exchange contracts, cash flow hedges[1)]	-	-
Forward exchange contracts, fair value hedges[2) 3)]	-	14
Total	**-**	**14**

1) Changes in fair value connected to the effective cash flow hedges are recognised in other comprehensive income. The part that is not hedge-effective will be recognised in the income statement.
2) The total change in value of hedged projects was MNOK 322 during 2019 (MNOK 29 in 2018). Derivatives used as project hedges have a 100 per cent hedging efficiency corresponding to negative value during the year. Change of value is recognised in accounts receivable and construction contracts in progress (assets and liabilities).
3) No hedging ineffectiveness was recognised through profit and loss for fair value hedges in 2019 (MNOK 14 in 2018). In 2018, the ineffectiveness of the cash flows for the hedging object came earlier than the settlement for the hedging instrument, and the amount in its entirety consisted of interest items.

Foreign exchange options

As of 31 December 2019, KONGSBERG had no currency options.

Basis swaps

In connection with the acquisition of shares in Patria Oyj at a cost price of MEUR 284.9, basis swaps were entered into totalling MEUR 130 to hedge a net investment in foreign companies. These basis swaps have a fair value of MNOK -63 as of 31 December 2019 (MNOK -86 as of 31 December 2018). Changes in the fair value of the basis swaps are recognised in comprehensive income.

Fair value for forward rates is, in addition to the exchange rate on 31 December, influenced by the differences in interest rates in the relevant currencies. The interest rate curves that are used in the valuation are received from Reuters, which retrieves information from various market actors. Also refer to Note 4 "Fair value" and Note 22 G "Assessment of fair value".

Sensitivity analysis

A weakening of the NOK against the USD and GBP as of 31 December 2019 of 10 per cent would have increased comprehensive income by the amount stated in the table.

Estimated effect on comprehensive income (after tax):

MNOK	*31 Dec 19*	*31 Dec 18*
Forward exchange contracts in USD	66	158
Forward exchange contracts in EUR	(45)	(47)
Forward exchange contracts in GBP	(1)	(432)
Total	**20**	**(321)**

Cash flow hedging is considered to be effective and all the effects of any currency rate change will thus be recognised in comprehensive income. For fair value hedges, neither comprehensive income nor the annual results will be affected as long as the hedges are 100 per cent efficient. When KONGSBERG has a hedging strategy that generally hedges all contractual currency flows and receivables in foreign currency, any fluctuations in the exchange rate will have a minor effect on the profitability of existing contracts.

C) Cash flow hedges

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

	31 Dec 19				31 Dec 18			
MNOK	*Carrying amount*	*Expected cash flow*	*2020*	*2021 and later*	*Carrying amount*	*Expected cash flow*	*2019*	*2020 and later*
Currency forward exchange contracts								
Assets	44	44	44	-	117	118	101	17
Liabilities	(55)	(57)	(33)	(24)	(50)	(51)	(25)	(26)
Total	**(11)**	**(13)**	**11**	**(24)**	**67**	**67**	**76**	**(9)**

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

	31 Dec 19				31 Dec 18			
MNOK	*Carrying amount*	*Expected cash flow*	*2020*	*2021 and later*	*Carrying amount*	*Expected cash flow*	*2019*	*2020 and later*
Currency forward exchange contracts								
Assets	44	44	23	21	117	118	71	47
Liabilities	(55)	(57)	(29)	(28)	(50)	(51)	(31)	(21)
Total	**(11)**	**(13)**	**(6)**	**(7)**	**67**	**67**	**40**	**27**

Cash flow hedges – hedging reserve

MNOK	*2019*	*2018*
Opening balance	(75)	(124)
Changes in fair value during the period		
Forward exchange contracts and rolling effects[1) 2)]	(194)	18
Interest rate swaps and basis swaps	23	(21)
Adaptations in connection with hedge accounting in acquired companies	19	
Tax on items recognised directly in comprehensive income	26	(16)
Recognised gains/losses in the period		
Forward exchange contracts and effects of roll-overs[1)]	**35**	**68**
Closing balance hedge reserve[2)]	**(166)**	**(75)**

1) Accrual occurs when cash flow hedges are realised and new periods, fair value hedges, are entered into for the projects (rolling). The effect on results that occurs will be recognised in the statement of financial position and realised in line with the progress of the projects. The capitalised value associated with the rolled cash flow hedges amounts to MNOK 157 as of 31 December 2019 (MNOK 76 as of 31 December 2018).
2) The net effect from the cash flow hedges before tax that are recognised in comprehensive income amounts to MNOK -159 in 2019 (MNOK 65 in 2018). Comprehensive income shows a change of MNOK -117 and the deviation of MNOK 42 is due to a change in the fair value of basis swaps of MNOK 23 and adaptations in connection with hedge accounting in acquired companies of MNOK 19.

If an expected project is contracted and a fair value hedge is established, the hedge reserve is recognised as transferred from comprehensive income to the capitalised value of the hedged project. If an expected cash flow occurs and does not result in a fair value hedge, the hedge reserve is recognised in the income statement at the same time as the hedged transactions.

In 2019, no effects were recognised related to ineffective cash flow hedges in the ordinary result. Any hedge ineffectiveness concerning cash flow hedges is also recognised under the item "recognised gains/losses in the period" in the table above.

D) Interest rate risk on loans

	2019			2018	
Amounts in MNOK	*Due date*	*Nominal interest rate*	*Carrying amount[1)]*	*Nominal interest rate*	*Carrying amount[1)]*
Bond loan KOG08 - floating interest	2 Jun21	3.09%	1 000	2.45%	1 000
Bond loan KOG09 - fixed interest	2 Jun 26	3.20%	1 000	3.20%	1 000
Bond loan KOG10 - floating interest	5 Mar 20	2.74%	-	2.12%	550
Bond loan KOG11 - fixed interest	5 Dec 23	2.90%	450	2.90%	450
Bond loan KOG12 - floating interest	6 Dec 21	2.70%	500	2.13%	500
Bond loan KOG13 - floating interest	6 Jun 24	3.02%	500	2.45%	500
Other long-term loans[2)]			19		20
Total long-term loans			**3 469**		**4 020**
Short-term loans					
Bond loan KOG07 - fixed interest[3)]			-	4.80%	250
Bond loan KOG10 - floating interest	5 Mar 20	2.74%	550		-
Other short-term loans			70		62
Total short-term loans			**620**		**312**
Total interest-bearing loans			**4 089**		**4 332**

Amounts in MNOK	*Due date*	*Nominal amount*	*Nominal amount*
Syndicated credit facility (undrawn borrowing limit)	15 Mar 23	2 300	2 300
Overdraft (unused)		500	500

1) For short-term and long-term loans, the carrying amount is equal to the nominal value.
2) "Other long-term loans" are minor borrowing by some of the Group's subsidiaries in local banks.
3) Bond loan KOG07 and associated interest rate swap agreement matured on 11 September 2019 and the values are 0 as of 31 December 2019.

Kongsberg Gruppen ASA has a syndicated credit facility with Danske Bank, DNB, JP Morgan Chase, Nordea and SEB. The facility is for general business purposes. The facility has a term of five years with an option to extend for one year, twice. The interest rate is NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.55 per cent to 2 per cent. The credit facilities require that net interest-bearing debt shall not exceed four times the EBITDA, but can be up to 4.5 times the figure for three consecutive quarters at the most. The covenants in the loan agreements have been met. The facility was unused as of 31 December 2019.

Kongsberg Gruppen ASA had six bond loans at the end of 2019. The bond loans were issued in NOK and listed on the Oslo Stock Exchange. The interest rate terms on loans with floating rates are 3-month NIBOR with a margin of + 1.25 per cent for KOG08, + 0.9 per cent for KOG10, + 0.86 per cent for KOG12 and + 1.18 per cent for KOG13. The fixed interest rates are 3.20 per cent for KOG09 and 2.9 per cent for KOG11.

A new cash credit of MNOK 500 was established. As of 31 December 2019, this remains undrawn.

Amounts in MNOK	*Due date*	*Interest rate*	*Nominal amount 2019*	*Fair value 31 Dec 19*	*Nominal amount 2018*	*Fair value 31 Dec 18*
Interest rate swap agreements, fixed to floating rate[1)]	11 Sep 19		-	-	250	5
Total interest rate swap agreements			**-**	**-**	**250**	**5**

1) The interest rate swap agreements matured on 11 September 2019, and all values are 0 as of 31 December 2019.

Sensitivity analysis interest rate risk

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

MNOK	*31 Dec 19*	*31 Dec 18*
Investments with floating interest rates	28	50
Variable interest rate loans	(13)	(13)
Cash flow sensitivity (net)	**15**	**37**

E) Liquidity risk

The table shows due dates in accordance with the contract for the financial liabilities, including interest payments. Such liabilities as government fees and taxes are not financial liabilities and are therefore not included. The same applies to prepayments by customers and accrual of the projects.

	31 Dec 19						
MNOK	*Carrying amount*	*Contractual cash flows*	*2020*	*2021*	*2022*	*2023*	*2024 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	4 000	(4 396)	(657)	(1 586)	(60)	(509)	(1 584)
Leasing liabilities	2 198	(2 231)	(347)	(314)	(305)	(306)	(959)
Other loans and long-term liabilities	19	(19)	-	-	-	-	(19)
Accounts payable	2 098	(2 098)	(2 098)	-	-	-	-
Financial liabilities that are derivatives							
Currency derivatives	430	(440)	(297)	(81)	(32)	(26)	(4)
Basis swaps	64	(64)	-	(64)	-	-	-
Total	**8 809**	**(9 248)**	**(3 399)**	**(2 045)**	**(397)**	**(841)**	**(2 566)**

	31 Dec 18						
MNOK	*Carrying amount*	*Contractual cash flows*	*2019*	*2020*	*2021*	*2022*	*2023 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	4 250	(4 718)	(356)	(640)	(1 576)	(57)	(2 089)
Other loans and long-term liabilities	20	(20)	-	-	-	-	(20)
Accounts payable	927	(927)	(927)	-	-	-	-
Financial liabilities that are derivatives							
Currency derivatives	492	(570)	(440)	(84)	(30)	(7)	(9)
Basis swaps	86	(86)	-	-	(86)	-	-
Loan hedges	1	(1)	(1)	-	-	-	-
Total	**5 776**	**(6 322)**	**(1 724)**	**(724)**	**(1 692)**	**(64)**	**(2 118)**

F) List of financial assets and liabilities

Financial assets and liabilities divided into different categories for accounting purposes as of 31 December 2019:

MNOK	Note	2019 Amortised cost	Fair value through compre-hensive income	Fair value with change in value through profit or loss	Total	Fair value
Assets – non-current assets						
Other non-current assets	20	187	-	26	**213**	213
Assets – current assets						
Derivatives	22A	-	376	-	**376**	376
Receivables	21	7 361	-	-	**7 361**	7 361
Customer contracts in progress	8	3 701	-	-	**3 701**	3 701
Cash and cash equivalents	23	5 654	-	-	**5 654**	5 654
Financial liabilities – non-current						
Interest-bearing loans	22D	3 469	-	-	**3 469**	3 480
Leasing liabilities	14	1 850	-	-	**1 850**	1 850
Other non-current liabilities		11	-	-	**11**	11
Financial liabilities – current						
Interest-bearing loans	22D	620	-	-	**620**	619
Leasing liabilities	14	348	-	-	**348**	348
Derivatives	22A	-	493	-	**493**	493
Accounts payable	26	2 098	-	-	**2 098**	2 098

MNOK	Note	2018 Amortised cost	Fair value through compre-hensive income	Fair value with change in value through profit or loss	Total	Fair value
Assets – non-current assets						
Other non-current assets	20	162	-	26	**188**	188
Assets – current assets						
Derivatives	22A	-	182	-	**182**	182
Receivables	21	3 262	-	-	**3 262**	3 262
Customer contracts in progress	8	2 653	-	-	**2 653**	2 653
Cash and cash equivalents	23	10 038	-	-	**10 038**	10 038
Financial liabilities – non-current						
Interest-bearing loans	22D	4 020	-	-	**4 020**	4 080
Other non-current liabilities		11	-	-	**11**	11
Financial liabilities – current						
Interest-bearing loans	22D	307	-	5	**312**	316
Derivatives	22A	-	580	-	**580**	580
Accounts payable	26	927	-	-	**927**	927

G) Assessment of fair value

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

		2019			2018		
MNOK	*Note*	*Level 1*	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
Assets							
Shares at fair value through profit and loss	20	-	-	26	-	-	26
Derivatives	22A	-	376	-	-	182	-
Total assets at fair value		**-**	**376**	**26**	**-**	**182**	**26**
Liabilities							
Derivatives	22A	-	493	-	-	580	-
Interest-bearing liabilities (intended for note purposes)	22F	-	4 099	-	-	4 396	-
Total liabilities at fair value		**-**	**4 592**	**-**	**-**	**4 976**	**-**

The various levels are defined as follows:

Level 1: Fair value is measured by using quoted prices from active markets for identical financial instruments. No adjustment is made with respect to these prices.

Level 2: Fair value is measured based on data other than the list prices covered by the level 1, but which is based on observable market data either directly or indirectly. These methods have some uncertainty in the determination of fair value.

Level 3: Fair value is measured using models that substantially employ non-observable market data. This involves more uncertainty connected to the determination of fair value.

See also Note 4 "Fair value" for a discussion of the fair value measurement.

H) Estimate uncertainty

KONGSBERG has a range of financial instruments that are recognised at fair value. When market prices cannot be observed directly through the traded prices, fair value is estimated by using different models that either build on internal estimates or input from banks or other market players. The assumptions for such assessments include spot prices, forward prices and interest curves.

The assessments are always based on KONGSBERG's best estimates, but it is still likely that the observable market information and assumptions will change over time. Such changes can affect the calculated values of financial instruments considerably, and thereby result in gains and losses that will affect future periods' income statements. How such changes affect the income statement depends on the type of instrument and whether it is included in a hedging relation.

23 CASH AND CASH EQUIVALENTS

Nominal amounts in MNOK	*31 Dec 19*	*31 Dec 18*
Bank deposits	5 654	10 038
Total	**5 654**	**10 038**

Bank guarantees have been furnished for funds related to withholding tax for employees of MNOK 297 (MNOK 273 in 2018). There are also bank deposits for tax withholding amounting to MNOK 51.

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

24 SHARE CAPITAL

Share capital

As of 31 December 2019, share capital consists of 179,990,065 shares, each with a nominal value of NOK 1.25.

Share capital trends

	Date	Number of shares	Nominal NOK	Amount, MNOK	Corr. factor	Share capital MNOK
Expansion type						
Stock exchange introduction	13 Dec 1993	5 850 000	20	117		117
Private placement for employees	1996	6 000 000	20	3		120
Share split	1997	24 000 000	5		01:04	120
Issue	1999	30 000 000	5	30		150
Share split	2009	120 000 000	1.25		01:04	150
Preferential share issue	2018	179 990 065	1.25	75		225

List of major shareholders as of 31 December 2019

Shareholders	*Type*	*Number of shares*	*% share*
Ministry of Trade, Industry and Fisheries		90 002 400	50.00%
National Insurance Fund		11 444 171	6.36%
MP Pensjon PK		5 336 431	2.96%
Must Invest AS		4 333 186	2.41%
Danske Bank As		3 314 374	1.84%
Danske Invest Norske Instit. II.		2 981 089	1.66%
Fidelity Invest: Fidelity Srs International Small Cap Fund		2 643 085	1.47%
Verdipapirfond Odin Norge		2 502 872	1.39%
Arctic Funds Plc		2 480 806	1.38%
Snefonn AS		2 375 534	1.32%
Nordea Nordic Small Cap Fund		2 366 955	1.32%
State Street Bank and Trust Comp	Nom	2 311 395	1.28%
LF Miton Europ Opportunities Fund		2 078 436	1.15%
JP Morgan Chase Bank, N.A., London	Nom	1 525 405	0.85%
State Street Bank and Trust Comp	Nom	1 301 077	0.72%
The Northern Trust Comp, London Br	Nom	1 252 965	0.70%
Danske Invest Norske Aksjer Inst.		1 240 486	0.69%
JP Morgan Chase Bank, N.A., London	Nom	1 223 121	0.68%
Havfonn AS		1 165 835	0.65%
Fidelity Invest: Fidelity International Sl Cap Opportunities Fund		951 459	0.53%
Total		**142 831 082**	**79.35%**
Other		37 158 983	20.65%
Total number of shares		**179 990 065**	**100.00%**

Shareholders listed according to share holding size

Shareholding interval	*Number of owners*	*Number of shares*	*Holding %*
1–1 000	9 458	2 495 957	1.38%
1 001–10 000	2 852	7 965 573	4.43%
10 001–100 000	281	7 730 579	4.30%
100 001–1 000 000	70	19 918 333	11.07%
1 000 001–10 000 000	17	40 433 052	22.46%
Over 10 000 000	2	101 446 571	56.36%
Total	**12 680**	**179 990 065**	**100.00%**

Of the 12,680 shareholders as of 31 December 2019, 895 were foreign, with a total holding of 19.78 per cent.

Treasury shares

As of 31 December 2019, KONGSBERG had a holding of 16,779 treasury shares. The shares have been purchased in accordance with the authority given at the annual general meeting and provide the opportunity to buy back up to 4.3 per cent of the share capital.

	Quantity
Holding of treasury shares as of 31 December 2018	19 869
Purchase of treasury shares	925 000
Treasury shares sold to employees in connection with the share programme	(875 151)
Treasury shares sold to employees in connection with the long-term incentive scheme	(52 939)
Holding of treasury shares as of 31 December 2019	**16 779**

Dividends

	2019	*2018*
Dividends paid in NOK per share	2.5	3.75
Dividends paid in MNOK	450	450
Of which, dividends treasury shares in MNOK	2.23	1.75

The Board has proposed an ordinary dividend for the 2019 accounting year of MNOK 450 equivalent to NOK 2.50 per share. The Board will also request the General Meeting an authority to pay an additional dividend of up to MNOK 1,800, corresponding to NOK 10.00 per share.

25 PROVISIONS

Non-current provisions

MNOK	*Sale and leaseback*	*Other*	*Total*
31 Dec 18	**120**	**8**	**128**
Provisions used	(3)	-	(3)
Allocation	14	-	14
Dissolved	(11)	(6)	(17)
31 Dec 19	**120**	**2**	**122**

Non-current provisions

KONGSBERG has in the period from 1999 to 2014 sold properties in the Kongsberg Technology Park. The properties have been leased back on long-term lease and expire from 2017 to 2031. The leaseback contract related to the purchase in 1999 expired in 2014. In connection with the sale and leaseback it was agreed that KONGSBERG guarantees for entry costs and for the maintenance of the buildings in the leaseback period. The current value of future warranty liability is allocated in the accounts. In addition, provision has been made for lack of rental. The remaining provision requirement will need to be assessed each quarter. The effects of discounting cost are transferred as financial expenses.

Current provisions

MNOK	*Warranty*	*Other*	*Total*
31 Dec 18	**413**	**102**	**515**
Additions through acquisition	270	516	786
Reclassified from customer contracts, liability	174	28	202
Provisions used	(135)	(138)	(273)
Allocation	204	133	337
Dissolved	(29)	(25)	(54)
31 Dec 19	**897**	**616**	**1 513**

Warranty provisions

Warranty provisions are provisions for warranty costs on completed deliveries. Unused warranty provisions are dissolved upon the expiration of the warranty period. Warranty provisions are estimated based on a combination of experience figures, specific calculations and judgement. The warranty period usually extends from one to five years, but for some defence contracts the warranty period may be up to 30 years.

Other provisions

Provisions are recognised when the Group has an obligation as a result of a past event, and when it is probable that there will be a financial settlement as a result of this obligation and the amount can be reliably measured.

Provisions apply to conditions where there is disagreement between contractual parties, uncertainty related to product liability or products that are in an early life-cycle phase.

Estimation uncertainty

Assessments are based on a combination of experience figures, technical evaluations and judgement. Evaluations of the estimates are made each quarter. There is significant uncertainty related to these provisions with respect to amounts and times.

26 OTHER CURRENT LIABILITIES

MNOK	*31 Dec 19*	*31 Dec 18*
Accounts payable	2 098	927
Public charges owing	480	314
Calculated income tax payable	77	19
Accrued holiday pay	753	410
Other accruals[1]	1 948	808
Total	**5 356**	**2 478**

1) Other accruals relate to costs incurred for which invoices have not yet been received, withholding tax owed for employees, salaries owed to employees and other non-interest-bearing liabilities.

27 ASSETS PLEDGED AS COLLATERAL AND GUARANTEES

Assets pledged as collateral

The Group's loan agreements, both bond loan agreements and the agreement on the syndicated credit facilities, are based on the negative collateral.

Prepayment and completion guarantees

Group companies have provided guarantees for prepayments and completion related to customer contracts. The guarantees are issued by Norwegian and foreign banks and insurance companies and by Kongsberg Gruppen ASA (parent company guarantees). Kongsberg Gruppen ASA is responsible for all guarantees.

MNOK	*31 Dec 19*	*31 Dec 18*
Guarantees issued by banks and insurance companies	3 521	2 472
Guarantees issued by Kongsberg Gruppen ASA (parent company)	7 841	5 054
Prepayments from and completion guarantees to customers	**11 361**	**7 526**

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

28 STATEMENT ON REMUNERATION OF THE GROUP CEO AND EXECUTIVE MANAGEMENT

Statement on remuneration of the Group CEO and Executive Management

The Board proposes that the guidelines described below are applied for 2019 and until the Annual General Meeting in 2020.

Main principles for the company's executive salary policy

The principles and systems for remuneration of executive management are determined by the Board. The Board performs an annual evaluation of the CEO's salary and conditions, as well as the Group's profit-related pay scheme for management. The Board's Compensation Committee prepares the cases for the Board. The CEO sets remuneration for other members of executive management after consultation with the chairman of the Board.

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

- Executive management's salaries should be competitive, but not market leading, and within this framework support general moderation in executive management salary developments – the company should attract and retain talented management.
- Executive management salaries should be motivating – the salary should be such that it motivates extra effort for the continual improvement of the business and the company's results.
- The salary system should be understandable, meaningful and acceptable both internally at KONGSBERG and externally.
- The salary system should be flexible, so that changes can be made when necessary.
- The salary system should promote cooperation.

Remuneration to Group executive management should reflect their responsibility for administration, results and sustainable development of KONGSBERG, and take into account the size of the organisation and its complexity. The schemes should otherwise be transparent and in line with principles that promote good corporate governance.

Other companies in the Group must follow the main executive management salary policy principles. The company's objective is to coordinate salary policy within the Group as well as variable benefit schemes.

Elements of executive management salaries – fixed salaries and variable benefits

The starting point for determination of salary is the total level of fixed salary and variable benefits. Fixed salary consists of the base salary as well as fixed benefits in kind and pension agreements. Variable benefits consist of the profit-related pay and share programmes (LTI). Regular measurement is made against relevant markets to ensure that the total compensation is competitive, but not leading.

Base salary
The base salary should normally be the main element of the executive managements' payroll. It is assessed once per year.

Fixed benefits in kind
Leading employees will normally be assigned benefits in kind that are common for comparable positions, such as free communication, newspapers, and car arrangements. There are no special limitations with regards to the benefits in kind that can be agreed.

Pension schemes

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

The Group's collective main pension scheme is a defined contribution scheme. The contributions are 0 per cent of salary between 0G and 1G, 5 per cent of salary from 1G to 7.1G and 11 per cent of salary from 7.1G to 12G. The funds can be distributed optionally between three savings profiles, respectively with 30, 50 and 80 per cent shares. The Group introduced a defined contribution pension scheme on 1 January 2008. Employees who were 52 years of age or older at the time of the conversion remained in a locked benefit scheme. The work to assess the contribution rate given market developments for defined contribution pension schemes began in 2018 and continued in 2019. With effect from 1 January 2020, it has been decided to amend the contribution rate from 0 to 5 per cent of pensionable salary between 0G and 1G.

KONGSBERG will not enter into early retirement agreements for executive management, but executive management who had such arrangements prior to 1 October 2015 will have them continued.

The company has previously entered into early retirement agreements for some of its executives. The agreements have always been entered into in accordance with the current ownership reports from the state. There are currently various schemes, depending on when they were entered into. Some agreements include the opportunity for retirement from the age of 65, but with the reciprocal right for KONGSBERG and employees in the executive management to request early retirement from the age of 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 years of accrual. If the employee retires between the ages of 63 and 65, however, this will lead to reduced pension earnings in the defined contribution pension scheme, that will apply from the age of 67 years. These agreements were terminated for new executive management in 2013 and now apply to two members of the executive management, including the Chief Executive Officer. One of the executive management members has an older agreement, applicable from the age of 60. Assuming at least a 10-year accrual period, the benefit is 90 per cent of pensionable salary from the age of 60, with a 10 per cent reduction per year to 60 per cent of pensionable salary from the ages of 63 to 67. Similarly, a group executive vice president has an agreement to retire at the age of 62. Assuming at least a 15-years accrual period, the benefit is 65 per cent of pensionable salary up to the age of 67. These older schemes were discontinued in 2006 and 2008, respectively.

Six of the members of executive management are covered by a defined contribution pension scheme for salaries above 12G. Saved funds, including returns, are paid to the employee at retirement or on termination of employment. Three of the members of executive management have a defined contribution pension scheme of 18 per cent for the portion of the salary exceeding 12G. One of the members of executive management has a similar scheme of 30 per cent. The CEO's scheme is limited to the salary he had in the previous position (see detailed description below). For two of the members of executive management, no additional contributions are earned in the scheme, but returns are still added to the previously earned balance.

Long-term incentive (LTI)

From 2012, the Board introduced an LTI scheme for the Chief Executive Officer and other executive management. From 2018 onwards, the LTI scheme was expanded to cover the management groups in the business areas, as well as key positions. The scheme was introduced in order to be competitive with comparable companies and to create long-term incentives for managers within KONGSBERG. The LTI programme amounts to a maximum of 30 per cent of the base salary for the CEO and 25 per cent for other members of the Executive management, 15 per cent for management groups in the business areas and 10 per cent for key positions. The criteria for achieving LTI is that an EBIT greater than 0 will result in qualification for one third of the maximum allocation, a ROACE equal to or greater than 8 per cent will result in qualification for an additional one third of the maximum allocation, while a ROACE of between 8 per cent and 12 per cent gives entitlement to pro rata earnings for the final one third of the payment. The scheme participants will be committed to invest the net amount after tax in KONGSBERG shares that are purchased in the market and are owned with a vesting period of three years. Participants who leave the company of their own volition will, for shares that do not meet the three-year requirement, will, have to pay back an amount equal to the share value after tax at the time of resignation, for the shares which do not meet the three year vesting period. The scheme does not provide basis for pension accrual. The scheme will be continued in 2020.

Profit-related pay scheme

KONGSBERG's executive management and most important decision makers should have their own economic interests directly related to the development and improvement of KONGSBERG. For this purpose, the Board adopted a profit-related pay scheme in 2006 which includes approximately 150 managers. The objective of the scheme is for managers who perform well over time to achieve an average profit-related pay of 20-30 per cent of base salary. For 2019, the scheme was adjusted with regards to which components we measure, and the profit-related pay reserve was wound up.

The profit-related pay scheme for 2019 is based on four components:

1. Improvement in EBIT
   The improvement element is calculated by comparing the change in EBIT for the year with the previous year's EBIT. The improvement in EBIT is based on the overall Group improvement in addition to the improvement at the individual's organisation level. This means that as the main rule the improvement is based on the individual's organisation level and higher organisation levels up to Group level. The individual's organisation level has the highest weighting. A typical distribution key would be 50 per cent individual level (division), 25 per cent business area level and 25 per cent Group level (50/25/25). Qualifying employees in the divisional management teams with individual business responsibility are measured based on the division's aggregate result. If EBIT decreases, the "improvement" for the relevant level will be set as zero. However, other levels could still achieve improvements. The improvement in the EBIT element can amount to a maximum of 20 per cent.
2. ROACE
   For the Group to be able to create added value for our owners the participants are measured on the development of ROACE. Minimum requirements must be met to qualify for a ROACE bonus. The minimum level and intervals are updated and determined annually. For 2019 there are special conditions with large acquisitions (RRCM) that are considered. The ROACE element can amount to a maximum of 15 per cent.
3. Growth in operating revenue
   Growth in operating revenue is calculated based on the Group's total operating revenue, where growth of 2 per cent triggers a 1 per cent bonus. Due to the special conditions for 2019 a discretionary assessment of growth in operating revenues could be made, as

these must be seen in context. The growth in operating revenue element can amount to a maximum of 5 per cent.

4. Individual target achievement
The individual component is achieved by individual managers satisfying individual targets for KPIs, which can be either financial or non-financial. The individual target achievement element can amount to a maximum of 10 per cent.

For those who have a balance in the profit-related pay reserve as of 31 December 2018, the profit-related pay reserve from the previous scheme will be paid out over a period of four years, in the amount of one quarter per year. The final year of payments from the profit-related pay reserve will be 2023.

The total of the current year's bonus payment and disbursement from the profit-related-pay reserve may not exceed 50% of salary. If this total exceeds 50% of salary, the excess amount will be lost.

If the EBIT of a manager's own organisation unit falls, no payments will be made from the profit-related-pay reserve for the year in question, and a quarter of the profit-related-pay reserve will be written off.

If an employee with a balance in the profit-related-pay reserve transfers to another position within the Group, this balance will be paid out over four years, and a separate agreement will be drawn up stipulating which organisation unit the individual will be measured against.

If an employee with a balance in the profit-related-pay reserve voluntarily leaves their employment with KONGSBERG, the residual balance in the profit-related-pay reserve is written off in its entirety.

On disablement or retirement, the residual balance in the profit-related-pay reserve is paid out in its entirety to the extent this does not exceed 50 per cent of base salary. Any residual balance will be paid out the following year.

In the event of death, the residual balance in the profit-related-pay reserve will be paid out in its entirety.

The profit-related pay scheme does not provide a basis for pension. The profit-related pay scheme is assessed annually by the Compensation Committee and the Board to ensure that it works as intended and ensure that necessary adjustments are made.

Upon completion of special major projects, demanding turnaround operations and acquisitions that require a short-term decline in profits as well as larger strategic investments, individual agreements can be entered into with the Chief Executive Officer. In such cases, the ordinary scheme for profit-related pay would be removed and replaced by a separate agreement capped at 40 per cent of base salary.

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

Severance arrangements
In order to safeguard KONGSBERG's requirement for ensuring at any time that the composition of its managers is in accordance with its business needs, agreements for severance arrangements can be, and have been entered into. Severance arrangements are designed to be acceptable both internally and externally, and agreements signed from 2011 are not entitled to severance payments whose value exceeds the equivalent of salary and benefits for more than six months. This scheme will continue in 2020. Such agreements have been entered into for directors in executive management within the framework of the Working Environment Act.

Remuneration for the Chief Executive Officer

The Chief Executive Officer's remuneration consists of a base salary of NOK 5,317,772, fixed benefits in kind in 2019 that amounted to NOK 315,216, a profit-related pay scheme of the base salary of a maximum of 50 per cent and an LTI of up to 30 per cent of the base salary. In a previous position, the Chief Executive Officer had a defined contribution plan which gave 18 per cent contribution of his pensionable salary which exceeded 12G and early retirement at 65 per cent of the base salary from the age of 63–65 years until the standard retirement age of 67. The scheme has been continued with a maximum pensionable income / basis for early retirement equal to pay from the previous position, at NOK 2,424,200. This pension is adjusted annually with the same percentage as the last increase in pensions paid from the National Insurance (the basic amount in the national insurance minus 0.75 per cent).

Report for the 2019 financial year

The executive management salary policy has for the 2019 financial year, been conducted in accordance with the guidelines that were adopted by KONGSBERG's annual general meeting in 2019.

After the ordinary wage settlement on 1 July 2019, the CEO's base salary has been adjusted by 3.5 per cent to NOK 5,317,772 per year (2.8 per cent in 2018). For the other members of executive management, the base salary has been adjusted by an average of 3.2 per cent as of 1 July 2019 (2.8 per cent in 2018). In addition, there is the profit-related pay scheme, as described above and as shown in Note 29.

The consolidated financial statements for 2019 have calculated profit-related pay for leading employees at MNOK 57.4, excluding social security tax, corresponding to 26 per cent of the total for the participants in the scheme (MNOK 38.8 in 2018, corresponding to 31 per cent). No agreements regarding remuneration were entered into or changed that would have any significant effects for KONGSBERG or its shareholders in the previous accounting year.

29 REMUNERATION FOR EXECUTIVE MANAGEMENT AND THE BOARD

Remuneration specified for members of the Executive Management for 2019 and 2018[1)]

Amounts in TNOK	*Year*	*Salary paid including holiday pay*[4)]	*Other benefits reported during the financial year*[2)]	*Accrued long-term incentive plan (LTI)*[3)]	*Accrued perfor-mance-related pay during the financial year*[4)]	*Pension accrual during the year*[5)]	*Long-term incentive plan (LTI) paid out*[6)]	*Out standing amount, loans*	*Shares acquired during the financial year linked to the LTI scheme*	*Total number of shares inc. LTI as of 31 Dec*
Geir Håøy President and CEO	2019	5 502	315	1 048	2 594	924[7)]	1 329	-	5 746	30 091
	2018	5 162	315	752	2 216	441	1 374	-	3 158	24 040
Gyrid Skalleberg Ingerø, Chief Financial Officer Group Executive Vice President Legal, Compliance and Property	2019	2 728	265	213	1 198	83	561	-	2 429	12 383
	2018	2 622	279	19	827	81	581	-	177	9 649
Even Aas, Group Executive Vice President Public Affairs, Communication and Sustainability	2019	1 841	284	266	892	2 889[8)]	386	-	1 542	25 805
	2018	1 675	314	221	722	353	369	-	678	23 958
Hans Petter Blokkum Group Executive Vice President, HR and Security from 1 March 2018	2019	2 237	213	131	1 089	208[9)]	454	69	1 797	3 691
	2018	1 758	201	-	694	46	393	117[14)]	-	1 589
Harald Aarø, Group Executive Vice President for Commercial Development and Strategy	2019	2 564	289	367	1 156	730[10)]	516	-	2 245	10 231
	2018	2 414	307	211	908	401	537	-	945	7 681
Hege Skryseth, President, Kongsberg Digital	2019	2 569	215	422	738	779[11)]	536	261	2 147	12 249
	2018	2 331	215	361	387	448	514	330	1 180	9 797
Egil Haugsdal, President, Kongsberg Maritime	2019	2 965	460	493	1 401	1 653[12)]	596	-	2 579	33 720
	2018	2 782	505	407	1 231	772	617	-	1 417	30 836
Eirik Lie, President, Kongsberg Defence & Aerospace	2019	3 042	334	371	1 276	283[13)]	620	-	2 682	8 775
	2018	3 131	325	158	1 072	36	642	-	1474	5 788

1) Compensation and other benefits to members of Executive Management are based on their time served as part of corporate management. All members of executive management are included in the general contribution scheme for salaries up to 12G.
2) Benefits other than cash refers to expensed discounts on shares in connection with the share programme for all employees, communication, car arrangements and compensation for the taxable share of pensions and insurance, as well as other taxable benefits.
3) Accrued LTI including tax compensation is, for accounting purposes, accrued on a linear basis over three years since the shares can be managed freely only after three years. A statement on the LTI scheme is provided in Note 28.
4) It is decided that the excecutive management will not obtain any salary increases in 2020. It is also decided that management bonuses related to the performance-related part of their salary will not be paid out for the members of the excecutive management at this point in time.
5) The year's return on balance in the defined contribution pension scheme over 12G is included in the accrual. This principle has changed from previous years.
6) LTI with tax compensation for disbursement the following year where the net amount will be invested in KONGSBERG shares. A statement on the LTI scheme is provided in Note 28.
7) Early retirement agreement 63-65 years. An explanation for the CEO is given in Note 28.
8) Early retirement agreement 60 years. Defined benefit scheme that provides 90% of salary from 60 years with 10% reduction per year to 60% of salary from 63 to 67 years. The increase in pension earnings is due to salary increases and fully earned pension rights.
9) Earnings are a return on previously earned balance in defined contribution plan for salaries above 12G.
10) Defined contribution pension scheme for salaries above 12G with 18% and early retirement scheme between 63-65 years.
11) Defined contribution pension scheme for salaries above 12G with 30%.
12) Defined contribution pension scheme for salaries above 12G with 18% and early retirement scheme with the right to retire from 62 years.
13) Earnings area return on previously earned balance in defined contribution plan for salaries above 12G.
14) For 2018, the outstanding amount on loans has been corrected from TNOK 49 to TNOK 117.

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

Board of Directors *Amounts in NOK*	*Year*	*Number of shares*	*Fixed Board remuneration*	*Remuneration for committee meetings*	*Total Board remuneration*	*Number of Board meetings*[1)]
Eivind K. Reiten, Chair	2019	2 850	535 333	46 300	581 633	11
	2018	2 850	508 333	43 600	551 933	17
Irene Waage Basili, Director, Vice Chair to May 2019	2019	-	92 333	-	92 333	4
	2018	-	272 000	-	272 000	16
Anne-Grete Strøm-Erichsen, Director, Vice Chair from June 2019	2019	2 000	277 667	37 600	315 267	10
	2018	2 000	255 333	37 600	292 933	16
Morten Henriksen, Director	2019	3 027	268 667	74 400	343 067	11
	2018	3 027	255 333	82 900	338 233	15
Helge Lintvedt, Director	2019	-	268 667	61 500	330 167	11
	2018	-	255 333	70 700	326 033	17
Martha Kold Bakkevig, Director	2019	2 119	268 667	51 400	320 067	10
	2018	2 119	255 333	50 500	305 833	16
Elisabeth Fossan, Director	2019	5 209	268 667	37 600	306 267	11
	2018	4 904	255 333	37 600	292 933	16
Sigmund Ivar Bakke Director	2019	3 383	268 667	-	268 667	11
	2018	3 078	255 333	-	255 333	17
Per Arthur Sørlie, Director from May 2019	2019	1 400	182 000	31 200	213 200	6
	2018	-	-	-	-	-
Payment to deputies in 2019	2019	-	-	-	-	-
Payment to deputies in 2018	2018	-	11 400	-	11 400	1
Total compensation to the Board	**2019**		**2 430 668**	**340 000**	**2 770 668**	
Total compensation to the Board	**2018**		**2 323 731**	**322 900**	**2 646 631**	

1) 11 board meetings were held in 2019 (17 board meetings in 2018).

30 AUDITOR'S FEES

TNOK	2019 Parent company	2019 Subsidiaries in Norway	2019 Subsidiaries outside Norway	Total 2019	2018 Parent company	2018 Subsidiaries in Norway	2018 Subsidiaries outside Norway	Total 2018
Group auditor EY								
Statutory audit	1 100	7 774	7 760	16 635	846	4 740	2 137	7 723
Other assurance services	298	198	-	496	71	693	-	764
Tax consultancy	209	1 553	1 149	2 911	299	1094	936	2 329
Other non-audit services	746	-	141	887	2 805	778	54	3 637
Total fees, EY	**2 352**	**9 525**	**9 015**	**20 929**	**4 021**	**7 305**	**3 127**	**14 453**
Other auditors								
Estimated audit fees		32	2 780	2 812		30	1 787	1 817

31 LIST OF GROUP COMPANIES

The following companies have been consolidated:

Name of company	*Country of origin*	*Ownership stake 31 Dec 19*	*Ownership stake 31 Dec 18*
Kongsberg Gruppen ASA	Norway	Parent	Parent
Kongsberg Defence & Aerospace AS	Norway	100	100
Kongsberg Spacetec AS	Norway	Merged	100
Kongsberg Norspace AS	Norway	Merged	100
Kongsberg Oil & Gas Technologies AS	Norway	100	100
Kongsberg Digital AS	Norway	100	100
Kongsberg Eiendom Holding AS	Norway	100	100
Kongsberg Teknologipark AS	Norway	100	100
Kongsberg Næringseiendom AS	Norway	100	100
Kongsberg Næringsparkutvikling AS	Norway	100	100
Kongsberg Næringsbygg 2 AS	Norway	100	100
Kongsberg Næringsbygg 3 AS	Norway	100	100
Kongsberg Næringsbygg 5 AS	Norway	100	100
Kongsberg Næringsbygg 6 AS	Norway	100	100
Kongsberg Real Estate AS	Norway	100	100
Kongsberg Næringsbygg 11 AS	Norway	100	100
KNB12 Ulsteinvik AS	Norway	100	-
KNB13 Brattvåg AS	Norway	100	-
KNB 14 Longva AS	Norway	100	-
Kongsberg Basetec AS	Norway	100	100
Kongsberg Seatex AS	Norway	100	100
Vehicle Tracking and Information Systems AS	Norway	100	100
Kongsberg Maritime AS	Norway	100	100
Kongsberg Norcontrol AS	Norway	100	100
Kongsberg Evotec AS	Norway	Sold	100
Eelume AS	Norway	51	51
Simrad AS	Norway	100	100

Name of company	*Country of origin*	*Ownership stake 31 Dec 19*	*Ownership stake 31 Dec 18*
Kongsberg Maritime CM AS	Norway	100	-
Ulstein Holding AS	Norway	100	-
Kongsberg Aviation Maintenance Services AS	Norway	50.1	-
Rygge 2 AS	Norway	50.1	-
Rygge Eiendom AS	Norway	50.1	-
Kongsberg Maritime S.R.L	Italy	100	100
Kongsberg Maritime Italy S.R.L	Italy	100	-
Kongsberg Maritime Holland BV	The Netherlands	100	100
Kongsberg Maritime Benelux BV	The Netherlands	100	-
Kongsberg Maritime CM Sp. zo.o.	Poland	100	-
Scandinavian Electric Gdansk Sp. zo.o.	Poland	66.6	-
Kongsberg Maritime Poland Sp. Zo.o.	Poland	100	100
Kongsberg Defence Sp. zo.o.	Poland	100	100
Simrad Spain SL	Spain	100	100
Kongsberg Maritime Spain SA	Spain	100	-
Kongsberg Defence Oy	Finland	100	100
Kongsberg Maritime Finland OY	Finland	100	-
Kongsberg Maritime GmbH	Germany	100	100
Kongsberg Maritime Embient GmbH	Germany	100	100
Kongsberg Maritime Contros GmbH	Germany	100	100
Kongsberg Maritime CM Germany GmbH	Germany	100	-
Kongsberg Maritime France SARL	France	100	-
Kongsberg Defence Switzerland AG	Switzerland	100	100
Kongsberg Reinsurance Ltd.	Ireland	100	100
Kongsberg Norcontrol Ltd.	Great Britain	100	100
Kongsberg Maritime Holding Ltd.	Great Britain	100	100
Kongsberg Maritime Ltd.	Great Britain	100	100
Kongsberg GeoAcoustics Ltd.	Great Britain	100	100
Kongsberg Hungaria Kft.	Hungary	100	100
Navis Consult d.o.o.	Croatia	75	-
Kongsberg Maritime Hellas SA	Greece	100	100
Kongsberg Commercial Marine SA	Greece	100	-
Kongsberg Maritime Denmark A/S	Denmark	100	-
Kongsberg Maritime Sweden AB	Sweden	100	-
Kongsberg Maritime Tech LLC	Russia	100	-
Kongsberg Maritime Turkey Denizcilik Sanayi Ve Ticaret Limited Şirketi	Turkey	100	-
Kongsberg Geospetial Ltd.	Canada	100	100
Kongsberg Digital Simulation Ltd.	Canada	100	100
Kongsberg Maritime Canada Ltd.	Canada	100	100
Kongsberg Mesotech Ltd.	Canada	100	100
Kongsberg Protech Systems Canada Corporation	Canada	Phased out	100
Kongsberg Maritime Canada Ltd.	Canada	100	-
Kongsberg Maritime Ltd.	Canada	100	-
Kongsberg Digital Simulation Inc.	USA	100	100
Simrad North America Inc.	USA	100	100
Kongsberg Maritime Inc.	USA	100	100
Kongsberg Underwater Technology Inc.	USA	100	100
Kongsberg Protech Systems USA Inc.	USA	100	100
Kongsberg Digital Inc.	USA	100	100
Kongsberg Defense Systems Inc.	USA	100	100
Hydroid Inc.	USA	100	100
Kongsberg Geospatial Corporation	USA	100	100
Kongsberg Integrated Tactical Systems Inc.	USA	100	100
Kongsberg Maritime do Brazil Ltda	Brazil	100	100
Kongsberg Oil & Gas Technologies do Brazil Ltda	Brazil	100	100
Kongsberg Maritime CM Brasil Ltda	Brazil	100	-
Kongsberg Maritime Mexico SA DE CV	Mexico	100	100

Name of company	*Country of origin*	*Ownership stake 31 Dec 19*	*Ownership stake 31 Dec 18*
Kongsberg Defence Chile Spa.	Chile	100	100
Kongsberg Maritime Chile SpA	Chile	100	-
Kongsberg Maritime Panama Corporation	Panama	100	100
Kongsberg Asia Pacific Ltd.	Hong Kong	100	100
Kongsberg Maritime Hoi Tung Holding Ltd.	Hong Kong	90	90
Kongsberg Maritime Hong Kong Ltd	Hong Kong	100	-
Kongsberg Maritime China Shanghai Ltd.	China	100	100
Kongsberg Maritime China Jiangsu Ltd.	China	100	100
Kongsberg Maritime China Ltd.	China	100	100
Kongsberg Maritime China Waigaoqiao Ltd.	China	100	100
Kongsberg Maritime CM China Ltd	China	100	-
Kongsberg Maritime CM Korea Ltd	Korea	100	-
Kongsberg Maritime Korea Ltd.	South Korea	100	100
Kongsberg Norcontrol Pte. Ltd.	Singapore	100	100
Kongsberg Maritime Pte. Ltd.	Singapore	100	100
Kongsberg Maritime Japan Co Ltd	Japan	100	-
Kongsberg Maritime India Private Ltd.	India	91	91
Kongsberg Digital Private Ltd.	India	100	100
Kongsberg Digital Software & Services Private Ltd.	India	100	100
Kongsberg Norcontrol Surveillance Pvt. Ltd.	India	100	100
Kongsberg Maritime CM India Pvt Ltd	India	100	-
Kongsberg Defence Ltd.	Saudi Arabia	100	100
Kongsberg Defence Malaysia Sdn. Bhd	Malaysia	100	100
Kongsberg Maritime Malaysia Sdn. Bhd.	Malaysia	100	100
Kongsberg Maritime Middle East DMCCO	UAE	100	100
Kongsberg Maritime Vietnam Ltd	Vietnam	100	-
Kongsberg Defence Australia Pty Ltd.	Australia	100	100
Kongsberg Oil & Gas Technologies Pty Ltd. (Kongsberg Nemo Pty Ltd.)	Australia	Phased out	Being phased out
Kongsberg Maritime Pty Ltd.	Australia	100	100
Kongsberg Maritime South Africa Pty. Ltd.	South Africa	100	100
Kongsberg Maritime Namibia Pty Ltd	Namibia	100	-

New companies in KONGSBERG consolidation in connection with acquisitions:

Name of company	*Company name before acquisition*	*Country of origin*	*KONGSBERG's ownership stake 31 Dec 19*
Kongsberg Maritime CM AS	Rolls-Royce Marine AS	Norway	100
Ulstein Holding AS	Ulstein Holding AS	Norway	100
Kongsberg Maritime CM Brasil Ltda	Commercial Marine Brasil Limitada	Brazil	100
Kongsberg Maritime Canada Ltd.	Newly founded	Canada	100
Kongsberg Maritime Chile SpA	Newly founded	Chile	100
Kongsberg Maritime Denmark A/S	Rolls-Royce Marine A/S – Denmark	Denmark	100
Kongsberg Maritime Finland OY	Rolls-Royce Oy AB	Finland	100
Kongsberg Maritime France SARL	Rolls-Royce Marine France SARL	France	100
Kongsberg Commercial Marine SA	RR Marine Hellas SA	Greece	100
Kongsberg Maritime Hong Kong Ltd	Rolls-Royce Marine Asia Ltd. Hong Kong	Hong Kong	100
Kongsberg Maritime CM India Pvt Ltd	Rolls-Royce Marine India Pvt Ltd	India	100
Kongsberg Maritime Italy S.r.l	Rolls-Royce Italia SRL	Italy	100
Kongsberg Maritime Japan Co Ltd	Newly founded	Japan	100
Kongsberg Maritime CM China Ltd	Rolls-Royce Marine (Shanghai) Ltd.	China	100
Kongsberg Maritime CM Korea Ltd	Rolls-Royce Marine Korea Ltd	Korea	100

Name of company	*Company name before acquisition*	*Country of origin*	*KONGSBERG's ownership stake 30 Jun 19*
Navis Consult d.o.o. Croatia (JV 75%)	Navis Consult d.o.o. Croatia (JV 75%)	Croatia	75
Kongsberg Maritime Namibia (Pty) Ltd	Rolls-Royce Namibia (Pty) Ltd	Namibia	100
Kongsberg Maritime Benelux BV	Rolls-Royce Marine Benelux BV (Netherlands)	The Netherlands	100
Kongsberg Maritime CM Sp. z o.o.	Rolls-Royce Poland Sp. z o.o.	Poland	100
Scandinavian Electric Gdansk Sp z o.o.	Scandinavian Electric Gdansk Sp z o.o.	Poland	66.6
Kongsberg Maritime Tech LLC	Rolls-Royce International LLC	Russia	100
Kongsberg Maritime Spain SA	Rolls-Royce Marine España SA	Spain	100
Kongsberg Maritime Sweden AB	Rolls-Royce AB	Sweden	100
Kongsberg Maritime Turkey Denizcilik Sanayi Ve Ticaret Limited Şirketi	Newly founded	Turkey	100
Kongsberg Maritime CM Germany GmbH	Rolls-Royce Marine Deutschland GmbH	Germany	100
Kongsberg Maritime Vietnam Ltd	Rolls-Royce Vietnam Ltd	Vietnam	100
Kongsberg Aviation Maintenance Services AS	Aerospace Industrial Maintenance AS	Norway	50.1
Rygge 2 AS	Rygge 2 AS	Norway	50.1
Rygge Eiendom AS	Rygge Eiendom AS	Norway	50.1

32 TRANSACTIONS WITH RELATED PARTIES

The Norwegian State as the largest owner

The Norwegian State as represented by the Ministry of Trade, Industry and Fisheries is KONGSBERG's largest owner (50.001 per cent of the shares in Kongsberg Gruppen ASA). The State represented by the Ministry of Defence is an important customer for the Group. Sales to the Armed Forces are regulated by the EEA agreement and the Procurement Regulations for the Armed Forces, which guarantee equal treatment for all vendors.

As of 31 December 2019, KONGSBERG had an outstanding balance from state-owned customers of MNOK 86, while other liability items in respect of state suppliers amounted to MNOK 7 as of 31 December 2019.

In 2019, KONGSBERG issued invoices to state customers for a total of MNOK 1,825. Goods and services purchased from state suppliers in 2019 amounted to MNOK 42.

On 13 December 2018, KONGSBERG entered into an agreement with the Ministry of Defence for the acquisition of Aerospace Industrial Maintenance Norway AS (AIM). The acquisition was completed on 29 May 2019. The preliminary consideration is MNOK 3. Please refer to Note 6 for further information.

Please refer also to the Board's report on corporate governance Chapter 4 "Equal treatment of shareholders and related party transactions", where the State as a customer and shareholder is described in more detail.

Transactions with the associated companies

As of 31 December 2019, KONGSBERG had trade receivables for associated companies of MNOK 4, while trade payables amounted to MNOK 0 on 31 December 2019.

KONGSBERG also has a long-term receivable from associated companies of MNOK 29.

In 2019, KONGSBERG issued invoices to associated companies for a total of MNOK 21. Goods and services purchased from state suppliers in 2019 amounted to MNOK 7.

33 DEFINITIONS

KONGSBERG uses terms in the consolidated financial statements that are not anchored in the IFRS accounting standards. Our definitions and explanations of these terms follow below.

EBITDA/EBIT

EBITDA/EBIT are considered by KONGSBERG to be normal accounting terms, but they are not included in the IFRS accounting standards. EBITDA is an abbreviation of "Earnings Before Interest, Taxes, Depreciation and Amortisation". KONGSBERG uses EBITDA in the income statement as a summation line for other accounting lines. These accounting lines are defined in our accounting principles, which are part of the consolidated financial statements for 2019. The same applies for EBIT.

Adjusted EBITDA

Adjusted EBITDA shows the Group's EBITDA before items which require separate explanation. This applies to restructuring/integration costs, gains/losses on the sale of activity and the effect on results from changes to pension schemes and other non-recurring effects linked to pension.

Net interest-bearing debt

Net interest-bearing debt is the net amount of the accounting lines "Cash and cash equivalents", "Long-term interest-bearing debt" and "Short-term interest-bearing debt". Leasing liabilities are not included.

Restructuring costs

KONGSBERG defines restructuring costs as salary and social security tax upon termination of employment (such as severance pay and gratuity) in connection with workforce reductions. In addition, there is rent and related costs or one-time payments when leases are terminated before the lease agreement expires for spaces that are vacated, and some other costs related to restructuring.

Integration costs

Integration costs are costs linked to the integration of Commercial Marine into Kongsberg Maritime.

Return on Average Capital Employed (ROACE)

ROACE is defined as 12 months' roll-over EBIT excluding IFRS 16 divided by the 12-month average of the entered equity and interest-bearing debt. Net interest-bearing debt is adjusted for the purchase sum for Rolls-Royce Commercial Marine.

Working capital

Working capital is defined as current assets minus cash and cash equivalents, non-interest bearing current liabilities (except taxes payable). Financial instruments recognised at fair value are not included in working capital.

Book-to-Bill Ratio

New orders divided by operating revenues.

RRCM is Rolls-Royce Commercial Marine

CM is Commercial Marine

KAMS is Kongsberg Aviation Maintenance Services AS (formerly Aerospace Industrial Maintenance Norway AS)

34 EVENTS AFTER BALANCE DATE

Kongsberg Maritime has signed an agreement to sell its subsidiary Hydroid

On 4 February, Kongsberg Maritime signed an agreement to sell the underwater technology company Hydroid Inc. in the USA for MUSD 350 to Huntington Ingalls Industries (HII). At the same time, the parties will enter into a strategic collaboration agreement concerning underwater technology and maritime solutions, which become effective when the transaction is completed.

Kongsberg Maritime acquired Hydroid for MUSD 80 in 2007 and is now selling the American subsidiary for MUSD 350 on a debt- and cash-free basis, adjusted for agreed working capital.

Hydroid Inc. is a wholly owned subsidiary of Kongsberg Maritime AS, and has its headquarters in Pocasset, Massachusetts in the USA. The company produces and supplies autonomous underwater vessels for both the military and commercial markets, with the U.S. Navy as the largest customer.

At the end of Q4 2019, Hydroid had an order backlog of MNOK 813. In 2019, the company delivered a turnover of MNOK 862 with an EBITDA of MNOK 133. See the table below for key figures for the period 2016–2019.

MNOK	*2016*	*2017*	*2018*	*2019*
Income statement items				
Revenues	598	542	617	862
Operating profit before depreciation and amortisation (EBITDA)	97	76	84	133
Earnings before interest and taxes (EBIT)	60	38	60	120
Balance sheet items				
Fixed assets	238	200	189	194
Reported working capital	281	279	221	247
Cash	19	28	146	28
Net assets excluding goodwill	538	507	556	469

The transaction is expected to be completed during Q1 2020, and is subject to ordinary reservations such as approval from relevant authorities.

Covid-19

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

Statement of income 1 January–31 December

KONGSBERG GRUPPEN ASA

MNOK	*Note*	*2019*	*2018*
Operating revenues from subsidiaries	9	160	176
Other operating revenues		6	6
Total revenues		**166**	**182**
Payroll expenses	4, 5	(152)	(128)
Depreciation		(2)	(1)
Other operating expenses	4	(138)	(206)
Total operating expenses		**(292)**	**(335)**
Earnings before interest and tax		**(126)**	**(153)**
Dividends from subsidiaries		60	10
Interest from group companies		75	53
Net currency gains		(3)	4
Interest to Group companies		(8)	(12)
Interest income, bank and investment		29	23
Interest costs, external loans		(100)	(82)
Other financial income		-	1
Other finance expenses		(35)	(11)
Group contribution		80	1 500
Net finance items		**98**	**1 486**
Earnings before tax (EBT)		**(28)**	**1 333**
Income tax expense (+income/expense)	6	24	(20)
Earnings after tax		**(4)**	**1313**
Allocations and equity transfers			
Proposed dividend		(450)	(450)

Statement of financial position as of 31 December

KONGSBERG GRUPPEN ASA

MNOK	*Note*	*2019*	*2018*
Assets			
Non-current assets			
Deferred tax assets	6	124	98
Fixed assets		16	10
Shares in subsidiaries	3	8 970	8 970
Shares in associated companies		11	11
Interest-bearing loans to Group companies	9	2 498	1 173
Other long-term receivables		30	3
Total non-current assets		**11 649**	**10 265**
Current assets			
Receivables from Group companies	9	117	1 568
Other short-term receivables		233	83
Cash and cash equivalents	11	289	6 663
Total current assets		**639**	**8 314**
Total assets		**12 288**	**18 579**
Equity and liabilities			
Equity			
Shares capital		225	225
Premiums		4 876	4 876
Total paid-in capital		**5 101**	**5 101**
Other equity		1 699	2 162
Total retained earnings		**1 699**	**2 162**
Total equity	2	**6 800**	**7 263**
Non-current liabilities			
Pension liabilities	5	240	228
Long-term interest-bearing loans	7	3 450	4 000
Other non-current liabilities		1	3
Total non-current liabilities		**3 691**	**4 231**
Current liabilities			
Dividend		450	450
Short-term interest-bearing loans	7	550	250
Liabilities to group companies	9	644	6 234
Other current liabilities		153	151
Total current liabilities		**1 797**	**7 085**
Total equity and liabilities		**12 288**	**18 579**

Kongsberg, 19 March 2020

Eivind Reiten
Chairman

Per A. Sørlie
Director

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Deputy chair

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
Chief Executive Officer

Statement of cash flow

KONGSBERG GRUPPEN ASA

MNOK	*Note*	*2019*	*2018*
Earnings before tax		(28)	1 333
Depreciation		2	1
Changes in accruals, etc.		(61)	169
Net cash flows from operating activities		**(87)**	**1 503**
Cash flow from investing activities			
Purchase of fixed assets		(7)	(6)
Investment in shares		-	(11)
Net cash flow used in investing activities		**(7)**	**(17)**
Cash flow from financing activities			
Capital increase		-	4 997
Costs related to the capital increase (before tax effect)		-	(60)
Payment of loans		(28)	(2)
Dividends received		60	10
Proceeds from interest-bearing loans			1 000
Repayment of loans		(250)	-
Interest paid		(93)	(73)
Dividend paid		(448)	(448)
Net disbursements for purchase/disposal of treasury shares		(27)	(20)
Changes in intercompany balances		(5 494)	(985)
Net cash flow from financing activities		**(6 280)**	**4 419**
Net increase (reduction) in cash and cash equivalents		**(6 374)**	**5 905**
Cash and cash equivalents at the beginning of the period		**6 663**	**758**
Cash and cash equivalents at the end of the period		**289**	**6 663**

Notes

KONGSBERG GRUPPEN ASA

1 ACCOUNTING POLICIES

The financial statements for Kongsberg Gruppen ASA have been prepared in accordance with the Norwegian Accounting Act and generally-accepted accounting practices in Norway.

Subsidiaries and associated companies

Subsidiaries and associates are measured at cost in the statutory accounts. The investment is evaluated at acquisition cost less any impairment. Such assets are written down to fair value when a decrease in value cannot be considered to be temporary and is required pursuant to generally accepted accounting principles. Impairments are reversed when the basis for the impairment no longer applies.

Classification and valuation of statement of financial position items

Current assets and current liabilities include items due for payment within one year after the date of acquisition. Other items are classified as non current assets/non-current liabilities. Current assets are measured at the lower of cost and fair value. Current liabilities are recorded at their nominal values on the date of acquisition. Fixed assets are measured at acquisition cost less depreciation, but are written down when a decrease in value is not expected to be of temporary nature. Non-current liabilities are measured at nominal value at the date they are incurred.

Revenues

Revenues are recognised in the period when the services are rendered.

Hedges

Kongsberg Gruppen ASA enters into hedging contracts on behalf of subsidiaries and undertakes back-to-back agreements with external banks. See also Note 10 "Currency hedging" and Note 3 J "Financial instruments" of the consolidated financial statement.

Receivables

Trade receivables and other receivables are capitalised at nominal values less provisions for expected loss. Provisions for bad debt are made on the basis of individual assessments of each receivable.

Foreign currency

Monetary items in a foreign currency are assessed using the exchange rate applicable at year-end. Gains and losses related to items in a foreign currency and that are part of the goods circulation are included in the operating profit/loss. Other gains and losses related to items in foreign currency are classified as financial income or costs.

Short-term investments

Short-term investments (shares and other items considered to be current assets) are measured at the lower of the acquisition cost and fair value at the date of the balance sheet. Dividends and other distributions from the companies are recognised as other financial income.

Pensions

The defined contribution scheme
The Group introduced a defined contribution pension scheme for all employees under the age of 52 as of 1 January 2008. Employees aged 52 or over at the time of the transition remained with the defined benefit plan. The contributions are expensed as incurred.

The defined benefit plan
Pension costs and pension obligations are calculated according to linear accruals, based on the expected final salary. The calculation is based on a number of assumptions including discount rates, future salary adjustments, pensions and benefits from the National Insurance Scheme, and future interest income on pension fund assets, as well as actuarial assumptions on mortality and voluntary retirement. Pension fund assets are measured at their fair value, less net pension liabilities at the date of the balance sheet. See also Note 5 "Pensions".

Income tax

Income tax expense in the financial statements includes tax payable and the change in deferred tax for the period. Deferred tax/tax assets are calculated at 22 per cent on all temporary differences between the book value and tax value of assets and liabilities, and loss carried forward at the end of the reporting period. Taxable and deductible temporary differences that reverse or may reverse in the same period are offset. Deferred tax assets are recognised when it is probable that the company will have adequate profit for tax purposes in subsequent periods to utilise the tax asset.

Statement of cash flow

The cash flow statement was prepared using the indirect method. Cash and cash equivalents comprise cash reserves, bank deposits and other short-term liquid investments.

2 EQUITY RECONCILIATION

MNOK	*Shares capital*	*Premiums*	*Other equity*	*Total equity*
Equity as of 31 December 2017	**150**	**-**	**1 289**	**1 439**
Earnings after tax	-	-	1 313	1 313
Capital increase	75	4 922	-	4 997
Net costs related to the capital increase (reduced for tax effect)	-	(46)	-	(46)
Transactions with treasury shares	-	-	(3)	(3)
Dividend for 2018	-	-	(450)	(450)
Actuarial gain/loss on pension expense	-	-	13	13
Equity as of 31 December 2018	**225**	**4 876**	**2 162**	**7 263**
Earnings after tax	-	-	(4)	(4)
Transactions with treasury shares	-	-	(4)	(4)
Dividend for 2019	-	-	(450)	(450)
Actuarial gain/loss on pension expense	-	-	(5)	(5)
Equity as of 31 December 2019	**225**	**4 876**	**1 699**	**6 800**

Other information about the company's share capital is provided in Note 24 "Share capital" of the consolidated financial statements. The total number of treasury shares as of 31 December 2019 is 16,779.

3 SHARES IN SUBSIDIARIES

MNOK	*Date of acquisition*	*Business office*	*Owner/voting share %*	*Carrying amount as of 31 Dec*
Kongsberg Defence & Aerospace AS	1997	Kongsberg	100	1 206
Kongsberg Basetec AS	1992	Kongsberg	100	137
Kongsberg Maritime AS	1992	Kongsberg	98.9	6 666
Kongsberg Eiendom Holding AS	2015	Kongsberg	100	497
Kongsberg Digital AS	2016	Asker	24.5	435
Kongsberg Maritime China Ltd	2016	Shanghai	100	25
Kongsberg Hungaria Kft[1]	2003	Budapest	10	-
Kongsberg Reinsurance Ltd.	2001	Dublin	100	4
Total				**8 970**

1) The remaining shares in Kongsberg Hungaria Kft. are owned by Kongsberg Defence & Aerospace AS.

4 PAYROLL EXPENSES AND AUDITOR'S FEES

With regard to salary and remuneration to the corporate executive management and Board members, reference is made to Note 29 "Remuneration for Executive Management and the Board" in the consolidated financial statements.

Payroll expenses

MNOK	*2019*	*2018*
Salaries	84	71
Social security expenses	15	14
Pension	15	16
Performance-based part of salary	13	10
Other benefits	25	17
Total payroll expenses	**152**	**128**
Number of full-time equivalents (FTEs)	65	56

Auditor's fees

TNOK	*2019*	*2018*
Group auditor EY		
Statutory audit	1 100	846
Other assurance services	298	71
Tax consultancy	209	299
Other non-audit services	746	2 805
Total fees, EY	**2 352**	**4 021**

5 PENSIONS

KONGSBERG has a service pension plan that consists of a defined contribution scheme and a defined benefit plan and complies with laws and regulations. The service pension plans include all employees of the Group in Norway.

The defined contribution pension scheme

The Group introduced a defined contribution pension scheme as of 1 January 2008 for all employees under 52 years of age. The contribution rates are 0 per cent of salary up to 1G, 5 per cent of salary between 1G and 7,1G, and 11 per cent of salary from 7,1G up to 12G. The employees can influence the way the funds are managed by choosing between three investment options; with either 30, 50 or 80 per cent of their shares in the portfolio. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The Group's deposits in this plan are 18 per cent of the portion of the base salary that exceeds 12G, up to a ceiling of 15G. Special terms and conditions apply for executives. This is described in Note 28 "Statement on the remuneration of the Group CEO and Executive Management" in the consolidated financial statements. The unfunded scheme has been closed for new members since 2015. The supplementary plan has the same investment choices as the main plan. The contributions are expensed as incurred.

The defined benefit plan (YTP)

In connection with the transition to the defined contribution plan on 1 January 2008, employees aged 52 or more remained in the defined benefit plan. The pension plan is insured through DNB Life Insurance. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. Pension costs are distributed over the employee's accrual period. Given a calculated state pension based on the Norwegian National Insurance Scheme's rules before 1 January 2011 and full earnings, the scheme provides approx. 65 per cent of the final salary including National Insurance benefits until the age of 77, after which the service pension section is reduced by 50 per cent for the remaining lifetime. The Group also has a collective, unfunded defined benefit plan for salaries between 12G and 15G. The collective, unfunded benefits plan corresponds to about 60 per cent of the share of the base salary that exceeds 12G until the age of 77, and then the benefit is reduced by 50 per cent for the remaining lifetime. Special terms and conditions apply for executives. This is described in Note 28 "Statement on the remuneration of the Group CEO and Executive Management" in the consolidated financial statements. These supplementary plans were discontinued in connection with the transition to defined contribution pension schemes.

Risk coverage

Disability pension from the Group was changed on 1 January 2016 and will provide an addition to the estimated disability benefits from national insurance. National insurance will cover 66 per cent of the pension basis up to 6G, while the Group plan covers 66 per cent of the pension basis between 6G and 12G. The Group plan also provides an additional 3 per cent of the pension basis from 0G to 12G, a pay increase of 25 per cent of G and any child supplement of 4 per cent per child (maximum 3 children). From 1 January 2016, KONGSBERG has decided to terminate the paid-up policy accrual for disability pensions as part of the adaptation to the new regulations. The employees have been issued individual paid-up policies for the already earned paid-up policy rights. The new scheme is a one-year risk cover and the premiums will be expensed as they accrue. Starting on 1 January 2013, the risk pensions are unfunded for the share of salary that exceeds 12G. In practice this implies that KONGSBERG is self-insurer for the risk pension for future periods. The unfunded scheme has been closed for new members since 2015.

Pension expenses for the year are calculated on the basis of the financial and actuarial assumptions that apply at the beginning of the year. Gross pension liabilities are based on the financial and actuarial assumptions made at year-end.

The year's pension costs were calculated as follows:

MNOK	*2019*	*2018*
Total net pension cost for the year	9	11
Defined contribution scheme costs	6	5

The net pension liability appears as follows:

MNOK	*2019*	*2018*
Total gross pension liabilities	(242)	(232)
Gross value of gross pension assets	32	32
Net pension liabilities	**(210)**	**(200)**
Social security expenses	**(30)**	**(28)**
Net pension liabilities in balance sheet	**(240)**	**(228)**

6 INCOME TAX

Income tax expense

MNOK	*2019*	*2018*
Taxes payable	-	-
Change in deferred tax	(24)	20
Tax income/expense	**(24)**	**20**

MNOK	*2019*	*2018*
Earnings before tax	**(28)**	**1 333**
Tax calculated – 22% (23%t) of earnings before tax	(6)	307
Correction of taxes from previous years		(4)
Group contribution without tax effect	(18)	(299)
Net permanent differences	-	11
Effect of reduced tax rate by 1%	-	5
Tax income/expense	**24**	**(20)**

Deferred tax and deferred tax asset

MNOK	*2019*	*2018*
Pension	53	50
Tax losses carried forward	87	43
Other	(16)	5
Recognised deferred tax asset	**124**	**98**
Tax rate in Norway	22%	22%

Change in deferred tax recognised directly in equity as follows:

MNOK	*2019*	*2018*
Deferred tax asset on capital increase	-	(14)
Pensions	(2)	4
Other	-	(1)
Total	**(2)**	**(11)**

7 LONG-TERM INTEREST-BEARING LOANS AND CREDIT FACILITIES

As of 31 December 2019, Kongsberg Gruppen ASA had the following loans and credit facilities:

	Due date	*Nominal interest rate*	*Carrying amount 31 Dec 19*	*Carrying amount 31 Dec 18*
Bond loan KOG08 - floating interest	2 Jun 21		1 000	1 000
Bond loan KOG09 - fixed interest	2 Jun 26	3.2%	1 000	1 000
Bond loan KOG10 - floating interest	5 Mar 20			550
Bond loan KOG11 - fixed interest	5 Dec 23	2.9%	450	450
Bond loan KOG12 - floating interest	6 Dec 21		500	500
Bond loan KOG13 - floating interest	6 Jun 24		500	500
Total long-term loans			**3 450**	**4 000**
Bond loan KOG07 - fixed interest				250
Bond loan KOG10 - floating interest	5 Mar 20		550	
Total current liabilities			**550**	**250**
Total interest-bearing loans			**4 000**	**4 250**
Credit facility (undrawn borrowing limit)	15 Mar 23		2 300	2 300
Overdraft (unused)			500	500

Kongsberg Gruppen ASA has a syndicated credit facility with Danske Bank, DNB, JP Morgan Chase, Nordea and SEB. The facility is for general business purposes. The facility has a term of five years with an option to extend for one year, twice. The interest rate is NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.55 per cent to 2 per cent. The credit facilities require that net interest-bearing debt shall not exceed four times the EBITDA, but can be up to 4.5 times the figure for three consecutive quarters at the most. The covenants in the loan agreements have been met. There was no borrowings on the facility as of 31 December 2019.

Kongsberg Gruppen ASA had six bond loans at the end of 2019. The bond loans were issued in NOK and listed on the Oslo Stock Exchange.

The interest rate terms on loans with floating rates are 3-month NIBOR with a margin of + 1.25 per cent for KOG08, + 0.9 per cent for KOG10, + 0.86 per cent for KOG12 and + 1.18 per cent for KOG13. The interest conditions for the loans with fixed interest are 3.2 per cent for KOG09 and 2.9 per cent for KOG11.

A new overdraft of MNOK 500 was established. As of 31 December 2019, this remains undrawn.

All loans in the Group are primarily centralised to Kongsberg Gruppen ASA and handled by the Group's treasury unit.

8 GUARANTEES

Kongsberg Gruppen ASA has, in the period from 1999 to 2014, sold properties in the Kongsberg Teknologipark Park. The properties have been leased back on long-term lease and expire from 2017 to 2031. The leaseback contracts have been entered into by Kongsberg Næring-sparkutvikling AS, which is a wholly-owned subsidiary of Kongsberg Eiendom Holding AS, which in its turn is owned 100 per cent by Kongsberg Gruppen ASA. The leaseback contracts are classified as operating leasing agreements.

In addition to lease payments, Kongsberg Gruppen ASA is responsible for certain expenses related to taxes and maintenance of the properties. With the exception of the properties sold in 2007 and 2014, the properties are mainly leased to external tenants. The leases have durations ranging from three months to 15 years. The obligations related to this responsibility were in 2015 transferred to Kongsberg Næringsparkutvikling AS, but Kongsberg Gruppen ASA guarantees that the obligations are observed. Further information on provisions related to these leases is given in Note 25 “Provisions” of the consolidated financial statements.

Prepayment and completion guarantees

Group companies have provided guarantees for prepayments and completion related to customer contracts. The guarantees are issued by Norwegian and foreign banks and insurance companies. Kongsberg Gruppen ASA is responsible for all guarantees.

MNOK	*2019*	*2018*
Guarantees issued by banks and insurance companies	3 521	2 472
Guarantees issued by Kongsberg Gruppen ASA	7 840	5 054
Prepayments and completion guarantees to customers	**11 361**	**7 526**

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

9 RELATED PARTIES

Operating revenues

MNOK	2019	2018
Kongsberg Maritime AS	56	84
Kongsberg Defence & Aerospace AS	47	75
Kongsberg Digital AS	5	7
Kongsberg Maritime CM AS	46	
Other Group companies	6	10
Total operating revenues - related parties	**160**	**176**

Operating revenues from related parties mainly comprises corporate charge and guarantees. The revenues for 2018 include MNOK 38 in insurance revenues from Group companies. From 2019, insurance revenues are recognised net under other operating expenses.

Interest-bearing loans to Group companies

MNOK	2019	2018
Kongsberg Digital AS	100	100
Kongsberg Næringseiendom AS	100	100
Kongsberg Næringsbygg 2 AS	54	54
Kongsberg Næringsbygg 3 AS	77	77
Kongsberg Næringsbygg 5 AS	96	96
Kongsberg Næringsbygg 11 AS	31	-
KNB13 Brattvåg AS	19	
Kongsberg Protech Systems USA Inc.	-	17
Hydroid Inc	371	459
Kongsberg Maritime Hoi Tung Holding Ltd.	117	110
Kongsberg Maritime do Brasil SA	39	8
Kongsberg Maritime Malaysia Sdn. Bhd	17	17
Kongsberg Defence & Aerospace AS	-	69
Kongsberg Maritime Embient GmbH	-	28
Kongsberg Maritime Contros GmbH	-	16
Kongsberg Maritime Pty Ltd	8	6
Kongsberg Maritime India PVT. LTD	13	16
Kongsberg Digital Brasil BR	8	-
Kongsberg Maritime Inc	70	-
Kongsberg Maritime Pty Ltd	12	-
Kongsberg Maritime Canada Ltd.	17	
Kongsberg Maritime Chile SpA	1	
Kongsberg Maritime Ltd	35	-
Kongsberg Maritime CM AS	1 300	-
Kongsberg Maritime Japan Co Ltd	7	-
Kongsberg Maritime Pty Ltd	2	-
Kongsberg Maritime Turkey Denizcilik Sanayi Ve Ticaret Limited Şirketi	3	-
Other companies	1	-
Total	**2 498**	**1 173**

Current liabilities to Group companies

MNOK	2019	2018
Kongsberg Defence & Aerospace AS	6	9
Kongsberg Maritime AS	94	6 010
Kongsberg Aviation Maintenance Services AS	195	
Kongsberg Maritime Sweden AB	239	-
Kongsberg Maritime Inc		73
Kongsberg Mesotech Ltd.	109	101
Kongsberg Maritime Ltd.		22
Kongsberg Underwater Technology Inc.		17
Other companies	1	2
Total	**644**	**6 234**

Current receivables to Group companies

MNOK	2019	2018
Kongsberg Maritime AS	43	182
Kongsberg Defence & Aerospace AS	-	1 300
Kongsberg Basetec AS	40	40
Kongsberg Norcontrol AS		18
Kongsberg Digital AS	1	6
Kongsberg Satellitt Services AS		1
Hydroid Inc	5	12
Kongsberg Maritime Hoi Tung Holding Ltd.	1	1
Kongsberg Digital Brasil BR	1	
Kongsberg Maritime Inc	1	-
Kongsberg Maritime CM AS	20	
Other companies	5	8
Total	**117**	**1 568**

10 CURRENCY HEDGING

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

	2019							
Amounts in million	*Value in NOK based on agreed rates 31 Dec 19*	*Fair value in NOK 31 Dec 19*	*Total hedged amount in USD as of 31 Dec 19*	*Average hedged rate in USD 31 Dec 19*	*Total hedged amount in EUR 31 Dec 19*	*Average hedged rate in EUR as of 31 Dec 19*	*Total hedged amount in GBP 31 Dec 19*	*Average hedged rate in GBP 31 Dec 19*
Hedge category								
Forward exchange contracts, cash flow hedging	229	(11)	97	8.81	(59)	10.16	(2)	11.99
Total cash flow hedges	**229**	**(11)**	**97**		**(59)**		**(2)**	
Forward exchange contracts, fair value hedges	15 122	(60)	1 428	8.74	215	10.06	31	11.57
Loan hedges, fair value hedges	657	18	73	9.02	3	10.10	3	11.85
Total fair value hedges	**15 779**	**(42)**	**1 501**		**218**		**34**	
Total	**16 008**	**(53)**	**1 598**		**159**		**32**	

	2018							
Amounts in million	*Value in NOK based on agreed rates 31 Dec 18*	*Fair value in NOK 31 Dec 18*	*Total hedged amount in USD as of 31 Dec 18*	*Average hedged rate in USD 31 Dec 18*	*Total hedged amount in EUR as of 31 Dec 18*	*Average hedged rate in EUR as of 31 Dec 18*	*Total hedged amount in GBP 31 Dec 18*	*Average hedged rate in GBP 31 Dec 18*
Hedge category								
Forward exchange contracts, cash flow hedging	(4 064)	67	234	8.52	(60)	9.83	(502)	10.87
Total cash flow hedges	**(4 064)**	**67**	**234**		**(60)**		**(502)**	
Forward exchange contracts, fair value hedges	8 283	(384)	565	8.05	306	9.85	43	10.81
Loan hedges, fair value hedges	402	(1)	62	8.60	(2)	9.83	(2)	10.96
Total fair value hedges	**8 685**	**(385)**	**627**		**304**		**41**	
Total	**4 621**	**(318)**	**861**		**244**		**(461)**	

Foreign exchange options
As of 31 December 2019, Kongsberg Gruppen ASA had no foreign exchange options.

Basis swaps
In 2016, basis swaps totalling MEUR 130 were entered into to hedge net investment in foreign companies. These basis swaps have a fair value of MNOK -63 as of 31 December 2019 (MNOK -86 as of 31 December 2018). Changes in value have not been included in Kongsberg Gruppen ASA's statement in accordance with Norwegian GAAP.

Currency hedges, related parties

Subsidiary

	2019				
Amounts in million	*Value in NOK based on agreed rates 31 Dec 19*	*Fair value in NOK 31 Dec 19*	*Total hedged amount in USD 31 Dec 19*	*Total hedged amount in EUR 31 Dec 19*	*Total hedged amount in GBP 31 Dec 19*
Forward exchange contracts, cash flow hedging					
Kongsberg Maritime	-	-	-	-	-
Kongsberg Defence & Aerospace	229	(11)	97	(59)	(2)
(No internal counterparty)	-	-	-	-	-
Total cash flow hedges	**229**	**(11)**	**97**	**(59)**	**(2)**
Forward exchange contracts, fair value hedges					
Kongsberg Maritime	3 784	(80)	323	97	5
Kongsberg Digital	289	(2)	13	9	1
Kongsberg Defence & Aerospace	11 004	(25)	1 092	109	25
(No internal counterparty)	45	47	-	-	-
Total fair value hedges	**15 122**	**(60)**	**1 428**	**215**	**31**
Total of forward rates	**15 351**	**(71)**	**1 525**	**156**	**29**

	2018				
Amounts in million	*Value in NOK based on agreed rates 31 Dec 18*	*Fair value in NOK 31 Dec 18*	*Total hedged amount in USD 31 Dec 18*	*Total hedged amount in EUR 31 Dec 18*	*Total hedged amount in GBP 31 Dec 18*
Forward exchange contracts, cash flow hedging					
Kongsberg Maritime	47	-	5	-	-
Kongsberg Defence & Aerospace	1 309	(8)	229	(60)	(2)
(No internal counterparty)	(5 420)	75	-	-	(500)
Total cash flow hedges	**(4 064)**	**67**	**234**	**(60)**	**(502)**
Forward exchange contracts, fair value hedges					
Kongsberg Maritime	2 685	(130)	283	37	1
Kongsberg Digital	334	(14)	17	7	2
Kongsberg Defence & Aerospace	5 240	(239)	262	262	40
(No internal counterparty)	24	(1)	3	-	-
Total fair value hedges	**8 283**	**(384)**	**565**	**306**	**43**
Total of forward rates	**4 219**	**(317)**	**799**	**246**	**(459)**

Associated companies

	2019				2018			
MNOK	*Value in NOK based on agreed rates 31 Dec 19*	*Fair value in NOK 31 Dec 19*	*Total hedged amount in USD 31 Dec 19*	*Total hedged amount in EUR 31 Dec 19*	*Value in NOK based on agreed rates 31 Dec 18*	*Fair value in NOK 31 Dec 18*	*Total hedged amount in USD 31 Dec 18*	*Total hedged amount in EUR 31 Dec 18*
Forward exchange contracts, fair value hedges								
Kongsberg Satellite Services	1 495	(53)	128	42	1 150	(60)	87	45

11 CASH AND CASH EQUIVALENTS

Nominal amounts in MNOK	*2019*	*2018*
Bank deposits, operating accounts	(221)	5 862
Money market funds	510	801
Total	**289**	**6 663**

Bank guarantees amounting to MNOK 10 (MNOK 10 in 2018) have been furnished for funds related to withholding tax for employees.

The Group's liquidity management is centralised in Kongsberg Gruppen ASA and handled by the Group's treasury unit.

Statement from the Board

KONGSBERG GRUPPEN ASA

We hereby confirm, to the best of our conviction, that the financial statements for 1 January to 31 December 2019 have been drawn up in compliance with recognised accounting standards, and that the information disclosed therein gives a true picture of the enterprise's and the Group's assets, liabilities, financial position and performance as a whole, and that the information disclosed in the Directors' report gives a true picture of the progress, profits and position of the enterprise and the Group, as well as a description of the most central risk and uncertainty factors facing them.

Kongsberg, 19 March 2020

Eivind Reiten
Chairman

Per A. Sørlie
Director

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Deputy chair

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
Chief Executive Officer

AUDITOR'S REPORT 2019

Building a better working world

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 2019, the income statement, and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2019, income statement, statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Recognition of revenue from customer contracts over time

A large part of the Group's revenues are derived from customer contracts recognised over time. The process of measuring the progress towards complete satisfaction of the performance obligations and selecting the method of measuring this progress, involves judgement and estimates by the management. It may be uncertainty in relation to the transaction price, allocation of the transaction price, and in the estimated costs in fulfilling the contract. The recognition of revenue from customer contracts over time is a key audit matter, due the extent and complexity of ongoing projects in the Group with different duration, and where management exercises judgement to estimate the progress, including expected transaction price and costs to fulfil the contract.

We evaluated the application of accounting principles, methods for estimating the projects' progress, routines for monitoring projects and tested controls over estimating projects' progress, estimation of expected transaction price and costs to fulfil the contract. We discussed estimated total project costs, including provisions for guarantees, with project management. We evaluated these estimates against comparable projects and analysed the development in margins for selected projects and the project portfolios. For a selection of contracts, we tested estimated revenues against agreements, incurred costs against invoices and hours against project reports, and assessed the total estimated project costs. In addition, we have analysed actual margins on a selection of completed contracts against estimated total margins during the project period in order to evaluate management's accuracy in judgments and estimates.

We refer to note 2 for details on estimation uncertainty and note 8 on customer contracts in the financial statements for further information.

Acquisition of Roll-Royce Commercial Marine

Kongsberg acquired all the shares of Rolls-Royce Commercial Marine (RRCM) at 1 April 2019. The final purchase price was agreed in October 2019 to NOK 6 185 million. The company carried out, with the assistance of third-party valuation specialists, an assessment of fair value of identifiable assets acquired and liabilities assumed in the acquired company. It is recognised net values over book value of NOK 611 million and goodwill of NOK 2 272 million. The final purchase price allocation and assessment of goodwill will be carried out in the interim financial statements of the first quarter 2020. The assessment of fair value of intangible assets is judgmental and complex, and the acquisition and initial consolidation has a significant impact in the financial statements of Kongsberg and hence we considered this as a key audit matter.

We reviewed and assessed the accounting principles and discussed the methods of assessing the fair value of customer relations, brands and technology with the management and third-party valuation specialists. We tested the basis for the purchase price allocation and assessed the completeness of the assets acquired and liabilities assumed by reading the share purchase agreement, due diligence reports, board minutes, and the final agreement after the closing negotiations in October 2019. We also had discussions with management to review the adjustments that has been done during the measurement period with effect on the recognised preliminary amounts on the transaction date.

We refer to note 6 acquisitions in the financial statements for additional information.

Other information

Other information consists of the information included in the Company's annual report and sustainability report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

Building a better working world

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the report on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the report on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 19 March 2020

ERNST & YOUNG AS

Finn Espen Sellæg
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Financial calendar

ANNUAL GENERAL MEETINGS

The ordinary Annual General Meeting will be held on
Wednesday 14 May 2020

PRESENTATION OF QUARTERLY RESULTS

Q1:	8 May 20
Q2:	15 July 20
Q3:	30 October 20

Ticker code: KOG (Oslo Stock Exchange)

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Disclaimer: In the event of any discrepancy between the Norwegian and English versions of KONGSBERG's Annual Report and Sustainability Report 2019, the Norwegian version is the authoritative one.

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