Financial Statements and Notes

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KONGSBERG GRUPPEN ASA

Consolidated statement of income

KONGSBERG (GROUP)

MNOK	*Note*	*2020*	*2019*
Operating revenues	8, 9	25 612	23 245
Total revenues		**25 612**	**23 245**
Material cost	11	(8 850)	(8 609)
Personnel expenses	12, 13	(9 510)	(8 591)
Other operating expenses	31	(4 001)	(3 932)
Earnings before interest tax depreciation and amortisation (EBITDA)	8, 34	**3 250**	**2 113**
Depreciation	8, 14	(481)	(427)
Depreciation, leasing assets	15	(411)	(348)
Impairment of property, plant and equipment	8, 14	(52)	(18)
Amortisation	8, 16	(339)	(290)
Impairment of intangible assets	8, 16	(60)	-
Earnings before interest and taxes (EBIT)	8, 34	**1 905**	**1 029**
Share of net income from joint arrangements and associated companies	10	186	21
Financial income	18	103	138
Financial expenses	18	(196)	(224)
Interest on leasing liabilities	18, 15	(142)	(131)
Earnings before tax from continuing operations (EBT)		**1 855**	**833**
Income tax expense	19	(374)	(237)
Earnings after tax from continuing operations		**1 481**	**596**
Earnings after tax from discontinued operations	6	1 451	121
Earnings after tax (EAT)		**2 932**	**717**
Attributable to			
Equity holders of the parent		2 891	701
Non-controlling interests		41	17
Earnings per share (EPS) / EPS diluted in NOK			
- Earnings per share from continuing operations	20	8.01	3.22
- Earnings per share from continuing operations, diluted	20	8.01	3.22
- Earnings per share	20	16.08	3.89
- Earnings per share, diluted in NOK	20	16.08	3.89

The consolidated statement of income for 2019 is adjusted for discontinued operations. In addition a reclassification between material cost, personnel expenses and other operating expenses is made on the 2019 figures.

Consolidated statement of comprehensive income

KONGSBERG (GROUP)

MNOK	*Note*	*2020*	*2019*
Earnings after tax		**2 932**	**717**
Specification of other comprehensive income for the period			
Items to be reclassified to profit or loss in subsequent periods			
Change in fair value, financial instruments:			
- Cash flow hedges, currency	23 C	(19)	(159)
- Interest rate swap /basis swap	23 C	(99)	42
Tax effect cash flow hedges (Currency futures and interest rate swaps)	19	26	26
Translation differences currency		76	108
Total items to be reclassified to profit or loss in subsequent periods		**(16)**	**17**
Items not to be reclassified to profit or loss			
Actuarial gains/losses pensions	13	(167)	(112)
Tax effect on actuarial gain/loss on pensions	19	37	15
Total items not to be reclassified to profit or loss		**(131)**	**(97)**
Other comprehensive income for the period		**(147)**	**(80)**
Comprehensive income after tax for the period		**2 785**	**637**
Attributable to			
Equity holder of the parent		2 776	620
Non-controlling interests		9	17

Consolidated statement of financial position as of 31 December

KONGSBERG (GROUP)

MNOK	*Note*	*2020*	*2019*
Assets			
Non-current assets			
Property, plant and equipment	14	3 665	3 924
Leasing assets	15	1 965	2 141
Goodwill	16, 17	3 143	4 272
Other intangible assets	16	2 053	2 215
Deferred tax asset	19	306	167
Shares in joint arrangements and associated companies	10	3 465	3 247
Other non-current assets	21	209	213
Total non-current assets		**14 808**	**16 179**
Current assets			
Inventories	11	4 132	3 964
Trade receivables	22	5 542	6 363
Customer contracts, asset	9	5 784	5 888
Derivatives	23 A	964	376
Other short-term receivables	22	580	598
Cash and cash equivalents	24	7 420	5 654
Total current assets		**24 422**	**22 843**
Total assets		**39 230**	**39 022**
Equity, liabilities and provisions			
Equity			
Issued capital		5 933	5 933
Retained earnings		6 754	6 249
Other reserves		559	571
Equity attributable to owners of the parent		**13 246**	**12 753**
Non-controlling interests		55	57
Total equity	25	**13 301**	**12 810**
Non-current liabilities and provisions			
Long-term interest-bearing loans	23 D	1 971	3 469
Long-term leasing liabilities	15	1 753	1 850
Pension liabilities	13	1 137	974
Provisions	26	117	122
Deferred tax liability	19	1 194	1 350
Other non-current liabilities		61	36
Total non-current liabilities and provisions		**6 233**	**7 801**
Current liabilities and provisions			
Customer contracts, liabilities	9	11 217	10 481
Derivatives	23 A	546	493
Provisions	26	1 608	1 513
Short-term interest-bearing loans	23 D	1 500	620
Short-term leasing liabilities	15	339	348
Other current liabilities	27	4 486	4 956
Total current liabilities and provisions		**19 696**	**18 411**
Total liabilities and provisions		**25 929**	**26 212**
Total equity, liabilities and provisions		**39 230**	**39 022**

A reclassification is made in the consolidated statement of financial position as of 31 December 2019 between other short-term receivables and other current liabilities.

Kongsberg,
16 March 2021

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

KONGSBERG (GROUP)

		Equity holders of 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 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 related to employee share programme						(3)	(3)		(3)
Dividend paid	25					(450)	(450)		(450)
Purchase/sale, non-controlling interests						(20)	(20)	20	-
Equity as of 31 December 2019		225	5 708	(166)	737	6 249	12 753	57	12 810
Equity as of 1 January 2020		225	5 708	(166)	737	6 249	12 753	57	12 810
Earnings after tax		-	-	-		2 890	2 890	41	2 932
Other comprehensive income		-	-	(92)	80	(103)	(115)	(33)	(147)
Transactions with treasury shares related to employee share programme		-	-	-		(15)	(15)		(15)
Dividend paid	25	-	-	-		(450)	(450)		(450)
Additional dividend paid		-	-	-		(1 800)	(1 800)		(1 800)
Share buy-back related to share buy-back programme		-	-	-		(29)	(29)		(29)
Purchase/sale, non-controlling interests		-	-	-		11	11	(11)	-
Equity as of 31 December 2020		225	5 708	(258)	817	6 754	13 246	55	13 301

Consolidated statement of cash flow

KONGSBERG (GROUP)

MNOK	*Note*	*2020*	*2019*
Earning after tax		**2 932**	**717**
Depreciation/impairment of property, plant and equipment	14	533	458
Depreciation, leasing assets	15	411	348
Amortisation/Impairment of intangible assets	16	400	290
Share of net income from joint ventures and associated companies	10	(186)	(21)
Net finance items	18	235	216
Income taxes	19	374	250
Gains from sale of business before tax	6	(1 431)	-
Earnings after tax from discontinued operations	6	(20)	-
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**3 250**	**2 258**
Earnings before interest, taxes, depreciation and amortisation (EBITDA) from discontinued operations		**40**	**-**
Adjusted for			
Change in customer contracts, assets		(553)	(1 100)
Change in customer contracts, liabilities		1 199	4 807
Change in other current liabilities		(1 422)	(732)
Changes in inventories		(276)	(140)
Changes in trade receivables		623	(2 466)
Changes in other current receivables		301	(546)
Changes in provisions and other accruals		(189)	(39)
Income tax paid	19	(165)	(159)
Change in net current assets and other operations-related items		**(482)**	**(375)**
Net cash flows from operating activities		**2 808**	**1 883**
Cash from investing activities			
Dividends from joint ventures and associated companies	10	130	123
Proceeds from sale of property, plant and equipment	14	29	10
Purchase of property, plant and equipment	14	(535)	(544)
Capitalised internal developed intangible assets (R&D)	16	(224)	(176)
Proceeds from aquiring subsidiaries and associated companies	7	(59)	(3 625)
Repayment of debt in aqcuired business			(1 000)
Proceeds from sale of business	19, 6	3 051	161
Net cash flow from investing activities		**2 392**	**(5 051)**
Cash flow from financing activities			
Repayment of interest-bearing loans	23 D	(617)	(238)
Payment of principal portion of lease liabilities	15	(342)	(292)
Interest paid		(102)	(122)
Interest paid on leasing liabilities	15	(142)	(131)
Transactions with treasury shares		(51)	(27)
Share buy-back related to share buy-back programme		(29)	-
Dividends paid to equity holders of the parent	25	(450)	(450)
- of which dividends from treasury shares		2	2
Additional dividend		(1 800)	
Net cash flow from financing activities		**(3 531)**	**(1 258)**
Total cash flow		1 669	(4 426)
Effect of changes in exchange rates on cash and cash equivalents		**97**	**42**
Net change in cash and cash equivalents		**1 766**	**(4 384)**
Cash and cash equivalents at the beginning of the period		**5 654**	**10 038**
Cash and cash equivalents at the end of the period	24	**7 420**	**5 654**

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 2020 at its meeting on 16 March 2021. The consolidated financial statements for 2020 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 9 "Revenue recognition customer contracts"
- Note 13 "Pensions"
- Note 15 "Leases"
- Note 16 "Intangible assets"
- Note 17 "Impairment testing of goodwill"
- Note 19 "Income tax"
- Note 22 "Receivables and credit risk"
- Note 23 "Financial Instruments"
- Note 26 "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.

Subsidiaries disposed of during the year are included in the consolidated financial statement until the date on which the control ceases. Ordinarily, control will cease when all terms in the agreement are satisfied. A lack of satisfaction will result in the cancellation of the agreement. Operations disposed of during the period and which constitute independent business segments are presented as discontinued operations on a separate line on the income statement for the entire financial year and in the comparative figures.

Companies that constitute the Group are listed in Note 32 "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 Norwegian kroner (NOK), 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 in currencies different from the functional are hedged and recognised on the basis of the hedged exchange rate. Any unhedged receivables and other liabilities in non-functional currencies are translated at the exchange rates at the balance sheet date, and currency differences are recognised in the income statement. Differences that arise at the translation of cash flow hedges, meeting the criteria for hedge accounting, are recognised as changes in fair value on cash flow hedges in the statement of other comprehensive income (OCI). The effect is reflected in the annual result upon realisation of the cash flow hedges. See also 3 J "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 non-functional currencies are classified as financial income or financial costs.

Translation of foreign subsidiaries

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

C) Revenue recognition of customer contracts

Revenue recognition of customer contracts consists of five 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. Best estimate are used as basis for discounts and incentives schemes when determining the transaction price. For contracts with a significant financing item expanding more than a year, 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. Cost-to-cost is calculated comparing the actual costs with the estimated total costs of the projects.

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. When the customer is invoiced the "customer contracts, assets" are reclassified to trade receivables.

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.

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.

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 is recognised net within the same tax regime for entities within the same tax group.

E) Financial income and expenses

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

Financial expenses consist of interest expenses, including interest on leasing liabilities (see Note 15), currency losses, losses on realisation of "Assets at fair value through profit and loss" and other financial expenses. Interest expenses are recognised as they accrue using effective rate.

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 17 "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 17 "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.

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 and termination options if they most likely will not be exercised.

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 property 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. If the leaseback is considered to be a financial transaction the asset will not be derecognised.

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 debt, 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 a 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 fulfilled, expired 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 through profit and loss

Except for investments in subsidiaries, joint ventures or associated companies in the balance sheet, all shares are defined as fair value through profit and loss. 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 rate method and is subject to loss provisions. Profits and losses are recognised when the asset has been derecognised, modified or written down.

Receivables related to operations are measured at 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 other comprehensive income.

Impairment of financial assets

KONGSBERG makes provision for expected credit losses on all financial assets 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 flows 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. Accounts receivables are subject to individual assessments. The Group thus measures loss provision based on expected credit loss over the lifetime of each reporting period. The expected credit loss provision is based on historical credit losses, adjusted for future customer specific factors and the general economic situation.

Derivatives

Derivatives in KONGSBERG are comprised mainly of forward exchange contracts. Currency options, interest rate and currency swap agreements (basis swaps) are used to some 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 should they not qualify for hedge accounting.

Hedging

The Group's financial policy states that contracts above a certain threshold shall be subject to currency hedging upon establishment, and these are primarily hedged using forward exchange contracts (fair value hedges). In special cases, the Group uses forward exchange contracts or currency options as cash flow hedges, e.g. in large tenders where contract award is highly probable.

Before hedge accounting can be applied, 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 hedge effectiveness. Hedge effectiveness 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 fair value of the hedging instrument and the hedged object included in the hedging relationship.
- The hedge ratio, i.e. the relationship between the volume of the hedging instrument and the volume of the hedged object, corresponds to the actual volumes used by the Group in risk management.

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

i. Hedging of a firm commitment (fair value hedges)
ii. Hedging 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 object and the hedging instrument. For customer contracts, this implies that revenue is recognised at the hedged exchange rate.

Hedge accounting discontinues in the event of:

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

Fair value hedges of financial assets or liabilities recognised at amortised cost, amortises the change in fair value of the hedging instrument during the remaining period up to maturity of the hedged object.

(ii) Cash flow hedges

Cash flow hedges are hedges of highly probable future cash flows. Given hedge effectiveness, changes in fair value are recognised through other comprehensive income. Currency options are classified as cash flow hedges and thus apply the same accounting principles as described in this section.

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

Hedges of future customer contracts are allocated to the specific contract upon signing and are rolled forward from cash flow hedges to fair value hedges. Gains and losses previously included in other comprehensive income are recognised in the income statement concurrently 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 will be transferred to profit and loss.

In some cases, hedging of a net investment in an entity outside of Norway is applicable. Equity hedging is recognised equivalent to cash flow hedges. Profit or loss on the hedging instrument related to the effective share of the hedging that has been recognised through other comprehensive income as a part of the translation difference, shall be included in profit and loss by realisation of the foreign entity.

Follow-up of hedge effectiveness

KONGSBERG swaps forward exchange contracts from cash flow hedges 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. Hedge 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 receivables 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 "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.

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, except two 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 13 "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 29 "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

There are no 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 2020

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 transactions will be recognised according to the relevant standards, e.g. for inventories or fixed assets.

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 clarifies that information in the financial statements will be material if the omission, misstatement or concealment of information could be expected to influence decisions that the primary users make based on the financial statements.

The standards regarding financial instruments (IFRS 9 and IFRS 7) have been amended to new interest-rate benchmarks.

Implementation of these changes have not had any significant effect on KONGSBERG's financial statements.

4 FAIR VALUE

KONGSBERG's accounting principles and disclosures require a 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 below. Where relevant, further disclosures will be provided in the notes regarding the assumptions for calculating 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

For 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 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 acquisition of business lease contracts are measured at fair value on the date of acquisition. 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 calculation of fair value of forward exchange contracts is based on observable market data. KONGSBERG uses market prices from Thomson Reuters on each forward exchange contract. In turn, these are based on supply and demand from several market participants. Fair value is referring to the net present value of the variance between the revaluated forward rate at the balance sheet date and at the time of entering the forward exchange contract. Fair value of any interest rate swaps, basis swaps and currency options are assessed based on market prices from Thomson Reuters or updated valuations from the transaction counterpart.

Non-current liabilities

Fair value of interest-bearing debt, see Note 23 F "Financial instruments – Summary of financial assets and liabilities", is calculated by using estimated interest rate curve and credit margin at the balance sheet date. Estimated cash flows are discounted by the interest rate KONGSBERG would expect to pay for equivalent funding at the balance sheet date. The reference market interest rate is 3M NIBOR and the credit margin is then estimated for KONGSBERG for respective tenors.

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

KONGSBERG's policy is to allocate capital according to the following principles and sequence:

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

1. The working capital requirement in KONGSBERG can fluctuate considerably, which requires good liquidity and predictable access to capital. The Group shall therefore have good creditworthiness by investors and customers, which will ensure secure access to debt capital markets. The Group has set a target for net interest-bearing debt/EBITDA (pre IFRS 16 effects) over time to fall within the range of 1.0x +/- 1.0x, and around the centre of the range as a long-term average. Fluctuating working capital as a result of large projects within the defence sector is the principal reason for the interval in the range, amongst other as a result of different payment structures in the projects. Net working capital is expected to continue to vary also in the future. As of 31 December 2020, KONGSBERG's net debt/EBITDA was -1.43.
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 being competitive. In recent years, the Group has invested 4-7 per cent of its revenue 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 dividend yield for its shareholders. When determining the size of dividends, the management and the board will take into account future capital requirements. In 2020 the dividend policy was changed from being a per cent of earnings after tax to a target of stable or growing ordinary dividend on a per share basis. In addition to the ordinary dividend, KONGSBERG will consider special dividends and share buy-back of own shares as possible supplements. Together and over time these components shall be competitive for the shareholders.
4. KONGSBERG shall actively manage its business portfolio. Active management entails both acquisition and disposals as well as restructuring, and KONGSBERG has utilised all of these means in its active business management over the recent years. The Group's businesses are primarily assessed for their capacity for value creation, but also for the way in which they fit KONGSBERG's strategy, their ability to hold 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 2020 was MNOK 13,301, which corresponds to 33.9 per cent of total assets. The Group's net interest-bearing debt at year-end was MNOK -3,949.

The Group primarily uses debt instruments in the Norwegian capital market as a debt financing source. The Group considers that access to capital is satisfactory. 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. All bonds and deposits in money market funds are in Norwegian kroner. The bonds have been issued with both fixed and floating interest rates, whereas the money market deposits have floating interest rates. Deposits in the Group's cash pool or with other banks are subject to floating interest rate.

The need for interest rate swaps for issued debt is assessed on a running basis. As of year-end, the Group had no interest rate swaps, and 58 per cent of the issued debt had floating interest (64 per cent in 2019), while the remaining 42 per cent had fixed interest (36 per cent in 2019). The interest rate duration was 1.4.

The Group aims to ensure that the term to maturity of issued long-term loans is minimum two years. As of 31 December 2020, the weighted average term to maturity was 2.8 years for bonds issued as long-term (3.2 years in 2019). Note 23 D "Financial instruments – interest rate risk" provides more information.

Liquidity risk

Liquidity risk is related to the Group's solvency as financial liabilities 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 is responsible for managing the Group's liquidity risk.

Short-term liquidity requirements are covered by bank deposits. Any additional liquidity requirements may be covered by the syndicated and committed loan facility of MNOK 2,300 and an overdraft facility of MNOK 500. KONGSBERG has a Group cash pool structure to which most subsidiaries are connected. This structure increases availability and flexibility of the liquidity management.

The Group's liquidity trend is routinely monitored through, normally monthly, carry-forwards of forecasts from business units, as well as budgets and reporting by segment for major investments. Through most of 2020 there has been an increased frequency of and focus on liquidity forecasting.

Currency risk

KONGSBERG has a global presence with subsidiaries in many countries. The Group has a high proportion of its revenues 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 centralised treasury department offers instruments that reduce currency risk.

The Group's financial policy states that contracts above a certain threshold shall be subject to currency hedging upon establishment, and these are primarily hedged using forward exchange contracts (fair value hedges) towards the entity's functional currency. In special cases, the Group uses forward exchange contracts or currency options as cash flow hedges, e.g. in large tenders where contract award is highly probable. 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 exchange contracts, and the exposure period is normally short. Cash holdings in currency considered to be part of the businesses' working capital are normally not hedged. KONGSBERG has the highest exposure towards US dollar and euro, but also has minor exposures towards other currencies. Future cash flows from entities outside of Norway with functional currency other than NOK (net investment hedging) are normally not hedged. The Group assesses ongoing the need for hedging this currency exposure, based on risk and essentiality.

Currency options are used to some extent, mainly in tenders under given conditions, e.g. an assessment of probability for contract award. Currency accounts in the cash pool structure are used for the natural hedging of smaller amounts with short tenors.

In addition to the use of financial instruments the entities and the centralised treasury department implement operational measures. One measure could be ensuring that costs incurred are in the same currency as the sales contract, in order to reduce foreign currency exposure. KONGSBERG uses an established Treasury Management System and a platform for trading foreign exchange.

See Note 23 B "Financial instruments - Currency risk and currency hedging" for more information.

Credit/Counterparty risk

Counterparty risk is the risk that KONGSBERG's contractual counterparty will be unable to meet its obligations , or the settlement of forward exchange 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 enter into financial contracts with them. The company's core relationship banks, which are counterparties in most derivative transactions and in which most of KONGSBERG's 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 managing 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. This business area has customers primarily 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 therefore has limited credit risk exposure. The business area Kongsberg Digital has for the time being a moderate share of the Group's total revenue.

The Group strives to maintain a fair balance between increasing sales with acceptable margins and the risk of losses. In addition, large parts of the Group operate on the basis of credit manuals including routines for debt collection. See Note 22 "Receivables and credit risk" for more information.

As a result of the pandemic situation KONGSBERG has continuously assessed the impact of COVID-19 on the accounting items. As of 2020 KONGSBERG has only had a limited number of losses and impairments as a result of COVID-19. Lower activity from customers and suppliers, travel restrictions and increased risk of delays as a result of lockdowns and potential lack of resources are expected to impact the business. In addition there is an increased risk of order cancellation and delayed or missing payments which may increase the risk of loss on receivables, inventories, customer contracts and foreign exchange contracts. So far losses and impairments have been limited for the Group.

6 DISCONTINUED OPERATIONS

Hydroid Inc.

On 4 February 2020 Kongsberg Maritime signed an agreement to sell the subsea technology company Hydroid Inc. in the USA to Huntington Ingalls Industries (HII) for USD 350 million, on a debt- and cash-free basis and adjusted for agreed working capital. The transaction was completed with effect from 26 March 2020 and means that Hydroid's profit and loss figures have been removed from the accounts in the financial statement and reported on the line "Earnings after tax from discontinued operations". Comparative figures have also been recalculated.

Hydroid Inc. was a wholly owned subsidiary of Simrad North America Inc. (subsidiary of Kongsberg Maritime AS), and has its head office in Pocasset, Massachusetts, USA. The company manufactures and supplies autonomous underwater vehicles to both the military and commercial markets and is the largest supplier of vessels to the US Navy.

In connection with the transaction, Kongsberg Maritime and Huntington Ingalls Industries have entered into a strategic cooperation agreement on subsea technology and maritime solutions that came into force on 26 March 2020. The aim of the agreement is to increase both parties' abilities to sell products and solutions in the subsea segment in the USA and globally.

The tables below specify the profit related to Hydroid which is reported as discontinued operations and Hydroids share of the financial position as of 31 December 2019. MNOK 574 is accrued and paid tax regarding the transaction in USA. In addition, tax will be levied on the allocation of the funds.

Specification of the earnings after tax for discontinued operations

MNOK	*2020*	*2019*
Operating revenues	268	836
Operating expenses	(228)	(691)
EBITDA	**40**	**145**
EBIT	**36**	**132**
Earnings before tax	**27**	**134**
Tax	(7)	(13)
Earnings after tax	**20**	**121**
Gain from sale of business before tax	2 031	-
Tax on gain	600	-
Gain from sale of business after tax	**1 431**	**-**
Earnings after tax from discontinued operations	**1 451**	**121**

Cash flow from Hydroid

MNOK	*2020*	*2019*
EBITDA	40	145
Change in net current assets and other operating related items	(249)	(26)
Net cash flow from operating activities	**(209)**	**120**
Net cash flow from investing activities	**(5)**	**(15)**
Net cash flow from financing activities	**(9)**	**(2)**

Cash flow related to sale of Hydorid

MNOK	*2020*	*2019*
Remuneration after transaction cost	3 614	
Tax paid	574	
Sale of buisness [1]	3 040	-

1) Deviates from "Proceeds from sale of business" in the consolidated statement of cashflow as a result of adjusted remuneration on a transactions last year.

Effect of Hydroid on the condensed statement of financial position

MNOK	*Reported 31 Dec 19*	*Hydroid 31 Dec 19*	*Adjusted 31 Dec 19*
Property, plant and equipment	3 924	182	3 742
Leasing assets	2 141	-	2 141
Goodwill	4 272	846	3 426
Intangible assets	2 215	7	2 208
Deferred tax asset	167	-	167
Shares in joint arrangements and associated companies	3 247	-	3 247
Other non-current assets	213	4	209
Total non-current assets	**16 179**	**1 040**	**15 140**
Inventories	3 964	100	3 864
Trade receivables	6 363	83	6 280
Other current assets	598	-	598
Customer contracts, asset	5 888	555	5 333
Derivatives	376	-	376
Cash and cash equivalents	5 654	28	5 626
Total current assets	**22 843**	**766**	**22 077**
Total assets	**39 022**	**1 806**	**37 217**
Issued capital	5 933		5 933
Retained earnings	6 249	1 326	4 923
Other reserves	571	-	571
Non-controlling interests	57	-	57
Total equity	**12 810**	**1 326**	**11 484**
Long-term interest-bearing loans	3 469	-	3 469
Long-term leasing liabilities	1 850	-	1 850
Pension liabilities	974	-	974
Provisions	122	-	122
Deferred tax liabilities	1 350	-	1 350
Other non-current liabilities	36	4	32
Total non-current liabilities and provisions	**7 801**	**4**	**7 797**
Customer contracts, liabilities	10 481	391	10 090
Derivatives	493	-	493
Provisions	1 513	9	1 504
Short-term interest-bearing loans	620	-	620
Short-term leasing liabilities	348	-	348
Other current liabilities	4 956	75	4 881
Total current liabilities and provisions	**18 411**	**475**	**17 936**
Total liabilities and provisions	**26 212**	**479**	**25 733**
Total equity, liabilities and provisions	**39 022**	**1 806**	**37 217**

7 ACQUISITIONS

Rolls-Royce Commercial Marine

Final added value allocation Rolls-Royce Commercial Marine
On 6 July 2018, KONGSBERG signed an agreement for the acquisition of Rolls-Royce Commercial Marine (RRCM) from Rolls-Royce Plc. The acquisition was completed on 1 April 2019, and the company is recognised as part of Kongsberg Maritime with effect from Q2 2019 onwards.

KONGSBERG completed in Q1 2020 its assessments of assets and liabilities acquired in the acquisition. This has led to changes in the purchase price allocation (PPA). The table below shows the change in PPA reported in Q4 2019 against the final PPA.

MNOK	*Updated preliminary PPA Q419*	*Adjustments*	*Final PPA*
Customer relationship	616	-	616
Trademarks	66	-	66
Technology	769	-	769
Total intangible assets exclusive goodwill	**1 451**	**-**	**1 451**
Property, plant and equipment	1 253	(76)	1 177
Leasing assets	471	-	471
Deferred tax asset	-	303	303
Current assets exclusive cash and cash equivalents	4 605	(12)	4 593
Cash and cash equivalents	2 320	-	2 320
Total assets exclusive goodwill	**10 100**	**215**	**10 315**
Pension liabilities	(309)	-	(309)
Long-term leasing liabilities	(384)	-	(384)
Short-term leasing liabilities	(87)	-	(87)
Provisions	(531)	32	(499)
Other current liabilities	(4 876)	51	(4 825)
Sum total liabilities	**(6 187)**	**83**	**(6 104)**
Net identifiable assets and liabilities	**3 913**	**298**	**4 211**
Goodwill upon acquisitions	2 272	(298)	1 974
Remuneration	**6 185**	**-**	**6 185**
Cash and cash equivalents acquired	(2 320)	-	(2 320)
Remuneration, exclusive cash and cash equivalents	**3 865**	**-**	**3 865**
Repayment of liabilities at acquisition	1 000	-	1 000
Net outgoing cash flow for the acquisition	**4 865**	**-**	**4 865**

Aerospace Industrial Maintenance Norway AS

Final added value allocation of 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 owner with 50.1 per cent, while Patria owns 49.9 per cent of the shares in AIM. The company is the Norwegian Armed Forces' organisation that support the maintenance, repair and inspection of aircraft and helicopters, and is recognised as part of Kongsberg Defence & Aerospace with effect from Q2 2019 onwards.

In June 2019 AIM was renamed Kongsberg Aviation Maintenance Services AS.

KONGSBERG has now completed its assessments of assets and liabilities acquired in the acquisition. This has led to changes in the allocation of added value. The purchase price includes contingent considerations and these will not be clarified until 2023 at the earliest and 2027 at the latest. The statement below shows the change in excess value allocation reported in Q2 2019 against final excess value allocation.

MNOK	*Preliminary PPA Q219*	*Adjustments*	*Final PPA*
Intangible assets exclusive goodwill	2	-	2
Non current assets held for sale [1]	199	3	202
Property, plant and equipment	42	-	42
Leasing assets	172	-	172
Deferred tax asset	156	(3)	153
Current assets exclusive cash and cash equivalents	192	-	192
Cash and cash equivalents	210	-	210
Total assets exclusive goodwill	**974**	**-**	**974**
Pension liabilities	(125)	8	(117)
Long-term leasing liabilities	(138)	-	(138)
Customer contracts, liabilities	(165)	-	(165)
Short-term leasing liabilities	(34)	-	(34)
Other current liabilities and provisions	(509)	20	(489)
Total liabilities and provisions	**(971)**	**27**	**(944)**
Net identifiable assets and liabilities	**3**	**27**	**30**
Goodwill upon aquisition	-	-	-
Remuneration	**3**	**27**	**30**
Cash and cash equivalents acquired	(210)	-	(210)
Net ingoing cash flow for the acquisition	**207**	**(27)**	**180**

1) Non current assets held for sale are related to shares in BEC sold to Patria in June 2019.

COACH Solutions ApS

On 30th June 2020, KONGSBERG signed an agreement to purchase COACH Solutions ApS, and the acquisition was completed on the same day.

The company is a Danish maritime software company founded by the Danish shipping company Clipper Group. The company develops software to optimise energy consumption and receive continuously-updated weather routing, which enables customers to achieve large financial and environmental operational savings. The solutions have been installed on 600 active vessels. COACH software complements Kongsberg Digital's maritime portfolio and the company is included as a wholly owned subsidiary in this business area.

The parties agreed on an enterprise value on a cash- and debt-free basis, and with normalised working capital of MNOK 39. Added value in the acquisition is allocated to customer relations, technology and goodwill. The payment was made in the 2. Quarter.

The company will change its name to KONGSBERG COACH Solutions ApS.

Final purchase price allocation COACH Solutions ApS

MNOK	*Carrying amount prior to acquisition*	*Adjustments fair value*	*Recognised values at acquisition*
Customer relationship	-	16	16
Technology	-	12	12
Total intangible assets exclusive goodwill	**-**	**28**	**28**
Current assets exclusive cash and cash equivalents	6		6
Cash and cash equivalents	4	-	4
Total assets exclusive goodwill	**10**	**28**	**39**
Deferred tax liabilty		(6)	(6)
Other current liabilities and provisions	(5)	-	(5)
Total liabilities and provisions	**(5)**	**(6)**	**(11)**
Net identifiable assets and liabilities	**5**	**23**	**28**
Goodwill upon acquisitions	-	15	15
Remuneration	**-**	**-**	**43**
Cash and cash equivalents acquired	-	-	(4)
Net outgoing cash flow for the acquisition	**-**	**-**	**39**

Patria Helicopters AS

On 1st of July 2020, Kongsberg Aviation Maintenance Services AS (KAMS) signed an agreement with Patria Aviation Oy to acquire Patria Helicopters AS and the acquisition was completed on the same day. The company is based at Bardufoss Airport, with particular responsibility for the maintenance of NH-90 helicopters. The acquisition is part of KONGSBERG's long-term commitment to the operation and maintenance of the Norwegian Armed Forces' systems and platforms and will strengthen the Group's ability to support the NH-90.

The parties agreed on an enterprise value of NOK 12 million on a cash- and debt-free basis, and with normalised working capital. The consideration was NOK 17.0 million. The added value of only just NOK 1 million is allocated to goodwill.

In August 2020 Patria Helicopters was renamed Kongsberg Aviation Maintenance services Bardufoss AS.

8 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 2020, reporting requirements apply to the following two operating segments:

Kongserg 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.

Kongsberg Defence & Aerospace (KDA) consists in 2020 of five divisions, which primarily supply various systems and services to the defence industry. The Integrated Defence Systems 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. Land Systems develops and supplies remote control weapon stations for land-based vehicles and marine vessels, in addition to develop and supply 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.

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*
2020					
Operating revenue from external customers	16 304	8 476	832		25 612
Revenue from Group companies	16	27	560	(603)	-
Total revenues	**16 319**	**8 503**	**1 392**	**(603)**	**25 612**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**1 532**	**1 656**	**62**		**3 250**
Depreciation	(194)	(222)	(65)		(481)
Depreciation IFRS16	(280)	(192)	(193)	254	(411)
Impairment of property, plant and equipment	(52)	-			(52)
Amortisation	(288)	(85)	(28)		(401)
Earnings before interest and taxes (EBIT)	**718**	**1 157**	**(224)**	**254**	**1 905**
Segment assets [1]	16 067	12 716	2 028	(247)	30 564
Segment investments [2]	101	393	308	-	802
Current segment liabilities and provisions [3]	7 863	8 783	669	(461)	16 854
2019					
Operating revenue from external customers	15 182	7 237	826	-	23 245
Revenue from Group companies	16	8	542	(566)	-
Total revenues	**15 198**	**7 245**	**1 368**	**(566)**	**23 245**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**1 005**	**1 123**	**(16)**	**-**	**2 113**
Depreciation	(180)	(186)	(61)	-	(427)
Depreciation IFRS16	(243)	(146)	(182)	223	(348)
Impairment of property, plant and equipment	(18)	-	-	-	(18)
Amortisation	(208)	(65)	(17)	-	(290)
Earnings before interest and taxes (EBIT)	**356**	**726**	**(276)**	**223**	**1 029**
Segment assets [1]	18 951	11 886	1 910	(224)	32 523
Segment investments [2]	5 129	459	153	-	5 741
Current segment liabilities and provisions [3]	9 106	7 437	644	(366)	16 821

1) The segment assets does not include derivatives and cash and cash equivalents, as these assets are managed by the centralised treasury department.
2) Investments comprise acquired property, plant and equipment, intangible assets and goodwill, excluding IFRS 16. Including investnments related to aquisitions of business.
3) Segment liabilities do not include deferred tax liabilities, taxes payable, interest-bearing liabilities ex. short term leasing liabilities, other non-current liabilities or provisions and derivatives, as these liabilities are controlled by the centralised treasury department. The comparable figures for 2019 are restated by the effect of short term leasing liabilities.

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	2020	2019
Segment assets	**30 564**	**32 523**
Deferred tax asset	306	167
Derivatives	964	376
Fair value financial instruments	(24)	302
Cash and cash equivalents	7 420	5 654
Total assets	**39 230**	**39 022**

Reconciliation of liabilities and provisions

MNOK	2020	2019
Current segment liabilities and provisions	**16 854**	**16 821**
Short-term interest-bearing loans	1500	621
Derivatives	546	493
Fair value financial instruments	725	399
Calculated income tax payable	71	77
Total current liabilities and provisions	**19 696**	**18 411**

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***
2020								
Operating revenue from external customers	5 027	7 103	6 888	364	5 288	542	400	**25 612**
Operating revenues as % of the total	20%	27%	27%	1%	21%	2%	2%	
Fixed assets [1]	9 257	889	201	92	376	11	1	**10 827**
2019								
Operating revenue from external customers	4 348	6 711	5 326	328	5 548	403	581	**23 245**
Operating revenues as % of the total	19%	29%	23%	1%	24%	2%	2%	
Fixed assets [1]	10 315	948	859	27	393	9	1	**12 552**

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

9 REVENUE RECOGNITION CUSTOMER CONTRACTS

MNOK	*Kongsberg Maritime*	*Kongsberg Defence & Aerospace*	*Other*	*Total*
2020				
Revenues				
Revenue recognition based on progress in the projects (over time)	3 704	6 239	405	10 349
Revenue recognition upon delivery of goods and services	4 889	492	259	5 640
Aftermarket activities[1] which are recognised as income upon delivery	7 632	1 741	104	9 477
Revenue from rental of property, plant and equipment	45	-	64	109
Total external revenues from customer contracts	**16 270**	**8 472**	**832**	**25 575**
Gains from sale of property, plant and equipment	34	3	-	37
Total external revenues	**16 304**	**8 475**	**832**	**25 612**
2019				
Revenues				
Revenue recognition based on progress in the projects (over time)	4 804	5 828	519	11 151
Revenue recognition upon delivery of goods and services	3 705	282	247	4 234
Aftermarket activities[1] which are recognised as income upon delivery	6 629	1 127	(4)	7 752
Revenue from rental of property, plant and equipment	44	-	62	106
Total external revenues from customer contracts	**15 182**	**7 237**	**824**	**23 243**
Gains from sale of property, plant and equipment	-	-	2	2
Total external revenues	**15 182**	**7 237**	**826**	**23 245**

1) Aftermarket includes revenues from service, maintenance, upgrades, spare parts, accessories and training linked to previously-delivered systems. Spareparts and upgrades are reflected in the order backlog while the remaining are not included in the summary of revenues for future periods; see the table below.

The table shows the anticipated date on which remaining performance obligations as of 31 December 2020 are recognised as income:

	2020 *Date of revenue recognition*				**2019** *Date of revenue recognition*		
MNOK	*Order backlog 31.12.20*	*2021*	*2022*	*2023 and later*	*Order backlog 31.12.19*	*2020*	*2021 and later*
Kongsberg Martime	11 386	8 328	2 139	919	11 311	8 231	3 177
Kongsberg Defence & Aerospace	23 477	9 023	6 226	8 228	20 146	7 178	12 968
Other/elimination	1 084	621	281	182	890	1 277	385
Total	**35 947**	**17 972**	**8 646**	**9 329**	**32 347**	**16 687**	**16 529**

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 8 "Operating segments".

Over 44 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 it will demand considerable rework to meet an 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 may be used for excample in connection with the delivery of communication equipment and equipment for the space industry.

KDA also has deliveries of service and maintenance. 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 8 "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.

Operating revenues by division

MNOK	*2020*	*2019*
Divisions		
Global customer suppport & Services	7 235	6 134
Integrated solutions	4 268	4 345
Sensor & Robotics	2 689	2 835
Propulsion & Engines	2 529	2 244
Deck Machinery	803	810
Other/elimination	(1 204)	(1 170)
Kongsberg Martime	**16 319**	**15 198**
Divisions		
Land Systems	2 625	2 196
Integrated Defence Systems	2 416	2 116
Aerostructures	2 101	1 301
Missile Systems	1 331	1 147
Space & Surveillance	586	665
Other/elimination	(556)	(181)
Kongsberg Defence & Aerospace	**8 503**	**7 245**
Other/elimination	**790**	**802**
Total revenues	**25 612**	**23 245**

For a more detailed description of the various divisions and their deliveries, see Note 8 Operating Segments.

MNOK	*Kongsberg Maritime*	*Kongsberg Defence & Aerospace*	*Other*	*Total*
2020				
Geographic distribution of external revenues from customer contracts				
Norway	2 951	1 737	338	5 027
Europe	5 846	1 056	201	7 103
America	2 108	4 600	180	6 888
South America	328	8	29	364
Asia	4 669	549	70	5 288
Africa	123	274	3	400
Australia	279	252	11	542
Total external revenues from customer contracts	**16 304**	**8 476**	**832**	**25 612**
2019				
Geographic distribution of external revenues from customer contracts				
Norway	2 586	1 428	334	4 348
Europe	5 163	1 405	163	6 731
America	2 091	3 036	184	5 311
South America	276	7	45	328
Asia	4 719	769	56	5 544
Africa	101	470	10	581
Australia	246	122	34	402
Total external revenues from customer contracts	**15 182**	**7 237**	**826**	**23 245**

Contract balances

Specification of net contract balances [1)]

MNOK	*31 Dec 20*	*31 Dec 19*
Customer contracts in progress	1 824	2 821
Prepayments received from customers	(9 287)	(8 454)
Accrued assets, customer contracts	4 575	3 781
Accrued liabilities, customer contracts	(2 545)	(2 741)
Net contract balances	**(5 433)**	**(4 593)**

MNOK	*31 Dec 20*	*31 Dec 19*
Customer contracts, assets	5 784	5 888
Customer contracts, liabilities	(11 217)	(10 481)
Net contract balances	**(5 433)**	**(4 593)**

1) The table above on the left shows the gross amounts before netting between the income- and the expense side of the customer contracts. The numbers as of 31 December 20 are reclassified amongst the lines.
The table above to 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. Each contract is represented by one debit or one credit amount.

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.

"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.

Advances totalling almost NOK 4.5 billion registered in the opening balance were recognised as income during the 2020 financial year.

Revenue recognition from customer contracts includes:

MNOK	*31 Dec 20*	*31 Dec 19*
Prepayments from customers included in customer contracts, obligations at the beginning of the year and which are recognised as income in the fiscal year	4 471	2 917
Revenue from performance obligations completed before the financial year	-	(4)

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.

10 SHARES IN JOINT ARRANGEMENTS AND ASSOCIATED COMPANIES

KONGSBERG has investments in Associated Companies. Based on the business size and strategic importance for KONGSBERG, Patria Oyj and Kongsberg Satellite Service AS are specifised in more details below.

	2020				2019			
MNOK	*Patria Oyj*	*Kongsberg Satellite Services*	*Others*	*Total*	*Patria Oyj*	*Kongsberg Satellite Services*	*Others*	*Total*
Net holding 1 January	2 656	492	100	3 247	2 807	437	156	3 400
Acquisitions/sale during the period	-	-	10	10	(31)	-	-	(31)
Share of net income during the period [1]	108	120	(42)	186	(35)	112	(56)	21
Dividends received	(75)	(55)	-	(130)	(68)	(55)	(1)	(124)
Other and comprehensive income during the period	152 [2]	-	-	152	(18)	(2)	-	(20)
Net holding 31 December	**2 841**	**557**	**68**	**3 465**	**2 656**	**492**	**100**	**3 247**

1) The share of net income is after tax and amortisation of excess values. The share of net income from Patria includes amortisations of MNOK 25 (MNOK 27 in 2019).
2) Other items are translation differences mainly related to translation differences of excess values.

Investments in Associated Companies pr. 31 December 2020 includes goodwill and other excess value of MNOK 284 and MNOK 54 (MNOK 267 and MNOK 76 pr. 31 December 2019).

The table below shows assets, liablilities and profit and loss for Patria Oyj and Kongsberg Satelitte Service AS per 100 per cent basis.

	Patria Oyj		Kongsberg Satellite Services AS	
Location	*Helsinki, Finland*		*Tromsø, Norway*	
Ownership per cent	*49.9%*		*50.0%*	
	MEUR		*MNOK*	
	2020	*2019*	*2020*	*2019*
Operation Revenues	534	508	1 034	928
Earnings after tax	34	5	239	224
Majoritys share of the result	27	(1)	239	224
Non-current assets	389	368	1 088	961
Current assets	306	284	784	322
Long-term liabilities	138	104	39	37
Short-term liabilities	306	309	686	240

Patria is Finland's leading supplier of defence maintenance services and covers all defence aspects within MRO (Maintenance, Repair and Overhaul). Patria is an international organisation with approximately 3,000 employees and owns 50 per cent of the shares in Nammo. The headquarter is located in Helsinki and Patria is owned by the Finish State (50.1 per cent) and KONGSBERG (49.9 per cent).

Kongsberg Satellite Services (KSAT) a world-leading supplier of communication services for spacecraft and launch platforms and advanced monitoring services via satellites. In addition KSAT deliver services within among others environment, safety and climate control based on satellitedata from the traditional space programmes and also satellite constellations within New Space segments. KSAT has 250 employees and its headquarter is located in Tromsø. The company is owned by KONGSBERG (50 per cent) and Space Norway (50 per cent) which is owned by the Norwegian State.

Share of net income and dividend from associated companies per business area

	Share of net income		Dividend	
MNOK	*2020*	*2019*	*2020*	*2019*
KM	-	-	-	-
KDA	206	34	130	123
Other	(20)	(13)	-	-
Group	**186**	**21**	**130**	**123**

11 INVENTORIES

The Group's total inventories include the following:

MNOK	*31 Dec 20*	*31 Dec 19*
Raw materials	2 188	2 156
Work in progress	500	405
Finished products	1 444	1 403
Total	**4 133**	**3 964**
Recognised changes in value for inventories	**95**	**67**
Total cost of goods in year amounts to	**8 850**	**8 969**

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.

12 PERSONNEL EXPENSES

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

MNOK	*Note*	*2020*	*2019*
Salaries		7 472	6 707
Employer's National Insurance contributions on salaries		958	922
Pension expenses, defined benefit plan	13	57	17
Pension expenses, defined contribution pension schemes	13	625	533
Other benefits [1]		399	413
Total personnel expenses		**9 511**	**8 591**
Average no. of FTEs (full-time equivalents)		**10 554**	**9 472**

1) Other benefits in 2019 are increased as a result of reclassification from other operating expenses to personnel expenses

13 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 31.12.20, approximately 6,978 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 have a defined contribution pension scheme for all employees in Norway with some exeptions. The contribution rates are 5 per cent of salary up to 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 50, 80 or 100 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 29 "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 2020, approximately 6,658 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 29 "Statement on the Group CEO and Executive management remuneration". These supplementary plans were discontinued in connection with the transition to defined contribution pension schemes.

In addition the Group also has a collective defined pension plan for white collar employees in Sweden born before 1979. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. The employees earn pension on Swedish income base amounts between 0 and 30.

Risk coverage

Disability pension from the Group 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). The disability pension is a one-year risk cover and the premiums will be expensed as they accrue. 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 20*	*31 Dec 19*
Discount rate, Norway	1.3%-1.50 %	2.10-2.20 %
Discount rate, Sweden	1.10%	1.30%
Wage adjustment	1.25%	1.50%
Pension base level (G) adjustment	1.75%	2.00%
Pension adjustment	1.00%	1.25%

Other Norwegian assumptions	*31 Dec 20*	*31 Dec 19*
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	*2020*	*2019*
Costs, defined benefit plans	57	17
Costs of defined contribution plans in Norway	467	411
Costs of defined contribution plans abroad	158	129

Net interests costs are classified as finance expenses. Costs for defined benefit plans in 2019 include a gain on the pension scheme settlement of MNOK 34.

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

	2020			2019		
MNOK	*Funded*	*Unfunded*	*Total*	*Funded*	*Unfunded*	*Total*
Changes in gross pension liabilities						
Gross pension liabilities as of 1 January	2 023	667	2 690	1 613	334	1 947
Additions through acquisition			-	461	309	770
Present value of current year's contribution	19	21	40	18	15	33
Interest expenses on pension liabilities	42	11	53	48	10	58
Actuarial losses/gains	196	(48)	148	15	52	67
Settlement of pension scheme			-	(30)		(30)
Payments of pensions/paid-up policies	(131)	(50)	(181)	(113)	(51)	(164)
Net change in social security expenses	25	(9)	16	11	(2)	9
Translation differences		41	41			
Gross pension liabilities as of 31 December	**2 174**	**634**	**2 808**	**2 023**	**667**	**2 690**
Changes in gross pension fund assets						
Fair value, pension plan assets as of 1 January	1 716		1 716	1 409		1 409
Additions through acquisition			-	358		358
Expected return on pension funds	37		37	42		42
Actuarial losses/gains	3		3	(37)		(37)
Premium payments	51		51	64		64
Payments of pensions/paid-up policies	(135)		(135)	(120)		(120)
Fair value, pension plan assets as of 31 December	**1 671**	**-**	**1 671**	**1 716**	**-**	**1 716**
Net capitalised pension liabilities as of 31 December	**503**	**634**	**1 137**	**307**	**667**	**974**

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	*2020*	*2019*	*2018*	*2017*	*2016*
Gross pension liabilities as of 31 December	2 808	2 690	1 947	2 025	1 958
Fair value, pension plan assets as of 31 December	1 671	1 716	1 409	1 378	1 491
Net pension liabilities as of 31 December	**(1 137)**	**(974)**	**(538)**	**(647)**	**(467)**
Actuarial gains/losses pension liabilities as of 31 December	148	67	26	(24)	4
Actuarial gains/losses pension assets as of 31 December	3	(37)	74	(90)	22
Accumulated estimated gains/losses recognised in the statement of comprehensive income after tax	**(1 579)**	**(1 428)**	**(1 331)**	**(1 374)**	**(1 316)**
Of which, constitutes experience deviations	(972)	(926)	(881)	(928)	(943)

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
2021	152
2022	159
2023	158
2024	153
2025	146
Next 5 years	663

14 PROPERTY, PLANT AND EQUIPMENT

MNOK	*Notes*	*Land*	*Buildings and other real property*	*Machinery and plant*	*Equipment and vehicles*	*Plant in progress*	*Total*
2020							
Acquisition cost							
Acquisition cost as of 1 January 2020		335	3 208	1 794	2 541	388	8 266
Reclassification		8	(5)	151	(136)	(16)	2
Adjustment according to final purchase allocation	7	-	(87)	-	11	-	(76)
Additions		9	223	162	191	(49)	536
Disposals		(1)	(18)	(88)	(252)	(8)	(367)
Discontinued operations	6	(19)	(160)	(49)	(63)	-	(291)
Translation differences		-	25	15	(3)	(1)	36
Acquisition cost as of 31 December 2020		**332**	**3 186**	**1 985**	**2 289**	**314**	**8 106**
Accumulated depreciation and impairment							
Total accumulated depreciation and impairment as of 1 January 2020		-	1 189	1 142	2 005	6	4 342
Reclassification		(4)	(5)	(4)	17		4
Depreciation for the year		-	118	176	187	-	481
Impairment for the year		-	48	1	3		52
Accumulated depreciation through disposal		(1)	(17)	(68)	(251)	-	(337)
Accumulated depreciation through discontinued operations	6	-	(23)	(39)	(34)	-	(96)
Translation differences		-	(5)	2	(2)	-	(5)
Total accumulated depreciation and impairment as of 31 December 2020		**(5)**	**1 305**	**1 210**	**1 925**	**6**	**4 441**
Carrying amount as of 31 December 2020		**337**	**1 881**	**775**	**364**	**308**	**3 665**
2019							
Acquisition cost							
Acquisition cost as of 1 January 2019		310	2 278	1 611	2 128	122	6 449
Reclassification		(2)	1		12	(2)	9
Additions through acquisition	7	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							
Total accumulated depreciation and impairment as of 1 January 2019		-	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
Total accumulated depreciation and impairment as of 31 December 2019		**-**	**1 189**	**1 142**	**2 005**	**6**	**4 342**
Carrying amount as of 31 December 2019		**335**	**1 903**	**584**	**616**	**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.

15 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	*Buildings and other real property*	*Machinery and plant*	*Total*
2020			
Acquisition cost			
1 January 2020	2 458	31	2 489
Additions	212	7	218
Translation differences	(2)	2	-
Acquisition cost as of 31 December 2020	**2 668**	**39**	**2 707**
Accumulated depreciation and impairment			
1 January 2020	337	11	348
Depreciation for the year	398	13	411
Translation differences	(17)		(17)
Total accumulated depreciation and impairment as of 31 December 2020	**718**	**24**	**742**
Carrying amount as of 31 December 2020	**1 950**	**15**	**1 965**
2019			
Acquisition cost			
1 January 2019	1 605	10	1 615
Additions through acquisition	674	21	695
Additions	179		179
Acquisition cost as of 31 December 2020	**2 458**	**31**	**2 489**
Accumulated depreciaton and impairment			
1 January 2019			
Depreciation for the year	337	11	348
Total accumulated depreciation and impairment as of 31 December 2020	**337**	**11**	**348**
Carrying amount as of 31 December 2020	**2 121**	**20**	**2 141**
Lease term	**1-21 years**	**1-5 years**	
Depreciation period	**Linear**	**Linear**	

Leasing liabilities

MNOK	*31 Dec 20*	*31 Dec 19*
Opening balance	2 198	1 615
Additions through acquisition		695
Additions	218	179
Interest on leasing liabilities	142	131
Lease payments	(484)	(423)
Translation differences	17	-
Carrying amount as of 31 December	**2 092**	**2 198**
Current leasing liabilities	339	348
Long-term leasing liabilities	1 753	1 850

See Note 26 "Provisions" regarding non-current liabilities associated with properties that have been sold and leased back. The total outgoing cash flows for leases was MNOK 545 (MNOK 492) in 2020.

Recognised in the income statement

MNOK	*2020*	*2019*
Depreciation on leases during the year	411	348
Interest expense on leasing liabilities	142	131
Costs related to short-term leases and leases on assets of low value	61	69
Total recognised in profit/loss	**614**	**548**

For information on due dates for lease payments, see Note 23 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.

16 INTANGIBLE ASSETS

MNOK	*Note*	*Goodwill*	*Technology*	*Capitalised internal development*	*Other intangible assets*	*Total*
2020						
Acquisition cost						
Acquisition cost as of 1 January 2020		5 175	1 452	1 447	795	8 869
Reclassification		-	-	(6)	-	(6)
Adjustment according to final purchase allocation	7	(298)	-	-	-	(298)
Additions through acquisition		15	12	-	16	43
Additions		-	-	223	1	224
Disposals discontinued operations	6	(842)	(254)	-	(34)	(1 130)
Translation differences		(4)	(3)	-	-	(7)
Acquisition cost as of 31 December 2020		**4 046**	**1 207**	**1 664**	**778**	**7 695**
Accumulated amortisation and impairment						
Total accumulated amortisation and impairment as of 1 January 2020		903	737	493	249	2 382
Amortisation		-	79	96	164	339
Impairment		-	-	60	-	60
Disposals discontinued operations	6	-	(254)	-	(26)	(280)
Translation differences		-	(2)	-	-	(2)
Total accumulated amortisation and impairment as of 31 December 2020		**903**	**560**	**649**	**387**	**2 499**
Carrying amount as of 31 December 2020		**3 143**	**647**	**1 015**	**391**	**5 196**
2019						
Acquisition cost						
Acquisition cost as of 1 January 2019		2 923	669	1 275	109	4 976
Additions through acquisition	7	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						
Total accumulated amortisation and impairment as of 1 January 2019		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 2019		**4 272**	**892**	**798**	**408**	**6 487**
Useful life			**1-10 years**	**1-10 years**	**1-10 years**	

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

Product maintenance, research and development recognised in profit and loss

	2020			2019		
MNOK	*Product Maintenance*	*Research and development costs*	*Total*	*Product Maintenance*	*Research and development costs*	*Total*
Kongsberg Maritime	366	784	1 150	398	691	1 089
Kongsberg Defence & Aerospace	36	96	132	39	92	131
Other	12	59	71	23	67	90
Total	**414**	**939**	**1 353**	**460**	**850**	**1 310**

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. About MNOK 750 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 goodwill. Regarding estimate uncertainty associated with this matter, see Note 17 "Impairment testing of goodwill".

17 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 8 "Operating segments".

Goodwill is allocated to the operating segments as follows:

MNOK	*31 Dec 20*	*31 Dec 19*
Kongsberg Maritime [1]	2 868	4 012
Kongsberg Defence & Aerospace	174	174
Other [2]	101	86
Total goodwill in balance sheet	**3 143**	**4 272**

1) The reduction of goodwill in Kongsberg Maritime is a result of PPA adjustments related to the final purchase price allocation from the purchase of CM, in addition to disposal of business. See Note 6, 7 and 16 for more information.
2) 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	7.12	5.72	7.05
Discount rate after tax	6.09	4.79	6.09
Long-term nominal growth rate	2.00	2.00	2.00
Inflation	2.00	2.00	2.00

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 reasonable 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 may affect the value of goodwill.

18 FINANCIAL INCOME AND FINANCIAL EXPENSES

MNOK	*Note*	*2020*	*2019*
Interest income from assets at amortised cost		58	86
Foreign exchange gain		42	48
Other financial income		3	4
Financial income		**103**	**138**
Interest expense from liabilities at amortised cost		99	121
Foreign exchange loss		60	69
Discounts of non-current provisions		-	2
Other financial expenses		37	32
Financial expenses		**196**	**224**
Interest on leasing liabilities	15	**142**	**131**
Net finance item recognised in income statement		**(235)**	**(216)**

19 INCOME TAX

Income tax expense

MNOK	*2020*	*2019*
Current tax on profits for the year (incl WHT)	175	165
Adjustment in respect of prior years - current tax	(7)	-
Total current income tax	**168**	**165**
Current year change in deferred tax	202	85
Adjustment in respect of prior periods	5	-
Total deferred income tax	**207**	**85**
Total income tax	**374**	**250**

Change in deferred tax recognised in other comprehensive income

MNOK	*2020*	*2019*
Tax (expense)/ credit on cash flow hedges	(26)	(26)
Tax (expense)/ credit on pension	(37)	(15)
Tax (expense)/credit in other comprehensive income	**(63)**	**(41)**

Effective tax rate

The table below reconcile the reported income tax expenses to the tax expenses if the tax rate of 22 per cent in Norway was applied:

	2020		2019	
	MNOK	*Per cent*	*MNOK*	*Per cent*
Earnings before tax	**1 855**		**967** [1]	
Expected tax calculated at Norwegian tax rate of 22%	408	22.0%	213	22.0%
Tax effects of				
Impact of change in tax rate	(1)	0.0%	-	
Tax on revaluation of internal loan	87	4.7%	-	
Adjustments in respect of prior years	(2)	(0.1%)	-	
Previously unrecognised tax losses used to reduce payable tax	(188)	(10.1%)	-	
Tax effect on net income from joint arrangements and associated companies	(41)	(2.2%)	(5)	(0.5%)
Effect of different tax rates abroad	25	1.4%	-	
Effect of withholding tax	34	1.9%	48	5.0%
Other permanent differences	51	2.7%	(6)	(0.6%)
Income tax expense and effective tax rate	**374**	**20.2%**	**250**	**25.8%**

1) Earnings before tax includes discontinued operations.

Taxes paid

MNOK	*Note*	*Total*	*Norway*	*Abroad*
Corporate income tax		133	-	133
Taxes paid from sale of Hydroid	6	574		574
Withholding tax		33	32	-
Total 2020		**739**	**32**	**707**
Corporate income tax		110	1	109
Withholding tax		49		49
Total 2019		**159**	**1**	**158**

Recognized deferred tax assets and liabilities

MNOK	*Opening Balance*	*Tax recognised in income statement*	*Changes in tax rate*	*Acquistions/ Disposals*	*Tax recognised in total compre-hensive income*	*Foreign exchange and reclas-sifications*	*Closing Balance*
Property, plant and equipment	(180)	(43)	1	54	-	148	(20)
Intangibles	(55)	91	-	(319)	-	40	(243)
Pension	170	(43)	-	35	37	8	207
Provisions / currency	137	137	-	8	-	-	282
Losses carried forward	392	(427)	-	524	-	(98)	392
Derivatives assets	109	103	-	-	-	-	212
Derivatives liability	(83)	(63)	-	-	26	-	(120)
Contracts under construction	(1 673)	23	-	-	-	-	(1 650)
Carried forward interest deductions	-	15	-	-	-	37	52
Net deferred tax assets / (Liability)	**(1 183)**	**(207)**	**1**	**303**	**63**	**135**	**(888)**

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.

Deferred tax

MNOK	*31 Dec 20*	*31 Dec 19*
Deferred tax asset	306	167
Deferred tax liability	(1 194)	(1 350)
Net deferred tax	**(888)**	**(1 183)**

Unrecognized Deferred Tax Assets

MNOK	*31 Dec 20*	*31 Dec 19*
Unrecognized tax loss carry-forward	227	712
Unrecognized other tax assets	19	
Total not recognized	**246**	**712**

Tax loss carry-forwards (gross amounts)

MNOK	*Norge*	*Europe*	*Other*	*Total*
Less than five years			47	47
5-10 years			2	2
10-20 years			9	9
Without time limit	2 594	103	8	2 705
Total	**2 594**	**103**	**67**	**2 764**

The tax losses carried-forward relate to tax losses in previous years that can be used as tax credits in payable taxes in the future.

20 EARNINGS PER SHARE

MNOK	*2020*	*2019*
Earnings attributable to the ordinary shareholders		
Earnings after tax from continuing operations	1 481	596
Earnings after tax from discontinued operations	1 451	121
Earnings after tax	2 932	717
Non-controlling interests' share of the result	(41)	(17)
Earnings for the year/diluted earnings attributable to the ordinary shareholders	**2 891**	**700**

Number of shares	*Note*	*2020*	*2019*
Average number of shares outstanding as of 1 January	25	179.97	179.97
Average number of shares as of 31 December	25	179.80	179.97

NOK	*2020*	*2019*
Earnings per share from continuing operations	8.01	3.22
Earnings per share from discontinued operations	8.01	3.22
Earnings per share from discontinued operations	8.07	0.67
Earnings per share from discontinued operations, diluted	8.07	0.67
Earnings for the year per share	16.08	3.89
Earnings per share for the year, diluted	16.08	3.89

21 OTHER NON-CURRENT ASSETS

MNOK	*31 Dec 20*	*31 Dec 19*
Shares at fair value through profit and loss	24	26
Loans to employees	14	12
Prepaid land rental	-	16
Long-term loans to customers	40	97
Long-term loans, associated companies	51	29
Other non-current assets	79	34
Total other non-current assets	**209**	**213**

22 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 20*	*31 Dec 19*
Trade receivable		6 023	6 783
Other short-term receivables		580	598
Customer contracts in progress [1]	9	1 824	2 821
Other non-current assets	21	209	213
Cash and cash equivalents	24	7 420	5 654
Forward contracts and interest rate swaps are used as currency hedging	23 A	964	376
Total exposure to credit risk		**17 020**	**16 445**

1) A reckassification is made in the consolidated statement of financial position as of 31 December 2019 between other short-term receivables and other current liabilities.

MNOK	*Note*	*31 Dec 20*	*31 Dec 19*
Trade receivables		6 023	6 783
Provision for bad debts		(481)	(420)
Net trade receivables		**5 542**	**6 363**

Trade receivables distributed by region

MNOK	*31 Dec 20*	*31 Dec 19*
Norway	901	1 117
Europe	2 072	1 551
North America	1 355	2 483
South America	162	178
Asia	1 056	1 001
Other countries	479	452
Total	**6 023**	**6 783**

Trade receivables distributed by customer type

MNOK	*31 Dec 20*	*31 Dec 19*
Public	1 830	1 266
Private	4 193	5 517
Total	**6 023**	**6 783**

Credit exposure on the Group trade receivables

	31 Dec 20		*31 Dec 19*	
MNOK	*Gross*	*Provision for bad debts*	*Gross*	*Provision for bad debts*
Not due	3 636	(4)	4 159	(5)
Due 1–30 days	921	(7)	810	(6)
Due 31-90 days	480	(8)	527	(14)
Due 91-180 days	182	(20)	690	(60)
Due more than 180 days	805	(442)	597	(334)
Total	**6 023**	**(481)**	**6 783**	**(420)**

Changes in provision for bad debts

MNOK	*31 Dec 20*	*31 Dec 19*
Provisions as of 1 January	(420)	(199)
Adjustment to opening balance	(7)	-
Additions through acquisition	-	(177)
Actual losses	29	51
Allocation	(139)	(98)
Dissolved	56	3
Provision as of 31 December	**(481)**	**(420)**

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.

23 FINANCIAL INSTRUMENTS

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

A) Fair value, derivatives

MNOK	*Note*	*31 Dec 20*	*31 Dec 19*
Current assets			
Forward exchange contracts, cash flow hedges	23 C	23	44
Forward exchange contracts, fair value hedges		924	332
Currency options		17	-
Total derivatives, current assets		**964**	**376**
Current liabilities			
Forward exchange contracts, cash flow hedges	23 C	101	55
Forward exchange contracts, fair value hedges		295	374
Basis swaps		144	64
Currency options		6	-
Total derivatives, current liabilities		**546**	**493**

B) Currency risk and currency hedging

KONGSBERG's currency risk and currency risk management are described in Note 5 "Management of capital and financial risk". Forward exchange contracts as fair value hedges shall hedge contractual currency flows. This means that the forward exchange contracts hedge capitalised receivables and outstanding invoicing on committed contracts in currencies other than the exposed unit's functional currency. KONGSBERG is exposed to multiple currencies, but these are less significant compared to the exposure in USD, EUR and partially GBP versus NOK.

	Average exchange rate		Spot rate as of 31 Dec	
	2020	*2019*	*2020*	*2019*
USD	9.40	8.80	8.58	8.78
EUR	10.76	9.85	10.48	9.84
GBP	12.12	11.24	11.73	11.64

Currency hedging

As of 31 December, the group had the following hedges of net sales in foreign currencies, listed by hedge category:

	2020							
Amounts in million	*Value in NOK on agreed rates*	*Fair value in NOK 31 Dec 20*	*Total hedged amount in USD 31 Dec 20*	*Average hedged rate in USD 31 Dec 20*[1]	*Total hedged amount in EUR 31 Dec 20*	*Average hedged rate in EUR 31 Dec 20*	*Total hedged amount in GBP 31 Dec 20*	*Average hedged rate in GBP 31 Dec 20*
Hedge category								
Forward exchange contracts, cash flow hedges	(722)	(78)	(10)	15.38	(45)	10.80	-	-
Forward exchange contracts, fair value hedges	17 904	629	1 151	8.94	541	10.79	110	12.04
Total	**17 182**	**551**	**1 141**		**496**		**110**	

1) Average hedged rate in USD is influenced by the presentation of net figures. Average hedged rate for gross outflow and gross income is 9.08 and 8.71, respectively.

	2019							
Amounts in million	*Value in NOK on agreed rates*	*Fair value 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	229	(11)	97	8.81	(59)	10.16	-	-
Forward exchange contracts, fair value hedges	15 779	(42)	1 501	8.75	218	10.06	34	11.59
Total	**16 008**	**(53)**	**1 598**		**159**		**34**	

Fair value is referring to the net present value of the variance between the revaluated forward rate at 31 December and the forward rate at the time of entering the forward exchange contract. Values in the table related to value in NOK on agreed rates and fair value in NOK also include other currencies.

Due date profile, hedges

As of 31 December, the group had the following hedges of net sales in foreign currencies, listed by hedge category:

Amounts in million	*Nominal currency amount*	*Due in 2021*	*Due in 2022 or later*
Hedge category			
Forward exchange contracts, cash flow hedges			
USD	(10)	(48)	38
EUR	(45)	(38)	(7)
Forward exchange contracts, fair value hedges			
USD	1 151	810	341
EUR	541	302	239
GBP	110	31	79

Hedge ineffectiveness

Ineffective fair value hedges may occur due to changes in milestones for currency inflow or outflow. This is intercepted through normal operating routines, and opposite foreign exchange transactions are carried out to reduce the currency risk and maintain hedge effectiveness. Ineffective cash flow hedges may occur if the highly probable transaction hedged as a cash flow hedge fail to occur as originally planned.

As of 31 December, the group had recognised the following amounts as hedge ineffectiveness through profit and loss, listed by hedge category:

MNOK	*2020*	*2019*
Hedge category		
Forward exchange contracts, cash flow hedges [1]	32	-
Forward exchange contracts, fair value hedges [2]	-	-
Total	**32**	**-**

1) Changes in fair value for hedge effective cash flow hedges are recognised in other comprehensive income. Any hedge ineffectiveness will be recognised through profit and loss.
2) The total change in value of hedged projects is MNOK 671 during 2020 (MNOK 322 in 2019). Derivatives used for hedging projects do at 100 per cent hedge effectiveness carry the equivalent negative value through the year. Changes in fair value is recognised in accounts receivable and as construction contracts in progress (assets and liabilities).

Currency options

As of 31 December 2020, KONGSBERG recognised currency options with a gross amount of MNOK 17 to current assets and currency options with a gross amount of MNOK 6 to current liabilities. As of 31 December 2019, the group had no currency options, and the equivalent values were 0. Changes in fair value of the currency options are recognised in other comprehensive income.

Basis swaps

Subsequent to the acquisition of shares in Patria Oyj in 2016 (cost price of MEUR 284.9), basis swaps totalling to MEUR 130 were entered in order to partially hedge a net investment in a foreign entity. These basis swaps had a fair value of MNOK -144 as of 31 December 2020 (MNOK -64 as of 31 December 2019). Changes in fair value of the basis swaps are recognised in other comprehensive income.

Sensitivity analysis

A weakening of the NOK against the USD and EUR as of 31 December of 10 per cent would have increased other comprehensive income by the amounts listed in the table.

Estimated effect on other comprehensive income (after tax):

MNOK	*31 Dec 20*	*31 Dec 19*
Forward exchange contracts in USD	(7)	66
Forward exchange contracts in EUR	(37)	(45)
Total	**(44)**	**21**

Given hedge effective cash flow hedges, the full effect of any currency rate fluctuations will be recognised in other comprehensive income. For fair value hedges, neither other comprehensive income nor the profit and loss will be affected as long as the hedges are effective. The currency hedging strategy of KONGSBERG, that generally hedges all contractual currency flows and receivables in foreign currencies, results in only minor effects on the profitability of existing contracts subsequent to any currency rate fluctuations.

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 20				31 Dec 19			
MNOK	*Carrying amount*	*Expected cash flow*	*2021*	*2022 and later*	*Carrying amount*	*Expected cash flow*	*2020*	*2021 and later*
Forward exchange contracts								
Assets	23	23	21	2	44	44	44	-
Liabilities	(101)	(103)	(60)	(43)	(55)	(57)	(33)	(24)
Total	**(78)**	**(80)**	**(39)**	**(41)**	**(11)**	**(13)**	**11**	**(24)**

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

	31 Dec 20				31 Dec 19			
MNOK	*Carrying amount*	*Expected cash flow*	*2021*	*2022 and later*	*Carrying amount*	*Expected cash flow*	*2020*	*2021 and later*
Forward exchange contracts								
Assets	23	23	12	11	44	44	23	21
Liabilities	(101)	(103)	(52)	(51)	(55)	(57)	(29)	(28)
Total	**(78)**	**(80)**	**(40)**	**(40)**	**(11)**	**(13)**	**(6)**	**(7)**

Cash flow hedges - hedge reserve

MNOK	*2020*	*2019*
Opening balance	(166)	(75)
Changes in fair value in the period		
Forward exchange contracts and roll-over effects [1) 2)]	(118)	(194)
Interest rate swaps and basis swaps	(80)	23
Currency options	11	-
Adaptations in connection with hedge accounting in acquired companies	(19)	19
Tax on items recognised directly in other comprehensive income	26	26
Recognised gain/loss in the period		
Forward exchange contracts and effects of roll-over effects [1)]	88	35
Closing balance hedge reserve [2)]	**(258)**	**(166)**

1) Accrual occurs when cash flow hedges are realised and new forward exchange contracts, fair value hedges, are entered into for the projects (roll-over). The capitalised value associated with the rolled cash flow hedges amounts to MNOK -120 as of 31 December 2020 (MNOK -157 as of 31 December 2019).
2) The net effect from the cash flow hedges before tax that are recognised in other comprehensive income amounts to MNOK -30 in 2020 (MNOK -159 in 2019). Other comprehensive income shows a change of MNOK -118 and the difference of MNOK -88 is ascribable to a change in fair value of basis swaps with MNOK -80, change in fair value of currency options with net MNOK 11 and adaption to implementation of hedge accounting in acquired companies with MNOK -19.

If an expected project is contracted and a fair value hedge is established, the hedge reserve is recognised as transferred from other 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 2020, MNOK 32 (MNOK 0 in 2019) were recognised in the ordinary result, related to ineffective cash flow hedges. Hedge ineffectiveness from cash flow hedges will be recognised as part of the item "recognised gain/loss in the period" in the table above.

D) Interest rate risk on loans

	2020			2019	
MNOK	*Due date*	*Nominal interest rate*	*Carrrying amount* [1]	*Nominal interest rate*	*Carrrying amount* [1]
Long-term loans					
Bond issue KOG08 - floating interest rate			-	3.09%	1 000
Bond issue KOG09 - fixed interest rate	2 Jun 26	3.20%	1 000	3.20%	1 000
Bond issue KOG11 - fixed interest rate	5 Dec 23	2.90%	450	2.90%	450
Bond issue KOG12 - floating interest rate			-	2.70%	500
Bond issue KOG13 - floating interest rate	6 Jun 24	1.55%	500	3.02%	500
Other long-term loans [2]			21		19
Total long-term loans			**1 971**		**3 469**
Short-term loans					
Bond issue KOG08 - floating interest rate [3]	2 Jun 21	1.61%	1 000		-
Bond issue KOG12 - floating interest rate [3]	6 Dec 21	1.23%	500		-
Bond issue KOG10 - floating interest rate [4]			-	2.74%	550
Other short-term loans			-		70
Total short-term loans			**1 500**		**620**
Total interest-bearing loans			**3 471**		**4 089**

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

1) Value is equal to nominal amount. For long-term bond loans, the carrying amount is equal to the nominal amount.
2) "Other long-term loans" consists of minor loans in some of the Group's subsidiaries.
3) The bond issue KOG08 was reclassificated to short-term loans at 30 June 2020, while the bond issue KOG12 was reclassified to short-term loans at 31 December 2020.
4) The bond issue KOG10 was repaid at due date 5 March 2020.

Kongsberg Gruppen ASA has a syndicated credit facility with Danske Bank, DNB, JP Morgan, Nordea and SEB. The credit facility is for general corporate purposes, and has an applicable Termination Date 15 March 2023. The interest rate is 3M NIBOR + a margin that depends on the ratio of net interest-bearing debt/EBITDA and can vary from 0.55 per cent to 2 per cent. The credit facility requires that net interest-bearing debt does not exceed 4 times EBITDA, but can be up to 4.5 times EBITDA for a maximum of four quarters, of which three quarters may be consecutive. The covenants in the loan agreements have been met. The facility was unutilised as of 31 December 2020.

Kongsberg Gruppen ASA held five bond loans at the end of 2020. The bond loans were issued in Norwegian kroner and listed on the Oslo Stock Exchange. The interest rate terms on loans with floating rates are 3M NIBOR with a margin of + 1.25 per cent for KOG08, + 0.88 per cent for KOG12 and + 1.20 per cent for KOG13. The fixed interest rates are 3.20 per cent for KOG09 and 2.90 per cent for KOG11.

The Group holds an overdraft facility of MNOK 500. As of 31 December 2020, this remains unutilised.

As of 31 December 2020, the Group has no interest rate swaps.

Sensitivity analysis interest rate risk

Simulated annual effect on net income of an interest rate increase of 50 bp in NIBOR:

MNOK	*31 Dec 20*	*31 Dec 19*
Investments with floating interest rates	37	28
Variable interest rate loans	(10)	(13)
Cash flow sensitivity (net)	**27**	**15**

E) Liquidity risk

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

	31 Dec 20						
MNOK	*Carrying amount*	*Contractual cash flows*	*2021*	*2022*	*2023*	*2024*	*2025 and later*
Financial liabilities that are not derivatives							
Unhedged bond issues	3 450	(3 669)	(1 565)	(53)	(502)	(535)	(1 013)
Leasing liabilities	2 092	(2 638)	(469)	(444)	(413)	(327)	(985)
Other loans and long-term liabilities	21	(21)	-	-	-	-	(21)
Accounts payable	1 801	(1 801)	(1 801)	-	-	-	-
Financial liabilities that are derivatives							
Currency derivatives	396	(401)	(252)	(91)	(49)	(7)	(3)
Basis swaps	144	(144)	(144)	-	-	-	-
Currency options	6	(6)	(6)	-	-	-	-
Total	**7 910**	**(8 679)**	**(4 237)**	**(588)**	**(964)**	**(869)**	**(2 022)**

	31 Dec 19						
MNOK	*Carrying amount*	*Contractual cash flows*	*2020*	*2021*	*2022*	*2023*	*2024 and later*
Financial liabilities that are not derivatives							
Unhedged bond issues	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)**

F) List of financial assets and liabilities

Financial assets and liabilities divided into different categories for accounting purposes as of 31 December 2020:

		2020				
MNOK	*Note*	*Amortised cost*	*Fair value through compre-hensive income*	*Fair value with change in value through profit or loss*	***Total***	*Fair value*
Assets - non-current assets						
Other non-current assets	21	185	-	24	**209**	209
Assets- current assets						
Derivatives	23 A	-	964	-	**964**	964
Receivables	22	6 122	-	-	**6 122**	6 122
Customer contracts in progress	9	1 824	-	-	**1 824**	1 824
Cash and cash equivalents	24	7 420	-	-	**7 420**	7 420
Financial liabilities - non-current						
Interest-bearing loans	23 D	1 971	-	-	**1 971**	2 074
Leasing liabilities	15	1 753	-	-	**1 753**	1 753
Other non-current liabilities		61	-	-	**61**	61
Financial liabilities - current						
Interest-bearing loans	23 D	1 500	-	-	**1 500**	1 498
Leasing liabilities	15	339	-	-	**339**	339
Derivatives	23 A	-	546	-	**546**	546
Accounts payable	27	1 801	-	-	**1 801**	1 801

		2019				
MNOK	*Note*	*Amortised cost*	*Fair value through compre-hensive income*	*Fair value with change in value through profit or loss*	***Total***	*Fair value*
Assets - non-current assets						
Other non-current assets	21	187	-	26	**213**	213
Assets- current assets						
Derivatives	23 A	-	376	-	**376**	376
Receivables	22	6 961	-	-	**6 961**	6 961
Customer contracts in progress	9	2 821	-	-	**2 821**	2 821
Cash and cash equivalents	24	5 654	-	-	**5 654**	5 654
Financial liabilities - non-current						
Interest-bearing loans	23 D	3 469	-	-	**3 469**	3 480
Leasing liabilities	15	1 850	-	-	**1 850**	1 850
Other non-current liabilities		11	-	-	**11**	11
Financial liabilities - current						
Interest-bearing loans	23 D	620	-	-	**620**	619
Leasing liabilities	15	348	-	-	**348**	348
Derivatives	23 A	-	493	-	**493**	493
Accounts payable	27	2 098	-	-	**2 098**	2 098

G) Assessment of fair value

The following table lists the Group's assets and liabilities measured at fair value

		2020			2019		
MNOK	*Note*	*Level 1*	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
Assets							
Shares at fair value through profit and loss	21	-	-	24	-	-	26
Derivatives	23 A	-	964	-	-	376	-
Total assets at fair value		**-**	**964**	**24**	**-**	**376**	**26**
Liabilities							
Derivatives	23 A	-	546	-	-	493	-
Interest-bearing liabilities (intended for note purposes)	23 F	-	3 572	-	-	4 099	-
Total liabilities at fair value		**-**	**4 118**	**-**	**-**	**4 592**	**-**

The 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.

Referring to Note 4 "Fair value" for further details on the measuring of fair value.

H) Estimate uncertainty

KONGSBERG has a range of financial instruments that are recognised at fair value. When market prices cannot be observed directly through traded prices, fair value is estimated by using different models that either build on internal estimates or information from professional counterparties or market players. The assumptions for such assessments may include spot prices, forward prices or interest rate 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 hedge relation.

24 CASH AND CASH EQUIVALENTS

Nominal amounts in MNOK	*31 Dec 20*	*31 Dec 19*
Bank deposits	7 420	5 654
Total	**7 420**	**5 654**

Bank guarantees have been furnished for funds related to withholding tax for employees of MNOK 414 (MNOK 297 in 2019).

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

25 SHARE CAPITAL

As of 31 December 2020, 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 20

Shareholders	Type	Number of shares	%-share
Ministry of Trade, Industry and Fisheries		90 002 400	50.00%
National Insurance Fund		13 504 097	7.50%
MP Pensjon PK		5 026 497	2.79%
Must Invest AS		4 333 166	2.41%
Danske Bank As, Meglerkonto	Broker	3 000 000	1.67%
The Northern Trust Comp, London Br	Nom	2 925 246	1.63%
Danske Invest Norske Instit. II.		2 455 057	1.36%
Verdipapirfond Odin Norge		2 372 872	1.32%
The Bank of New York Mellon	Nom	2 206 189	1.23%
UBS AG	Nom	1 887 366	1.05%
State Street Bank And Trust Comp	Nom	1 661 070	0.92%
Fidelity Invest: Fidelity Srs International Small Cap Fund		1 461 185	0.81%
JPMorgan Chase Bank, N.A., London	Nom	1 347 267	0.75%
JPMorgan Chase Bank, N.A., Luxembourg S.A.	Nom	1 230 349	0.68%
Morgan Stanley & Co Ont. Plc.	Nom	1 179 852	0.66%
Intertrade Shipping AS		1 076 133	0.60%
Danske Invest Norske Aksjer Inst.		1 062 286	0.59%
State Street Bank And Trust Comp	Nom	1 002 672	0.56%
Verdipapirfondet KLP Aksje Norge		927 783	0.52%
State Street Bank And Trust Comp	Nom	818 590	0.45%
Total		**139 480 077**	**77.49%**
Other		40 509 988	22.51%
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	11 546	2 903 961	1.61%
1 001–10 000	2 742	7 875 647	4.38%
10 001–100 000	295	8 508 181	4.73%
100 001–1 000 000	82	22 968 572	12.76%
1 000 001–10 000 000	16	34 227 207	19.02%
Over 10 000 000	2	103 506 497	57.51%
Total	**14 683**	**179 990 065**	**100.00%**

Of the 14.683 shareholders as of 31 December 2020, 916 were foreign, with a total holding of 17.76 per cent.

Treasury shares

As of 31 December 2020, KONGSBERG had a holding of 191.387 treasury shares. 188.015 of these shares are related to the share buy-back where the purpose is to buy back shares of up to NOK 200 million for later cancellation. The shares have been purchased in accordance with the authority given at the annual general meeting.

	Quantity
Holding of treasury shares as of 31 December 2019	16 779
Purchase of treasury shares in connection with employees share programme and long-term incentiv scheme	1 052 000
Purchase of treasury shares in connection with share buy-back prorgramme for cancellation	188 015
Treasury shares sold to employees in connection with the share programme	(1 021 326)
Treasury shares sold to employees in connection with the long-term incentive scheme	(44 081)
Holding of treasury shares as of 31 December 2020	**191 387**

Dividends

	2020	*2019*
Dividends paid in NOK per share	12.5	2.50
Dividends paid in MNOK	2 250	450
Of which, dividends treasury shares in MNOK	2.60	2.23

The Board has proposed a dividend for the 2020 accounting year of MNOK 1.440 equivalent to NOK 8.00 per share, of which NOK 5.00 per share is on top of the dividend policy. The approval date for the dividend is on the 6th of May 2021 and the ex date is on the following day. The dividend will be paid ca. Thursday, May 20, 2021.

26 PROVISIONS

Non-current provisions

MNOK	*Sale and leaseback*	*Other*	*Total*
31 Dec 19	**120**	**2**	**122**
Provisions used	(7)	(1)	(8)
Allocation	4	-	4
Dissolved	(1)	-	(1)
31 Dec 20	**116**	**1**	**117**

Non-current provisions

KONGSBERG has in the period from 2005 to 2014 sold properties in the Kongsberg Technology Park. The properties have been leased back on long-term lease and expire from 2024 to 2030. 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 19	**897**	**616**	**1 513**
Adjustment connected to final purchase allocation	-	(32)	(32)
Reclassified from customer contracts, liability	-	63	63
Provisions used	(184)	(185)	(369)
Allocation	267	312	579
Disposals from sale of business	(8)	(11)	(19)
Dissolved	**(121)**	**(23)**	**(144)**
Currency	**15**	**2**	**17**
31 Dec 20	**866**	**742**	**1 608**

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.

27 OTHER CURRENT LIABILITIES

MNOK	31 Dec 20	31 Dec 19
Accounts payable	1 801	2 098
Public charges owing	547	480
Calculated income tax payable	71	77
Accrued holiday pay	697	753
Other accruals [1) 2)]	1 370	1 548
Total	**4 486**	**4 956**

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.
2) A reclassification is made in the consolidated statement of financial position as of 31 December 2019 between other short-term receivables and other current liabilities.

28 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 20*	*31 Dec 19*
Guarantees issued by banks and insurance companies	2 107	3 521
Guarantees issued by Kongsberg Gruppen ASA (parent company)	9 337	7 841
Prepayments from and completion guarantees to customers	**11 444**	**11 361**

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

29 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 2020 and until the Annual General Meeting in 2021.

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 scheme (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 5 per cent of salary from 0G 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 50, 80 and 100 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 contribution rate was changed with effect from 1 January 2020. The savings profiles were changed with effect from 1 April 2020.

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 these agreements was ended 1 November 2020 when this member left the executive management. 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 member of the executive management 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.

Eight of the members of executive management have been 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 agreement was ended 1 November 2020 when this member exited the executive management. One of the members of executive management has a similar scheme of 30 per cent. The Chief Executive Officers scheme is limited to the salary he had in the previous position (see detailed description below). For three 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 scheme 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 2021 with the change that the criteria for achieving LTI is that an EBIT greater than 0 will result in qualification for half of the maximum allocation and a ROACE equal to or greater than 10 per cent will result in qualification of the second half of the maximum allocation.

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 190 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 scheme was continued in 2020 and will be continued in 2021.

The profit-related pay scheme for 2020 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. 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. 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 per cent of salary. If this total exceeds 50 per cent 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 2021. Such agreements have been entered into for members of the 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 2020 that amounted to NOK 285,830, 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 2020 financial year

The executive management salary policy has for the 2020 financial year, been conducted in accordance with the guidelines that were adopted by KONGSBERG's annual general meeting in 2020.

The Chief Executive Officer's base salary was not adjusted in 2020 due to the covid-19 situation and is still NOK 5,317,722 per year. There was made an extraordinary salary adjustment for three members of the executive management with effect from 1 January 2020. There were no additional salary adjustments for the executive management per 1 July 2020 with reference to the covid-19 situation. In addition, there is the profit-related pay scheme, as described above and as shown in Note 30.

The consolidated financial statements for 2020 have calculated profit-related pay for leading employees at MNOK 88,1 excluding social security tax, corresponding to 31 per cent of the total for the participants in the scheme (MNOK 57,4 in 2019, corresponding to 26 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.

30 REMUNERATION FOR EXECUTIVE MANAGEMENT AND THE BOARD

Remuneration specified for members of the Executive Management for 2020 and 2019 [1]

Amounts in TNOK	*Year*	*Salary paid including holiday pay* [2]	*Other benefits reported during the financial year* [3]	*Accrued long-term incentive plan (LTI)* [4]	*Accrued perfor-mance-related pay during the financial year* [5]	*Pension accrual during the year* [6]	*Long-term incentive plan (LTI) paid out* [7]	*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 Chief Executive Officer	2020	5 649	285	1 239	2 659	733[8]	1 595	-	4 678	35 049
	2019	5 502	315	1 048	2 594	924	1 329	-	5 746	30 091
Gyrid Skalleberg Ingerø Chief Financial Officer Group Executive Vice President Compliance and Property	2020	3 140	263	400	1 520	90	760	-	1 975	16 638
	2019	2 728	265	213	1 198	83	561	-	2 429	12 383
Even Aas Group Executive Vice President Public Affairs, Communication and Sustainability	2020	1 957	283	324	927	(123)[9]	464	-	1 359	27 444
	2019	1 841	284	266	892	2 889	386	-	1 542	25 805
Hans Petter Blokkum Group Executive Vice President HR and Security	2020	2 571	214	134	1 230	134[10]	615	20	1 599	5 570
	2019	2 237	213	131	1 089	208	454	69	1 797	3 691
Iver Christian Olerud - EM from 1 Nov 2020 Group Executive Vice President Strategy and Business Development	2020	417	37	-	206	15	104	-	-	4 292

Cont. on next page

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) It was decided that the executive management should not obtain annual salary increase as of 1 July 2020.
3) 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.
4) 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 29.
5) Accrued performance-based part of salary in the financial year. To be paid out when the accounts for the relevant year have been approved by the Board. A statement on performance-based pay is provided in Note 29.
6) 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.
7) 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 29.
8) Early retirement agreement 63-65 years. An explanation for the CEO is given in Note 29.
9) Early retirement agreement 60 years. Defined benefit scheme that provides 90 per cent of salary from 60 years with 10 per cent reduction per year to 60 per cent of salary from 63 to 67 years. Has fully earned pension rights. The pension rights is calculated by the difference between provision in the financial statement before and after increase in salary and G. This is the reason why this years pension is negativ.
10) Earnings are a return on previously earned balance in defined contribution plan for salaries above 12G.
11) Defined contribution pension scheme for salaries above 12G with 18 per cent and early retirement scheme between 63-65 years.
12) Defined contribution pension scheme for salaries above 12G with 18 per cent + 12 per cent.
13) Defined contribution pension scheme for salaries above 12G with 18 per cent and early retirement scheme with the right to retire from 62 years.
14) Earnings area return on previously earned balance in defined contribution plan for salaries above 12G.

Note 30 cont.

Amounts in TNOK	*Year*	*Salary paid including holiday pay* [2]	*Other benefits reported during the financial year* [3]	*Accrued long-term incentive plan (LTI)* [4]	*Accrued perfor-mance-related pay during the financial year* [5]	*Pension accrual during the year* [6]	*Long-term incentive plan (LTI) paid out* [7]	*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*
Harald Aarø - EM to 31 Oct 2020 Group Executive Vice President Strategy and Business Development	2020	2 205	224	452	1 129	504 [11]	516	-	1 816	12 327
	2019	2 564	289	367	1 156	730	516	-	2 245	10 231
Christian Karde - EM from 1 Sep 2020 Group Executive Vice President General Counsel	2020	706	108	-	359	64	170	-	-	1 089
Hege Skryseth, Executive Vice President, KONGSBERG President, Kongsberg Digital	2020	2 646	211	476	1 236	709 [12]	644	191	1 887	14 416
	2019	2 569	215	422	738	779	536	261	2 147	12 249
Egil Haugsdal, Executive Vice President KONGSBERG President, Kongsberg Maritime	2020	3 396	452	556	1 625	1 424 [13]	813	-	2 097	36 097
	2019	2 965	460	493	1 401	1 653	596	-	2 579	33 720
Eirik Lie, Executive Vice President, KONGSBERG President, Kongsberg Defence & Aerospace	2020	3 389	299	578	1 488	170 [14]	744	-	2 182	11 237
	2019	3 042	334	371	1 276	283	620	-	2 682	8 775

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) It was decided that the executive management should not obtain annual salary increase as of 1 July 2020.
3) 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.
4) 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 29.
5) Accrued performance-based part of salary in the financial year. To be paid out when the accounts for the relevant year have been approved by the Board. A statement on performance-based pay is provided in Note 29.
6) 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.
7) 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 29.
8) Early retirement agreement 63-65 years. An explanation for the CEO is given in Note 29.
9) Early retirement agreement 60 years. Defined benefit scheme that provides 90 per cent of salary from 60 years with 10 per cent reduction per year to 60 per cent of salary from 63 to 67 years. Has fully earned pension rights. The pension rights is calculated by the difference between provision in the financial statement before and after increase in salary and G. This is the reason why this years pension is negativ.
10) Earnings are a return on previously earned balance in defined contribution plan for salaries above 12G.
11) Defined contribution pension scheme for salaries above 12G with 18 per cent and early retirement scheme between 63-65 years.
12) Defined contribution pension scheme for salaries above 12G with 18 per cent + 12 per cent.
13) Defined contribution pension scheme for salaries above 12G with 18 per cent and early retirement scheme with the right to retire from 62 years.
14) Earnings area return on previously earned balance in defined contribution plan for salaries above 12G.

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	2020	2 850	544 000	58 367	602 367	13
	2019	2 850	535 333	46 300	581 633	11
Anne-Grete Strøm-Erichsen, Director, Vice Chair from June 2019	2020	2 000	291 000	40 733	331 733	12
	2019	2 000	277 667	37 600	315 267	10
Irene Waage Basili, Director, Vice Chair to May 2019	2020	-	-	-	-	-
	2019		92 333	-	92 333	4
Morten Henriksen, Director	2020	3 027	273 000	104 767	377 767	13
	2019	3 027	268 667	74 400	343 067	11
Helge Lintvedt, Director	2020	-	273 000	81 200	354 200	13
	2019	-	268 667	61 500	330 167	11
Martha Kold Bakkevig, Director	2020	2 119	273 000	81 200	354 200	13
	2019	2 119	268 667	51 400	320 067	10
Elisabeth Fossan, Director	2020	5 489	273 000	40 733	313 733	13
	2019	5 209	268 667	37 600	306 267	11
Sigmund Ivar Bakke Director	2020	3 663	273 000	-	273 000	13
	2019	3 383	268 667	-	268 667	11
Per Arthur Sørlie, Director from May 2019	2020	3 400	273 000	81 200	354 200	13
	2019	1 400	182 000	31 200	213 200	6
Total compensation to the Board	**2020**		**2 473 000**	**488 200**	**2 961 200**	
Total compensation to the Board	**2019**		**2 430 668**	**340 000**	**2 770 668**	

1) 13 board meetings were held in 2020 (11 board meetings in 2019).

31 AUDITOR'S FEES

TNOK	2020 *Parent company*	2020 *Subsidiaries in Norway*	2020 *Subsidiaries outside Norway*	2020 *Total*	2019 *Parent company*	2019 *Subsidiaries in Norway*	2019 *Subsidiaries outside Norway*	2019 *Total*
Group auditor EY								
Statutory audit	1 100	7 554	7 218	15 872	1 100	7 774	7 760	16 635
Other assurance services	493	735	287	1 515	298	198	-	496
Tax consultancy	1 927	446	772	3 144	209	1 553	1 149	2 911
Other non-audit services	82	363	-	445	746	-	141	887
Total fees, EY	**3 602**	**9 098**	**8 277**	**20 976**	**2 352**	**9 525**	**9 015**	**20 929**
Other auditors								
Estimated audit fees	-	20	2 132	2 152	-	32	2 780	2 812

32 LIST OF GROUP COMPANIES

The following companies have been consolidated:

Name of company	*Country of origin*	*Ownership stake 31 Dec 20*	*Ownership stake 31 Dec 19*
Kongsberg Gruppen ASA	Norway	Parent	Parent
Kongsberg Defence & Aerospace AS	Norway	100	100
Kongsberg Oil & Gas Technologies AS	Norway	100	100
Kongsberg Digital AS	Norway	100	100
Kongsberg Eiendom Holding AS	Norway	100	100
Kongsberg Teknologipark AS	Norway	100	100
Kongsberg Næringseiendom AS	Norway	100	100
Kongsberg Næringsparkutvikling AS	Norway	100	100
Kongsberg Næringsbygg 2 AS	Norway	100	100
Kongsberg Næringsbygg 3 AS	Norway	100	100
Kongsberg Næringsbygg 5 AS	Norway	100	100
Kongsberg Næringsbygg 6 AS	Norway	100	100
Kongsberg Real Estate AS	Norway	100	100
Kongsberg Næringsbygg 11 AS	Norway	100	100
KNB12 Ulsteinvik AS	Norway	100	100
KNB13 Brattvåg AS	Norway	100	100
KNB14 Longva AS	Norway	100	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
Eelume AS	Norway	51	51
Simrad AS	Norway	100	100
Kongsberg Maritime CM AS	Norway	100	100
Ulstein Holding AS	Norway	100	100
Kongsberg Aviation Maintenance Services AS	Norway	50,1	50,1

Name of company	Country of origin	Ownership stake 31 Dec 20	Ownership stake 31 Dec 19
Rygge 2 AS	Norway	50,1	50,1
Rygge Eiendom AS	Norway	50,1	50,1
Kongsberg Aviation Maintenance Service Bardufoss AS	Norway	50,1	-
Kongsberg Maritime S.R.L	Italy	100	100
Kongsberg Maritime Italy S.R.L	Italy	100	100
Kongsberg Maritime Holland BV	The Netherlands	100	100
Kongsberg Maritime Benelux BV	The Netherlands	100	100
Kongsberg Maritime CM Sp. z o.o.	Poland	100	100
Scandinavian Electric Gdansk Sp. z o.o.	Poland	Phased out	66,6
Kongsberg Maritime Poland Sp. Z o.o.	Poland	100	100
Kongsberg Defence Sp. z o.o.	Poland	100	100
Simrad Spain SL	Spain	100	100
Kongsberg Maritime Spain SA	Spain	100	100
Kongsberg Defence Oy	Finland	100	100
Kongsberg Maritime Finland OY	Finland	100	100
Kongsberg Maritime GmbH	Germany	Merged	100
Kongsberg Maritime Embient GmbH	Germany	100	100
Kongsberg Maritime Contros GmbH	Germany	100	100
Kongsberg Maritime CM Germany GmbH	Germany	Merged	100
Kongsberg Maritime France SARL	France	100	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	Sold	100
Kongsberg Hungaria Kft.	Hungary	100	100
Navis Consult d.o.o.	Croatia	75	75
Kongsberg Maritime Hellas SA	Greece	100	100
Kongsberg Commercial Marine SA	Greece	100	100
Kongsberg Maritime Denmark A/S	Denmark	100	100
Coach Solutions ApS	Denmark	100	0
Kongsberg Maritime Sweden AB	Sweden	100	100
Kongsberg Maritime RUS LLC	Russia	100	100
Kongsberg Maritime Turkey Denizcilik Sanayi Ve Ticaret Limited Şirketi	Turkey	100	100
Kongsberg Geospatial 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 Maritime CM Canada Ltd.	Canada	100	100
Ulstein Maritime Ltd.	Canada	100	100
Kongsberg Digital Simulation Inc.	USA	100	100
Simrad North America Inc.	USA	100	100
Kongsberg Maritime Inc.	USA	100	100
Kongsberg Underwater Technology LLC	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	Sold	100
Kongsberg Geospatial Corperation	USA	100	100
Kongsberg Integrated Tactical Systems Inc.	USA	100	100
Kongsberg Maritime do Brazil Ltda	Brazil	100	100
Kongsberg Oil & Gas Technologies do Brazil Ltda	Brazil	Phased out	100
Kongsberg Maritime CM Brasil Ltda	Brazil	100	100
Kongsberg Maritime Mexico SA DE CV	Mexico	100	100
Kongsberg Defence Chile Spa	Chile	100	100
Kongsberg Maritime Chile SpA	Chile	Phased out	100

Name of company	Country of origin	Ownership stake 31 Dec 20	Ownership stake 31 Dec 19
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	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 Waiaoqiao Ltd.	China	100	100
Kongsberg Maritime CM China Ltd.	China	100	100
Kongsberg Maritime CM Korea Ltd.	South-Korea	100	100
Kongsberg Maritime Korea Ltd.	South-Korea	100	100
Kongsberg Norcontrol Pte. Ltd.	Singapore	100	100
Kongsberg Maritime Pte. Ltd.	Singapore	100	100
Vung Tau Holding Pte. Ltd.	Singapore	100	0
Kongsberg Maritime Japan Co Ltd.	Japan	100	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 Private Ltd.	India	100	100
Kongsberg Maritime CM India Pvt Ltd.	India	100	100
Kongsberg Maritime Arabia for Maintenance	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	100
Kongsberg Defence Australia Pty Ltd.	Australia	100	100
Kongsberg Maritime Pty Ltd.	Australia	100	100
Kongsberg Maritime South Africa Pty. Ltd.	South-Africa	100	100
Kongsberg Maritime Namibia Pty Ltd.	Namibia	100	100

33 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 (50.004 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 2020, KONGSBERG had an outstanding balance from state-owned customers of MNOK 36, while other liability items in respect of state suppliers amounted to MNOK 8 as of 31 December 2020.

In 2020, KONGSBERG issued invoices to state customers for a total of MNOK 1,477. Goods and services purchased from state suppliers in 2020, amounted to MNOK 140.

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 2020, KONGSBERG had trade receivables for associated companies of MNOK 12, while trade payables amounted to MNOK 0 on 31 December 2020.

KONGSBERG also has a long-term receivable from associated companies of MNOK 51.

In 2020, KONGSBERG issued invoices to associated companies for a total of MNOK 32. Goods and services purchased from state suppliers in 2020 amounted to MNOK 7.

34 DEFINITIONS AND ABBREVIATIONS

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.

Kongsberg considers *EBITDA* and *EBIT* to be normal accounting terms, but they are not included in the IFRS accounting standards. EBITDA is the 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 2020 financial statements. The same applies to EBIT.

Restructuring costs consist of salaries and social security tax upon termination of employment (such as severance and gratuity) in connection with workforce reductions. 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 not in use.

Integration costs are those associated with integrating Commercial Marine into Kongsberg Maritime.

Net interest-bearing debt is the net amount of the accounting lines "Cash and cash equivalents" and "Short- and long-term interest-bearing liabilities, excluding leasing commitments".

Return On Average Capital Employed (ROACE) is defined as the 12-month rolling EBIT including share of net income from joint arrangements and associated companies, excluding IFRS 16 divided by the 12-month mean of recognised equity and net interest-bearing debt. Net interest-bearing debt has been adjusted for the purchase price of Rolls-Royce Commercial Marine in relation to what was reported in Q1.

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

Book-to-bill ratio is order intake divided by operating revenues.

Organic growth is change in operating revenues exclusive acquired companies.

Abbreviations

CM is Commercial Marine (formerly Rolls-Royce Commercial Marine)

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

35 EVENTS AFTER BALANCE DATE

Placement of new bond issue

On the 22 of February 2021 Kongsberg Gruppen ASA issued MNOK 500 in a new bond with five year tenor, maximum issue amount of MNOK 1000 and a price corresponding to a floating rate coupon of 3m NIBOR + 0.86 per cent p.a. (ISIN: NO0010940422). The bonds will be applied for listing on Oslo Stock Exchange.

The proceeds from the bond issue will be used for refinancing of existing debt. In conjunction with the bond issue, the company has repurchased MNOK 505 of KOG08 June 2021 (ISIN: NO0010766504). Nordea acted as sole manager for this transaction.

Statement of income

KONGSBERG GRUPPEN ASA

MNOK	*Note*	*2020*	*2019*
Operating revenues from subsidiaries	9	189	160
Other operating revenues		-	6
Total revenues		**189**	**166**
Personnel expenses	4, 5	(144)	(132)
Depreciation		(2)	(2)
Other operating expenses	4	(90)	(158)
Total operating expenses		**(236)**	**(292)**
Earnings before interest and tax		**(47)**	**(126)**
Dividends from subsidiaries		24	60
Interest from group companies		42	75
Net currency gains		(2)	(3)
Interest to Group companies		(9)	(8)
Interest income, bank and investment		14	29
Interest costs, external loans		(76)	(100)
Other financial income		-	-
Other finance expenses		(18)	(35)
Group contribution		3 205	80
Net finance items		**3 180**	**98**
Earnings before tax (EBT)		**3 133**	**(28)**
Income tax expense (+income/expense)	6	23	24
Earnings after tax		**3 156**	**(4)**
Allocations and equity transfers			
Proposed dividend		(1 440)	(450)

A reclassification between personnel expenses and other operating expenses is made on the 2019 figures.

Statement of financial position as of 31 December

KONGSBERG GRUPPEN ASA

MNOK	*Note*	*2020*	*2019*
Assets			
Non-current assets			
Deferred tax assets	6	147	124
Fixed assets		14	16
Shares in subsidiaries	3	8 970	8 970
Shares in associated companies		11	11
Interest-bearing loans to Group companies	9	1 094	2 498
Other long-term receivables		72	30
Total non-current assets		**10 308**	**11 649**
Current assets			
Receivables from Group companies[1]	9, 11	3 634	117
Other short-term receivables		125	233
Cash and cash equivalents	11	4 886	289
Total current assets[1]		**8 645**	**639**
Total assets		**18 953**	**12 288**
Equity and liabilities			
Equity			
Shares capital		225	225
Premiums		4 876	4 876
Total paid-in capital		**5 101**	**5 101**
Other equity		1 570	1 699
Total retained earnings		**1 570**	**1 699**
Total equity	2	**6 671**	**6 800**
Non-current liabilities			
Pension liabilities	5	247	240
Long-term interest-bearing loans	7	1 950	3 450
Other non-current liabilities		-	1
Total non-current liabilities		**2 197**	**3 691**
Current liabilities			
Dividend		1 440	450
Short-term interest-bearing loans	7	1 500	550
Liabilities to group companies[1]	9, 11	7 021	644
Other current liabilities		124	153
Total current liabilities		**10 085**	**1 797**
Total equity and liabilities		**18 953**	**12 288**

1) The presentation of the cash pools are changed compared to 2019. See note 9 and 11.

Kongsberg, 16 March 2021

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*	*2020*	*2019*
Earnings before tax		3 133	(28)
Depreciation		2	2
Changes in accruals, etc.		10	(61)
Net cash flows from operating activities		**3 145**	**(87)**
Cash flow from investing activities			
Purchase of fixed assets		-	(7)
Investment in shares		-	-
Net cash flow used in investing activities		**-**	**(7)**
Cash flow from financing activities			
Payment of loans		(43)	(28)
Dividends received		24	60
Proceeds from interest-bearing loans			
Repayment of loans		(550)	(250)
Interest paid		(69)	(93)
Dividend paid		(448)	(448)
Additional dividend		(1 800)	-
Net disbursements for purchase/disposal of treasury shares		(74)	(27)
Changes in intercompany balances		7 617	(5 494)
Net cash flow from financing activities		**4 657**	**(6 280)**
Net increase (reduction) in cash and cash equivalents		**4 597**	**(6 374)**
Cash and cash equivalents at the beginning of the period		**289**	**6 663**
Cash and cash equivalents at the end of the period		**4 886**	**289**

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 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**
Earnings after tax	-	-	3 156	3 156
Transactions with treasury shares	-	-	(44)	(44)
Additional dividend			(1 800)	(1800)
Dividend for 2020	-	-	(1 440)	(1440)
Actuarial gain/loss on pension expense	-	-	(1)	(1)
Equity as of 31 December 2020	**225**	**4 876**	**1 570**	**6 671**

Other information about the company's share capital is provided in Note 25 "Share capital" of the consolidated financial statements. The total number of treasury shares as of 31 December 2020 is 191,387.

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 [1]	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 Martime China Ltd	2016	Shanghai	100	25
Kongsberg Hungaria Kft [2]	2003	Budapest	10	-
Kongsberg Reinsurance Ltd.	2001	Dublin	100	4
Sum				**8 970**

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

4 PERSONNEL EXPENSES AND AUDITOR'S FEES

With regard to salary and remuneration to the corporate executive management and Board members, reference is made to Note 30 "Remuneration for Executive Management and the Board" in the consolidated financial statements.

Personnel expenses

MNOK	*2020*	*2019*
Salaries	69	64
Social security expenses [1]	17	15
Pension	16	15
Performance-based part of salary	16	13
Other benefits	26	25
Total personnel expenses	**(144)**	**(132)**
Number of full-time equivalents (FTEs)	66	65

1) Salaries 2019 are reduced due to a reclassification between personnel expenses and other operating expenses.

Auditor's fees

TNOK	*2020*	*2019*
Group auditor EY		
Statutory audit	1 100	1 100
Other assurance services	493	298
Tax consultancy	1 927	209
Other non-audit services	82	746
Total fees, EY	**3 602**	**2 352**

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 (ITP)

The Group introduced a defined contribution pension scheme as of 1 January 2008 for all employees under 52 years of age. The contribution rates are 5 per cent up to 7.1G and 11 per cent of salary between 7.1G and 12G. The employees can influence the way the funds are managed by choosing between three investment options; with either 50, 80 or 100 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 29 "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 29 "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	*2020*	*2019*
Total net pension cost for the year	10	9
Defined contribution scheme costs	6	6

The net pension liability appears as follows:

MNOK	*2020*	*2019*
Total gross pension liabilities	(247)	(242)
Gross value of gross pension assets	31	32
Net pension liabilities	**(216)**	**(210)**
Social security expenses	**(31)**	**(30)**
Net pension liabilities in balance sheet	**(247)**	**(240)**

6 INCOME TAX

Income tax expense

MNOK	*2020*	*2019*
Taxes payable	-	-
Change in deferred tax	(23)	(24)
Tax income/expense	**(23)**	**(24)**

MNOK	*2020*	*2019*
Earnings before tax	**3 133**	**(28)**
Tax calculated – 22% (23%t) of earnings before tax	689	(6)
Correction of taxes from previous years	(5)	
Group contribution without tax effect	(705)	(18)
Net permanent differences	(2)	-
Tax income/expense	**23**	**24**

Deferred tax and deferred tax asset

MNOK	*2020*	*2019*
Pensions	54	53
Tax losses carried forward	98	87
Other	(5)	(16)
Recognised deferred tax asset	**147**	**124**
Tax rate in Norway	22%	22%

Change in deferred tax recognised directly in equity as follows:

MNOK	*2020*	*2019*
Deferred tax asset on capital increase		
Pensions	-	(2)
Other		
Total	**-**	**(2)**

7 LONG-TERM INTEREST-BEARING LOANS AND CREDIT FACILITIES

As of 31 December 2020, Kongsberg Gruppen ASA had the following loans and credit facilities:

	Due date	*Nominal interest rate*	*Carrying amount 31 Dec 20*	*Carrying amount 31 Dec 19*
Bond loan KOG08 - floating interest	2 Jun 21		-	1 000
Bond loan KOG09 - fixed interest	2 Jun 26	3.20%	1 000	1 000
Bond loan KOG10 - floating interest	5 Mar 20			
Bond loan KOG11 - fixed interest	5 Dec 23	2.90%	450	450
Bond loan KOG12 - floating interest	6 Dec 21		-	500
Bond loan KOG13 - floating interest	6 Jun 24	1.55%	500	500
Total long-term loans			**1 950**	**3 450**
Bond loan KOG08 - floating interest	2 Jun 21	1.61%	1000	
Bond loan KOG10 - floating interest	5 Mar 20			550
Bond loan KOG12 - floating interest	6 Dec 21	1.23%	500	
Total current liabilities			**1 500**	**550**
Total interest-bearing loans			**3 450**	**4 000**
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, 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 2020.

Kongsberg Gruppen ASA had five bond loans at the end of 2020.

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, + 0.88 per cent for KOG12 and + 1.20 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 2020, 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 2005 to 2014, sold properties in the Kongsberg Teknologipark Park. The properties have been leased back on long-term lease and expire from 2024 to 2030. The leaseback contracts have been entered into by Kongsberg Næringsparkutvikling 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 26 "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	*2020*	*2019*
Guarantees issued by banks and insurance companies	2 107	3 521
Guarantees issued by Kongsberg Gruppen ASA	9 337	7 840
Prepayments and completion guarantees to customers	**11 444**	**11 361**

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

9 RELATED PARTIES

Operating revenues

MNOK	2020	2019
Kongsberg Maritime AS [1]	115	56
Kongsberg Defence & Aerospace AS	66	47
Kongsberg Digital AS	6	5
Kongsberg Maritime CM AS [1]	1	46
Other Group companies	1	6
Total operating revenues - related parties	**189**	**160**

1) Corporate charge KM CM included in KM amount for 2020

Operating revenues from related parties mainly comprises corporate charge and guarantees.

Interest-bearing loans to Group companies

MNOK	2020	2019
Kongsberg Digital AS	-	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	167	31
KNB13 Brattvåg AS	19	19
Hydroid Inc	-	371
Kongsberg Maritime Hoi Tung Holding Ltd	118	117
Kongsberg Maritime do Brasil SA	27	39
Kongsberg Maritime Malaysia Sdn. Bhd	17	17
Kongsberg Norcontrol Singapore	7	-
Kongsberg Norcontrol AS	10	-
Kongsberg Maritime Pty Ltd	7	8
Kongsberg Maritime India PVT. LTD	10	13
Kongsberg Digital Brasil BR	-	8
Kongsberg Martime Inc	69	70
Kongsberg Maritime CM Pty Ltd	23	12
Kongsberg Maritime CM Canada Ltd	17	17
Kongsberg Maritime Chile SpA	-	1
Kongsberg Maritime Ltd	-	35
Kongsberg Maritime CM AS	275	1300
Kongsberg Maritime Japan Co Ltd	-	7
Kongsberg Maritime CM NZ Pty Ltd	2	2
Kongsberg Maritime Turkey Denizcilik Sanayi Ve Ticaret Limited Şirketi	-	3
Other companies	-	1
Total	**1 094**	**2 498**

Current liabilities to Group companies

MNOK	2020	2019
Kongsberg Defence & Aerospace AS	3	6
Kongsberg Maritime AS	96	94
Kongsberg Aviation Maintenance Services AS	144	195
Kongsberg Maritime Sweden AB	266	239
Simrad North America Inc. US	336	
Kongsberg Mesotech Ltd.	108	109
Other companies	2	1
Subsidiaries deposits cash pool	6 066	-
Total	**7 021**	**644**

Current receivables to Group companies

MNOK	2020	2019
Kongsberg Maritime AS	11	43
Kongsberg Defence & Aerospace AS	3211	-
Kongsberg Basetec AS	-	40
Kongsberg Maritime Sweden AB	32	-
Kongsberg Digital AS	1	1
Kongsberg Maritime Finland OY	27	-
Hydroid Inc	-	5
Kongsberg Maritime Hoi Tung Holding Ltd	1	1
Kongsberg Digital Brasil BR	-	1
Kongsberg Maritime Inc	-	1
Kongsberg Maritime CM AS	82	20
Other companies	6	5
Subsidiaries draft cash pool	262	-
Total	**3 634**	**117**

10 CURRENCY HEDGING

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

Amounts in million	2020 *Value in NOK on agreed rates*	*Fair value in NOK 31 Dec 20*	*Total hedged amount in USD 31 Dec 20*	*Average hedged rate in USD 31 Dec 20*	*Total hedged amount in EUR 31 Dec 20*	*Average hedged rate in EUR 31 Dec 20*	*Total hedged amount in GBP 31 Dec 20*	*Average hedged rate in GBP 31 Dec 20*
Hedge category								
Forward exchange contracts, cash flow hedges	(722)	(78)	(10)	15.38	(45)	10.80	-	-
Forward exchange contracts, fair value hedges	17 904	629	1 151	8.94	541	10.79	110	12.04
Total	**17 182**	**551**	**1 141**		**496**		**110**	

Amounts in million	2019 *Value in NOK on agreed rates*	*Fair value 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	229	(11)	97	8.81	(59)	10.16	-	-
Forward exchange contracts, fair value hedges	15 779	(42)	1 501	8.75	218	10.06	34	11.59
Total	**16 008**	**(53)**	**1 598**		**159**		**34**	

Fair value is referring to the net present value of the variance between the revaluated forward rate at 31 December and the forward rate at the time of entering the forward exchange contract. Values in the table related to value in NOK on agreed rates and fair value in NOK also include other currencies.

Currency options

As of 31 December 2020, KONGSBERG recognised currency options with a gross amount of MNOK 17 to current assets and currency options with a gross amount of MNOK 6 to current liabilities. As of 31 December 2019, the group had no currency options, and the equivalent values were 0. Fair value changes have not been included in Kongsberg Gruppen ASA's statement in accordance with Norwegian GAAP.

Basis swaps

Subsequent to the acquisition of shares in Patria Oyj in 2016 (cost price of MEUR 284.9), basis swaps totalling to MEUR 130 were entered in order to hedge a net investment in a foreign entity. These basis swaps had a fair value of MNOK -144 as of 31 December 2020 (MNOK -64 as of 31 December 2019). Fair value changes have not been included in Kongsberg Gruppen ASA's statement in accordance with Norwegian GAAP.

Currency transactions, related parties

Subsidiary

	2020				
Amounts in million	*Value in NOK based on agreed rates 31 Dec 20*	*Fair value in NOK 31 Dec 20*	*Total hedged amount in USD 31 Dec 20*	*Total hedged amount in EUR 31 Dec 20*	*Total hedged amount in GBP 31 Dec 20*
Forward exchange contracts, cash flow hedges					
Kongsberg Defence & Aerospace	(722)	(78)	(10)	(45)	-
Total cash flow hedges	**(722)**	**(78)**	**(10)**	**(45)**	**-**
Forward exchange contracts, fair value hedges					
Kongsberg Maritime	3 814	149	303	110	3
Kongsberg Digital	333	9	15	11	0
Kongsberg Defence & Aerospace	13 573	438	809	420	107
(No internal counterparty)	184	33	24		
Total fair value hedges	**17 904**	**629**	**1 151**	**541**	**110**
Total	**17 182**	**551**	**1 141**	**496**	**110**

	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 hedges					
Kongsberg Defence & Aerospace	229	(11)	97	(59)	
Total cash flow hedges	**229**	**(11)**	**97**	**(59)**	
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)	702	65	73	3	3
Total fair value hedges	**15 779**	**(42)**	**1 501**	**218**	**34**
Total	**16 008**	**(53)**	**1 598**	**159**	**34**

Associated company

	2020				2019			
MNOK	*Value in NOK based on agreed rates 31 Dec 20*	*Fair value in NOK 31 Dec 20*	*Total hedged amount in USD 31 Dec 20*	*Total hedged amount in EUR 31 Dec 20*	*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*
Forward exchange contracts, fair value hedges								
Kongsberg Satellite Services	1 052	(10)	87	29	1 495	(53)	128	42

11 CASH AND CASH EQUIVALENTS

Nominal amounts in MNOK		*2020*	*2019*
Net deposit cash pool		2 365	(221)
Money market funds		2 521	510
Total		**4 886**	**289**
Subsidiaries deposit cash pool	9	6 066	-
Subsidiaries draft cash pool	9	(262)	-
Parent's draft cash pool		(3 439)	-
Net deposit cash pool		**2 365**	**-**

Bank guarantees amounting to MNOK 13 (MNOK 10 in 2019) 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.

Kongsberg Gruppen ASA has cash pools with Danske Bank, JP Morgan and DNB in which several of the subsidiaries are included. From 2020 net deposits cash pool, represent total net deposits in the cash pools for all companies included in the cash pools. For 2019 net deposit cash pool represent only the parent's draft on the cash pool. Total draft on the cash pools for the parent company in 2020 is MNOK 3,439 compared to 2019 MNOK 221.

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 2020 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, 16 March 2021

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 2020

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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 2020, 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 2020, 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 2020, 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 2020 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 2020. 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.

Divestment of Hydroid and presentation as discontinued operations

Kongsberg divested its operations in Hydroid Inc, USA in 2020. The gain on the divestment, including currency translation effects, taxes, and transaction costs, was recognized in the 2020 financial statements. The operations in Hydroid Inc was presented separated from continued operations in the profit and loss statement with comparable information adjusted accordingly. Accounting for discontinued operations involves judgements from management related to identifying and separating the financial effects from continued and discontinued operations, as well as assessing the criteria for presenting Hydroid Inc as discontinued operations. The divestment of Hydroid Inc resulted in a material gain in the financial statements, and the calculation of the gain involved judgement from the management. Presentation as discontinued operations has significant impact on the financial statements of Kongsberg, and hence we considered this to a be a key audit matter.

We obtained and reviewed the sales contract and assessed the conditions. We assessed the calculation of the gain from the divestment, including the allocation of goodwill, currency translation effects and taxes. We assessed the presentation of the gain and discussed with management the methods used to identify and separate the financial effects of the discontinued operations.

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

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If,

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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, 16 March 2021

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 Thursday 6 May 2021.

PRESENTATION OF QUARTERLY RESULTS

Q1:	30 April 2021
Q2:	14 July 2021
Q3:	29 October 2021

Ticker code: KOG (Oslo Stock Exchange)

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