



KONGSBERG
AUTOMOTIVE

Annual Report 2018



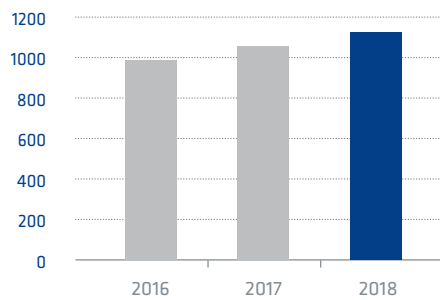
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Key figures

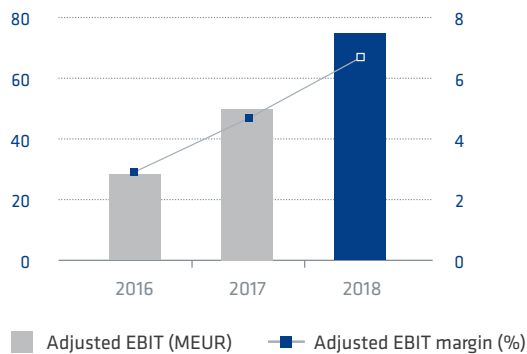
Revenues

Amounts in MEUR



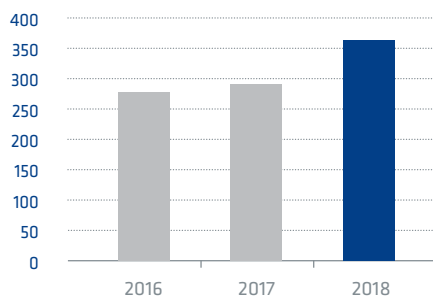
Adjusted EBIT* and margin

Amounts in MEUR and %



Business wins

Amounts in MEUR annual sales



* Refer to the Alternative Performance Measures section

Key figures – Business Segments



Powertrain & Chassis

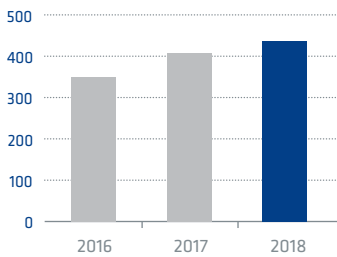


Interior

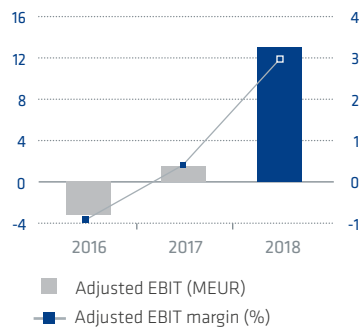


Specialty Products

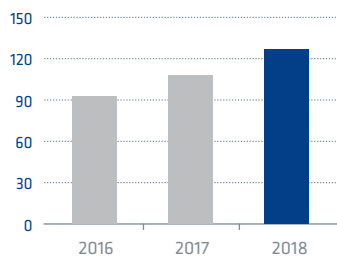
Revenues (MEUR)



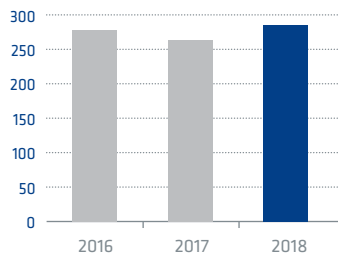
Adjusted EBIT* and margin (MEUR and %)



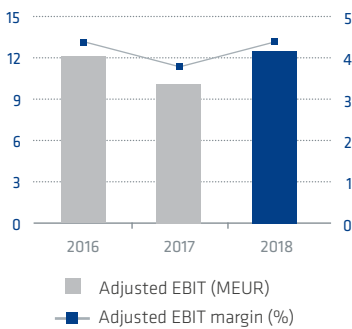
Business wins (MEUR annual sales)



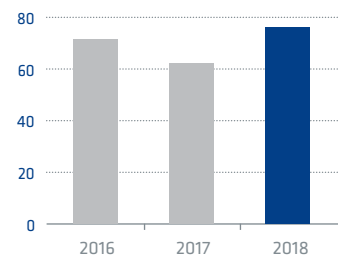
Revenues (MEUR)



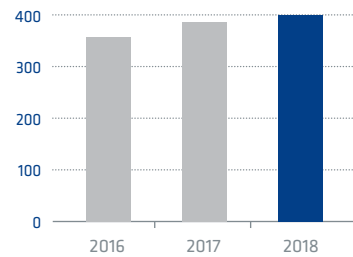
Adjusted EBIT* and margin (MEUR and %)



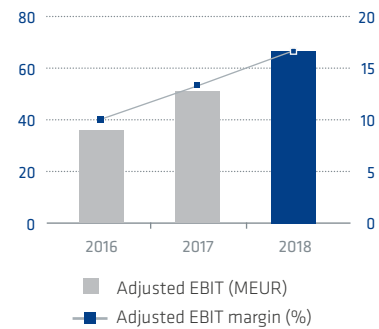
Business wins (MEUR annual sales)



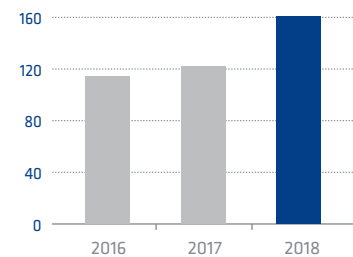
Revenues (MEUR)



Adjusted EBIT* and margin (MEUR and %)



Business wins (MEUR annual sales)



* Refer to the Alternative Performance Measures section



Our business ▶

Kongsberg Automotive provides world-class products to the global vehicle industry. Our products enhance the driving experience, making it safer, more comfortable and sustainable.

Our vision ▶

Enhancing the driving experience



We have the right plan and strategy, good products, a solid order book and we are committed to our customers.

Dear Kongsberg Automotive shareholders:

In 2018, we extended our consistent, year-over-year performance improvements to eight consecutive quarters that date back to the announcement of our improvement plan in November 2016. As we keep progressing on our overall improvement path, we make inroads towards becoming a more “normal” automotive supplier.

2018 was, however, also a year with an increasing amount of external factors facing the entire automotive industry. Among the most significant issues were:

- 1) the trade conflict between the world’s two largest economies leading to significant increases in tariff levels,
- 2) the slowdown in Chinese growth rates, recently the strongest single factor in overall global growth,
- 3) mounting fears that the current economic up-cycle may be seeing an end shortly,
- 4) strong increases in select commodities and raw material prices driven by a shift in consumption leading to material shortages. This effect is compounded by a general unwillingness for commodity producers to invest in additional capacity due to economic uncertainties, and
- 5) mounting uncertainty relating to the Brexit process.

Despite these negative market sentiments, the overall passenger-car and commercial-vehicle end markets that we serve held up reasonably well in 2018 with modest growth in most geographies for both end-markets.

Our 2018 new business wins amounted to more than MEUR 360 based on expected annualized revenues, up from last year’s MEUR 291. This ensures continued top line growth in the coming years. It is particularly encouraging that these 2018 business wins consisted of many smaller programs. We did somewhat change our focus on sales opportunities in 2018 by putting more concentrated effort into program opportunities where we felt we had a competitive advantage. We tried to stay very disciplined in our processes, and that led to less outstanding items towards the end of the year and a more evenly distributed inflow of new business wins throughout the year. From a lifetime revenue perspective, we booked almost MEUR 1,700 of new business in 2018. The strong 2018 new business wins continues the building of a strong revenue base for the coming years.

Before the summer vacation period, we proactively refinanced our bank debt through the placement of a seven-year, MEUR 275 bond placement yielding 5%. A 10% capital increase supported by our largest shareholders contributed greatly to KA obtaining a favorable credit rating that supported the successful marketing of our bond. As both the equity and debt markets went through large corrections following the summer period, we feel very good about our refinancing activities in 2018. These provide a solid long-term capital structure for KA.

We saw very limited portfolio change in 2018. The only activity was the completion of the divestiture of our ePower business to Preh GmbH, which closed in January of 2018.

In spite of the challenging market conditions, KA continued its steep improvement curve. Our financial results in all quarters of 2018 improved year-over-year. Our 2018 adjusted EBIT increased by 50% while our revenues grew by 6.3%. Relative to 2016, we grew revenues by 14% and increased our adjusted EBIT by more than 160%. Slowly but securely, the KA team is feeling like more of a winning team and pushing hard to extend the wins.

From a profitability standpoint, the underlying growth helped make up for external headwinds, most notably the increased raw material commodities pricing and increased tariffs.

Our cash flow was weak driven by an increase in accounts receivables mainly through increased China revenues, an increase in inventory levels mostly driven by increased raw materials prices, and some consciously increased stock levels for materials with difficult availability.

From a segment performance standpoint, Specialty Products performed extremely well, especially considering the commodities price challenges faced during most of 2018. In the Interior segment, a great recovery that started in the second quarter reversed a profitability slide that started a year earlier. In Powertrain & Chassis, we continued to improve at a slow but consistent pace while realizing that there is still a lot of work to do before we get to our targeted performance levels.

2018 was another year of good progress. KA will continue to drive its improvement plan in order to further strengthen our performance. We have the right plan and strategy, good products, a solid order book and we are committed to our customers. We are all aware that improvement does not come easily. To turn KA into the company that we envision, we all need to continue to work hard on reaching our ambitious objectives for 2019 and beyond.

Sincerely,



Henning E. Jensen
President & CEO Kongsberg Automotive



A place in history ▶

Kongsberg Automotive can trace its origins to defense contractor Kongsberg Våpenfabrikk. The Company's first commercial auto-sector orders were brakes and drive shafts for Volvo in the late 1950's. Since then, KA has developed from a Scandinavian automotive parts supplier to a global leader in one of the most competitive and complex industries in the world.

Business highlights



Full-year performance

- Adjusted EBIT increases year-on-year by 50%
- value of new business wins up 25%
- number of business wins up 60%
- credit rated for first time in KA history
- debt refinanced with MEUR 275 bond
- current-products volume up in Americas
- new-programs volume increases in China
- revenues in all segments rise
- 10% capital increase achieved



Powertrain & Chassis

- wins include electronic actuators for European Tier 1 supplier
- MEUR 15.2 win for Gear Shift Systems
- ramp-up of AMT gear shift production for 2 major commercial-vehicle customers



Interior

- Interior wins seat-comfort contracts with European and North American original-equipment manufacturers (OEMs) worth MEUR 36 annually
- new plant focused on seat-heating product opens in Poland
- launch of new electro-mechanical actuator

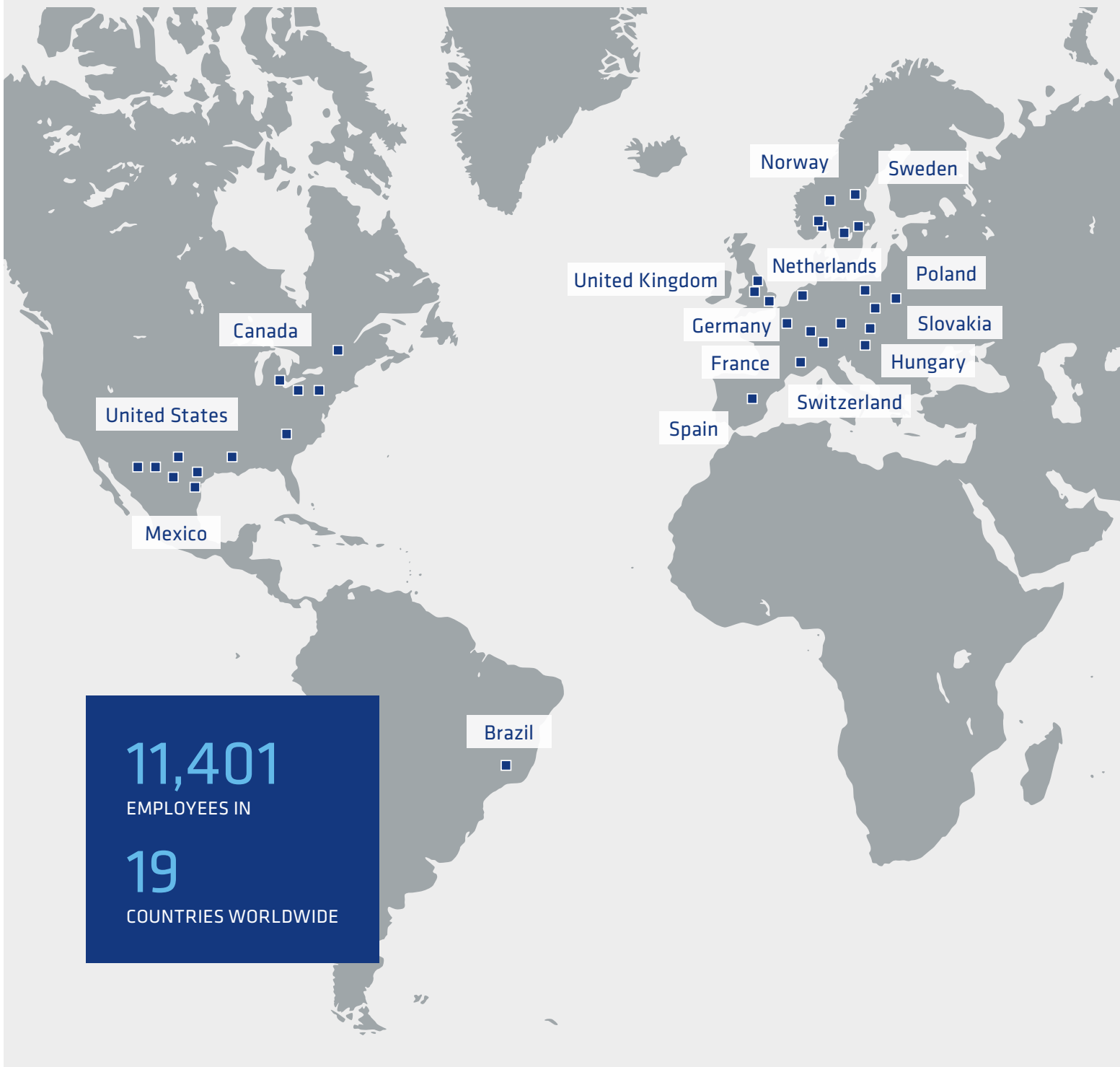


Specialty Products

- Couplings Business awarded contract worth MEUR 14 annually with major European OEM; plant in Willis, Texas, expands; US serial production begins; Asian production ramps up
- Fluid Transfer Systems wins battery-coolant business with two major passenger-car OEMs and becomes Tier 1 supplier in this growing market
- Off-Highway program with major North American OEM extended to reach MEUR 40 in annual sales; demand for power-sports products surges when key customer gains market share

Worldwide

Kongsberg Automotive is represented in more than 40 locations covering the world's key automotive markets. We follow our customers to where they are located in order to serve and support them in the best possible way.



**NORTH AND SOUTH AMERICA****4,314** EMPLOYEES

4,314 employees work at our sites in North and South America. Mexico has the highest number of KA employees, with around 3,164 employees in four manufacturing sites.

EUROPE**5,770** EMPLOYEES

Kongsberg Automotive's largest region, Europe, is served by 5,770 employees. Our two main European manufacturing sites are in Pruszków, Poland, and Vrábľe, Slovakia, with 1,360 and 1,090 employees, respectively.

ASIA**1,317** EMPLOYEES

In this increasingly important market, Kongsberg Automotive has five manufacturing sites and 1,317 employees. In China, we have three manufacturing sites and 1,153 employees.

A foothold in growth

Although European vehicle sales are steady and strong, there's tremendous room in Asia, North America and South America for Kongsberg Automotive's growth. The business segments – Powertrain & Chassis (P&C), Interior and Specialty Products – have built solid foundations for future business in these key markets. Global growth is assured by new business wins that include a 2018 agreement to supply gear-shift systems to an original-equipment manufacturer (OEM) with worldwide market share. Capacity improvements in Brazil, Canada, China, Mexico, Poland and the United States have set us up to meet increased demand, just as global vehicle production forecast is set to reach 100 million light vehicles by 2021.

North & South America

The North American light- and commercial-vehicle markets continue to run at historically high levels. Kongsberg Automotive (KA) expects North America (NA) alone to account for about 33% of revenues from all its business segments by 2023.



Our main growth comes from P&C plant in Nuevo Laredo, Mexico, automated production of a gear shift module for an automated manual transmission has ramped-up for two commercial-vehicle customers. In 2018, SP's couplings business also extended production plant at Willis, Texas, to meet growing demand. To serve this and other markets, part of Interior's commitment to volume growth is a new plant at Reynosa, Mexico.

Within range is the Brazilian market, where light-vehicle production grew 10 percent in 2018. In all, 3,954 employees work at our sites in North and South America.

Europe & the Middle East

Passenger-car production in France, Russia and Turkey were the main drivers of market growth in Europe. The Continent accounts for about 52 percent of our sales.

Steady sales from our European plants to customers that include Volvo, Scania, DAF, Daimler and ZF helped generate growth in Europe. KA customers DAF and Scania, alone, produced upwards of 100,000 commercial vehicles in 2018. This strong European transportation market continues to lift P&C's after-market sales.

Interior, meanwhile, meets demand growth from two main European manufacturing sites: at Pruszków, and Brzesc, Poland. New plant at Brzesc will produce seat heaters starting in early 2019.



Meanwhile, European passenger-car sales are expected to remain solid in 2019, as volumes curbed by a new emissions standard are recovered. Testimony to this are Spain and Portugal, where year-on-year car sales soared by 150,000 in the second quarter alone.

China & the Asia Pacific

While the near-term outlook for Asian growth outside of China is steady, growth inside China is potentially vast. In all, about 10 percent of KA business now derives from Asia.



KA's foundation for growth includes our P&C joint venture in Shanghai, and the P&C business has developed next-generation gear shift systems ready for the rapidly rising Chinese hybrid and all-electric markets. As in Europe, our Interior business in China is also growing, and 2018 saw new KA products and a technology launch in Asia.

Apart from the premium segment, our tech center in China helped launch products for more volume-oriented vehicles. Chinese demand is powering our commercial-vehicle couplings business. After years of testing and validation, our ABC couplings system launched across Asia with large-truck OEMs.

We are also well positioned to meet demand in India, where one three-month span saw 64,000 more commercial vehicles produced year on year. In China, three plants supply growing demand for advanced trucks and off-highway equipment.

Customers

Kongsberg Automotive is proud to serve leading OEMs and Tier 1 suppliers in the automotive, commercial-vehicle, and off-highway markets globally.



Powertrain & Chassis

The P&C division of Kongsberg Automotive is a global leader in the design, manufacture and testing of custom powertrain and chassis solutions that enhance driver control. We engineer great products for world-leading commercial-vehicle makers. Our engineering presence now extends from primary design centers in Europe to the Americas and Asia.

- Gear shifters for automatic and manual transmissions
- Shift cables and towers
- Gear and clutch control systems including actuators
- Chassis stabilizers

Meeting commitments

As markets change, so, too, does Kongsberg Automotive. After plant transfers in 2017, P&C in 2018 strengthened production capacity at newer plants while growing its commercial-vehicle and passenger-car business.

That new business includes gear and clutch control systems for manual and automatic transmissions (MT and AMT). From Nuevo Laredo, Mexico, our P&C team delivered large volumes of these in a major ramp-up for the 18-wheeler MTs of US transmissions giant, Eaton-Cummins. Meanwhile, our portfolio of AMT products for on-highway vehicles continues to grow, and in 2018 that innovation yielded a development contract for **drive-by-wire shifters** from a major Asian passenger-car, original-equipment manufacturer (OEM).

Value creation

Kongsberg Automotive tech-development centers and production plants around the world tap our engineering talent and skilled workmanship to drive value.

More vertically integrated than ever, we now share the knowledge of known processes between our production assets. In 2018, in-house plastic-injection expertise at one plant allowed us to make printed circuit boards that helped launch a second production line for advanced, **surface-mount technology** in Shawinigan, Quebec.

This made us more profitable and more competitive in a growing market for the **mechatronic modules** behind instant gear shifts.

In-house expertise also helped us create a **steering-assist** product for On-Highway customers seeking a way to make steering adjustments while the truck is in cruise mode. This allows functions such as lane keeping, wind adjustment and some early features of autonomous driving.

The product pipeline

Our tech centers have developed new products which are gaining global market share or are in the Kongsberg Automotive pipeline of future technology launches.

The MT segment: We launched four new products in Europe and are tracking intense customer interest in electric-axle products that allow large trucks to use much smaller diesel engines to engage the e-axle and accelerate.

Shift-by-wire: The development of this product line in Europe and Asia will continue, as newer versions of shifters and gear actuators are expected to meet the needs of OEMs building the newest hybrid or electric vehicles.



Interior

Kongsberg Automotive develops and supplies a world-class range of Interior Comfort Systems and Light Duty Cables & Actuators for the passenger-car, commercial-vehicle and off-highway markets. This business segment's innovations offer vehicle makers easy integration, customization and real cost advantage. Interior is the only supplier in the world that develops and delivers a complete range of seat comfort products.

- Seat climate systems
- Seat support systems
- Light-duty cables and actuators
- Panel heaters for electric cars

Meeting commitments

To meet worldwide demand, Kongsberg Automotive's reliable manufacturing processes and top-tier quality has been exported to new production centers worldwide.

More automation has been the focus of process-design improvements launched at our flagship Interior plants at Pruszkow, Poland, and at Reynosa, Mexico. The efficiency gains will help new-product and volume ramp-ups.

Meanwhile, a newly commissioned 17,600-square-meter, plant at Brzesc, Poland, began ramping-up seat-heat production as the year progressed.

Impressed by KA's ability to deliver top-notch quality in volume, major Asian and European OEMs awarded us **seat-heater** and **cable-assembly** supply programs in 2018.

Adding value

Kongsberg quality was confirmed in North America, when our Reynosa plant in Mexico won a GM Supplier of the Year Award for the overall quality performance of products delivered to the 2018 Model Year.

Compact, lightweight and quiet, Interior's powerful **electro-mechanical actuators** are developed in-house to complement a complete range of light-duty cables.

Forty years of development ensures KA now delivers the widest offering of seat controls, cables and best-in-class, high-load actuator assemblies to all the world's markets.

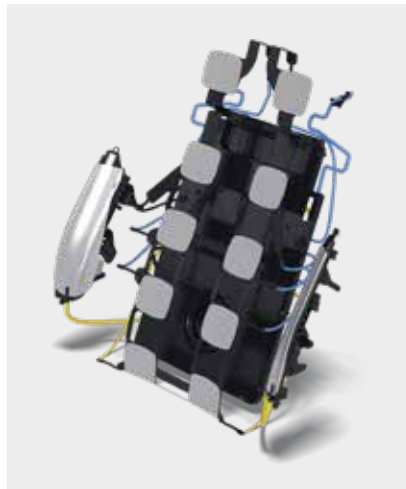
Interior is developing key, next-generation valve blocks to actuate **seat support, multi-contour** and **seat-massage systems**.

The year also saw the start of Interior's serial deliveries to a major European vehicle maker of our **one-package, seat-heat, seat-vent air-distribution** unit. The commitment confirms a burgeoning trend away from air-conditioning.

Product pipeline

Product evolution continues at KA, and so do new program launches with major OEMs.

We recently launched **a new actuator** that substitutes for light-duty cable. Interior is also investigating **steering-wheel heaters** as a parallel offering from our core **stitch-on heater technology**.



Specialty Products

Kongsberg Automotive's Specialty Products division comprises three segments: Off-Highway, Air Couplings and Fluid Transfer Systems. These niche-product business streams are driven by an entrepreneurial focus on innovation and fitment rates. Designing and delivering engineered solutions for the world's premier commercial and off-road vehicle makers helps keep KA atop the global automotive supply chain.

- Air couplings
- Fuel transfer systems including specialized hoses, tubes, and assemblies
- Off-road products for various industries, including steering columns, displays, pedals and hand controls
- Other new innovative products under development

Couplings

Our compressed-air Couplings business unit is a technology leader focused on supplying state-of-the-art products to the global automotive market.

The focus on couplings ensures quality engineered products delivery to a wide range of customers in the commercial-vehicle segment. With the product range, **Raufoss ABC™**, customers are provided advantageous, flexible solutions that can be tailored to their specific requirements.

Couplings is transforming from one manufacturing location to a global footprint focused on serving worldwide customers. In 2018, we gained market share in China, Europe, South America and North America. **Raufoss ABC™** was successfully launched in the United States by adding plant to Kongsberg Automotive's facility in Willis, Texas. Demand now comes from a global vehicle market that appreciates the benefits of lighter weight, easier assembly, functionality, flexibility, safety, testing and validation.

Product development: Our engineering teams were driven by innovative projects and the new **ABC XR™** product range, our next-generation air couplings.

Fluid Transfer Systems

KA is an innovator and supplier of **fluid transfer assemblies**. With its unique product lines, FTS secured long-term business awards with Tier 1 passenger-car customers for high-performance brake and fuel systems.

FTS was awarded battery-coolant business from two passenger-car OEMs in the hybrid and fully electric vehicle market. FTS also involved itself in a coolant program for the commercial-vehicle sector, and in the process became a Tier 1 supplier in this growing market. We continued to secure business for next-generation engine platforms by supplying the **high-performance fluid lines** for emission-control systems to the global Truck & Bus market.

In 2018, we launched a new range of fittings and ferrules to grow and enhance our range of performance hoses and to cut maintenance and running costs for large customers.

Off-Highway

KA's Off-Highway segment supplies quality-engineered steering columns, displays and driver controls to a market that includes off-road vehicles, snowmobiles and construction and farming equipment.

New products entered wider production in 2018, as we expanded our power-sports customer portfolio. Efficient production of our **compact steering columns; electric-power steering (EPS), electronic pedals and thumb throttles** helped Off-Highway meet a growing number of supply commitments in Asia.

The product pipeline includes our next-generation steering systems and electronic driver controls. Orders for these were stirred by strong demand for power-sports products and from customers finding new applications and a large new Asian market for our proven driver-control products.



An aerial photograph of a winding asphalt road with a double yellow line, cutting through a dense forest of trees with vibrant autumn foliage in shades of orange, yellow, and red. To the left of the road, there is a body of water with several small, isolated islands of trees. A semi-transparent dark blue rectangular overlay is positioned on the left side of the image, containing the title text in white.

Board of Directors' Report

Buffeted by a broad range of market concerns, the automotive sector de-rated severely in 2018. While the ensuing price correction in Kongsberg Automotive's (KA) shares was largely in line with the sector, the Board believes that the market did not fully appreciate the sharp outperformance in KA's fundamentals with respect to its peers, as the Company's revenues grew by 6.3% and adjusted EBIT increased by 50%. This disappointing share price performance strengthens our resolve to continue delivering on our plans and earn the trust of the market.

Over the past two years, the Board has closely followed and supported the work undertaken by management to bring KA to its stronger standing today. In 2018, KA delivered on its promised performance improvements despite turbulent capital market conditions. During the year, KA also generated record-high business wins, securing solid growth for the coming years. In addition, KA successfully strengthened its balance sheet, transforming its capital structure through a well-timed debt refinancing and an equity capital increase from the Company's largest shareholders.

Following the capital increase, KA's largest shareholder, Teleios Capital Partners – which had started investing in the Company in 2015 – increased its shareholding to almost 28%. Demonstrating its long-term commitment to KA, Teleios decided to take a more significant role in the company and sought direct Board representation with the election of Firass Abi-Nassif as chairman on December 11 2018.

In 2019, the Board intends to build on the solid accomplishments over the past two years and further support KA in the next phase of its development, helping the Company realize its full potential.



In 2018, KA delivered on its promised performance improvements despite turbulent market conditions.

Markets

Light-vehicle production

Global light-vehicles production was 94.2 million units in 2018, which was a decrease of 1.0% compared to 2017. The moderate decline was primarily driven by headwinds in the third and fourth quarter resulting in a slight decline of all major regions on a full-year basis.

European production decreased by 1.2% to 21.9 million vehicles in 2018, as the new WLTP certification process and the uncertainty around Brexit delayed and reduced production. The decline was primarily driven by Germany and the United Kingdom and was only partially offset by a solid vehicle sales increases in Russia, Romania and Portugal.

Production in North America was 17.0 million vehicles in 2018, a small decline of 0.6% compared to the previous year. However, the market shifted from low- to high-content cars, a shift that is favoring KA products.

Chinese production declined by 3.8% in 2018 to 27.0 million vehicles as domestic demand weakened due to concerns about an escalation of the trade war with the United States. Asian production outside of China developed more favorably with a growth of 2.0% to 22.4 million cars in 2018. India was the main driver there with a growth rate of 6.6%.

South American production developed positively as well with a solid growth rate of 3.1% in 2018, as production reached 3.4 million vehicles. Brazil continued to be the key driver, and production in the country grew by approximately 107,000 cars, or 4.0%.

Commercial-vehicle production

Production of medium and heavy-duty commercial vehicles increased by 3.7% in 2018 to 3.3 million vehicles. The growth in 2018 was primarily driven by North America, where production increased by 16.3%, equivalent to 84,000 units, as the expansion cycle continued. This was offset by an expected decrease in Chinese production of 8.5%, equivalent to 116,000 units, as truck purchases were advanced in 2017 due to expectations of tightened emission regulations.

Production in Asia outside of China as well as in South America increased significantly with a year-over-year growth of 22.8% and 23.0% in 2018, respectively. The growth, however, started from a lower base.

European production slightly decreased in 2018 by 0.8% to 587,000 units.



Financial performance

Group

Financial performance for the year was in-line with the guidance provided at the Group's Capital Markets Day in November 2018. Revenues for the Group amounted to MEUR 1,123.1 in 2018, an increase of MEUR 66.5 (6.3%) over 2017. This includes negative currency-translation effects of MEUR 35.2. Excluding year-over-year currency effects, revenue increased by 9.6%. Revenue growth was mainly caused by higher product sales related to Interior Comfort Systems and Gear-Shift Systems for the passenger-car Powertrain & Chassis business in Europe and China. Sales of Air Coupling products for the commercial-vehicle business in Europe and China also contributed positively.

Adjusted EBIT amounted to MEUR 74.7 in 2018, an increase of MEUR 24.9 (50.1% compared to last year). The main drivers for the improved adjusted EBIT were improved productivity and the volume increase, which was partially offset by increased raw material costs, the increased cost of higher tariffs and intensified start-up costs for new programs.

Segments

Interior segment revenues amounted to MEUR 285.6 in 2018, an increase of MEUR 21.7 (8.2%) compared to 2017, including unfavorable currency-translation effects of MEUR 5.6. The main drivers of the increase were ramping up new programs in global Interior Comfort Systems products in Europe, the US and China. Adjusted EBIT amounted to MEUR 12.5, an increase of MEUR 2.5 (24.5%). The increase in profit was mainly driven by operational improvements. The higher revenue levels also contributed to the improved margin.

Powertrain & Chassis revenues amounted to MEUR 437.1 in 2018, an increase of MEUR 29.7 (7.3%) compared to 2017, including year-over-year negative currency effects of MEUR 15.0. The growth mainly related to increased sales of gear-shift systems in the passenger-car business in Europe and China, and to the increase in truck business in North America. Adjusted EBIT increased by MEUR 11.5, or from MEUR 1.5 to MEUR 13.0. The growth in adjusted EBIT was driven by operational improvements from completed restructuring projects and by higher volumes,

partially offset by product start-up costs, increased raw material prices and higher tariff cost.

Specialty Products revenues amounted to MEUR 400.2 in 2018, an increase of MEUR 15.0 (3.9%) compared to 2017, including year-over-year negative currency-translation effects of MEUR 14.6. Higher Air Couplings business revenues in Europe and China and Off-Highway business growth in North America were the main drivers for the revenue increase. Adjusted EBIT for the business area was MEUR 66.6, up MEUR 15.5 (30.2%) from last year. The improvement in adjusted EBIT was mainly driven by operational improvements, higher revenue levels, and the effect of the ePower divestiture. The positive effects were partially offset by increased raw material costs.

Net financial items

Net financial items amounted to negative MEUR 15.2 in 2018 compared to negative MEUR 17.4 last year. Interest expenses increased by MEUR 2.7 to MEUR 12.8 in 2018 due to higher debt, increased interest rates resulting from higher LIBOR rates for the USD tranche of the bank loan and the interest for the bond issued in July 2018. The repayment of the bank loan led to a gain of MEUR 0.7.

Net profit

Total net profit for the year was MEUR 23.8, compared to a loss of MEUR 8.0 in 2017. Total income tax expense of MEUR 14.7 (MEUR 14.4 in 2017) reflects a significantly improved effective tax rate when considering the increase of profit before tax by MEUR 22.2 compared to 2017.

Capital

In July 2018, the Group issued a 7 year, MEUR 275.0 bond with a coupon of 5.0% at par value and repaid the former bank loan facilities. The Group's long-term interest-bearing bank debt including capitalized bond-financing cost of MEUR 6.7 amounted to MEUR 269.4 as at December 31, 2018.

As at December 31, 2018, the Shareholders' equity totaled MEUR 253.5 (MEUR 190.7 at the end of 2017). The main contributors to the increase in equity



Business wins

MEUR 363.5

a 24.9% increase

were the capital increase following the private placement of 40,676,812 shares in June as well as significant improvement of profitability. The equity ratio was 30.9% at year-end 2018, up from 26.4% at year-end 2017.

Cash flow

In 2018, the Group had a positive cash flow from operating activities of MEUR 43.2, compared to MEUR 38.3 in 2017. Strong operating results have been partially offset by an increase in working capital supporting the revenue growth and the termination of the accounts receivables factoring programs. The Group invested MEUR 68.2 in property, plant, equipment and intangible assets, an increase of MEUR 15.5 from 2017. The cash flow from financing activities amounted to MEUR 44.9 (MEUR 18.2 in 2017) comprising mainly the proceeds from equity increase of MEUR 41.2 and a net drawing of MEUR 11.2, partially offset by interest payments of MEUR 6.5. The net change in cash during 2018 was positive MEUR 19.8.

Liquidity

The Group's total liquidity reserve in cash and Revolving Credit Facilities (RCF) facilities amounted to MEUR 109.1 at year-end (MEUR 105.4 in 2017).

Business wins

New business wins for the year amounted to MEUR 363.5 (versus MEUR 291 in 2017) in annual value. This is a 24.9% increase versus last year. The new business wins represent new business of MEUR 1.681 in lifetime revenues.

Kongsberg Automotive ASA – The Parent Company

In 2018, the Parent company generated total operating (inter-company) revenues of MEUR 10.1 (MEUR 29.9 in 2017), with a corresponding operating profit of MEUR 0.8 (MEUR 1.0 in 2017). The change in revenue is due to the full implementation of the principal model. The Parent company had net positive financial items of MEUR 21.9 in 2018 (MEUR 5.5 in 2017) resulting from positive foreign currency effects and net interest income of MEUR 12.0. The net result after tax for the year amounted to MEUR 18.6 (MEUR 6.7 in 2017). As at December 31, 2018, the Parent company equity totaled MEUR 349.0 (MEUR 296.2 in 2017).

In accordance with the dividend policy, the Board of Directors will propose to the 2019 Annual General Meeting that no dividend is to be paid for 2018. The Board of Directors proposes that Kongsberg Automotive ASA's net result of MEUR 18.6 be transferred to retained earnings.

Operations

The Group continued to implement its manufacturing footprint and operational performance improvement plan in line with the two recent Capital Markets Days' presentations and the "Operations" section in last year's Annual Report. In 2018, a further three plant closures and production transfers were completed: the plants in Rollag, Norway; in Burton, UK, and in Easley, USA, were eventually closed. The production of these plants was transferred to two new factories in Poland (from Rollag and Burton) and Mexico (from Easley). In the Interior segment, we completed a large manufacturing transfer project from the Pruszkow plant into the new Polish plant in Brzesc. The closure of relatively small, subscale plants and the transfer into larger manufacturing sites will improve economies of scale in the Group and the relative weight of low-cost manufacturing locations such as Mexico, Poland, Slovakia, Hungary and China.

Interior

The Interior Comfort segment continued its strong focus on innovation and is expected to significantly increase market share in a fast-growing market. The plants in Pruszkow and Brzesc, Poland, and in Reynosa, Mexico, completed major capacity and footprint milestones in 2018. All plants have engaged in a strategic transformation of their operations across the globe guided by Lean Manufacturing. These programs were deployed successfully and will continue to be a priority for operations in 2019 to manage performance with significant growth for both regions, Europe and Mexico.

Powertrain & Chassis Products

The Powertrain & Chassis segment serves the passenger-car, heavy-duty truck and bus markets. In the year 2018, the segment continued the consolidation of their European supply chain and production processes. Having met all their OEM customer commitments from the transferred businesses in Europe, the segment continued to grow both their On-Highway and passenger-car businesses. The global automotive market is transforming faster and faster into new energy vehicles, and P&C is positioning themselves to be active players in this competitive environment.



Specialty Products

The Specialty Products segment consist of Off-Highway, Air Couplings and Fluid Transfer Systems. These develop and deliver specialized niche products with a strong entrepreneurial focus on innovation and fitment rates.

This new business structure has already demonstrated good performance through improved focus. The Specialty Products segment leadership team managed the plant closures in Easley and Burton and the production transfers and ramp-up of the new sites in Mexico and Poland.

Engineering and development

The Group's net overall spending on engineering and development totaled 5.6% of sales in 2018. Supporting this innovation is a team of 570 resourceful engineers. KA's engineering and development organization provides strong local engineering support close to the customer with six global technology centers. The tech centers are in Canada, China, Germany, Norway, Sweden, and the US. This strategy enables the Group to deploy resources near key customers while deriving scale benefits of competency at these end-market-based tech centers.

Interior Comfort Systems and Light Duty Cables

- In 2018, Engineering & Development expanded relationships based on trust with key, premium-market customers. This led to predevelopment projects for seat comfort that converted into business awards in autonomous vehicles.
- KA enjoys the unique position of being able to offer a broad product portfolio for a large range of comfort needs. KA's broad range of analytical, simulation and testing methodologies give it a thorough understanding of comfort in terms of product know-how, ergonomics, human factors and biomechanics.
- Engineering & Development met its spending targets and delivered end-consumer experience in all aspects of seat comfort: thermal (heating and venting), support and massage with embedded HW/SW electronics.
- ICS successfully launched several new seat comfort products with SMA technology for different premium vehicle manufacturers in Europe and North America. In addition to the premium segment, products were launched that meet the needs of more volume-oriented vehicles.

Powertrain & Chassis

- P&C is developing the next generation of highly versatile shift-by-wire systems to accommodate market transformation towards new energy vehicles.
- The segment developed a P-lock actuator for true EVs.

- Manual Transmission (MT) systems for gear shift and clutch actuation as well as cables continue to be important for both passenger cars and commercial vehicles.
- Engineering know-how is spreading from primary design centers in Norway and Sweden into the Americas and into Asia to better serve a growing number of customers based in these regions.

Specialty Products

Off-Highway

- In 2018, the segment's technical capability was expanded in Electronic Controls, Steering Systems, EPS and an Advanced Development team was formed to accelerate innovation.
- A new, modular, push-button control product line was launched with high customer interest for additional variants on multiple vehicle platforms.
- Continuous growth of EPS product line with additional performance packages as well as new vehicle platforms.

Couplings and Fluid Transfer Systems

- 2018 engineering and development activities for Couplings were focused on innovation projects and the range ABC XR™, the next generation of air couplings. The ABC system was successfully launched in the US through the new Couplings operations location in Willis, TX. This was a result of several years of testing and validation which confirm that weight, assembly time, functionality, flexibility and safety features are required not only in Europe but across the globe.
- In 2018, FTS continued to develop its high-temperature hose range for the Automotive markets and completed the development of a fitting range for the Industrial segment. Approval and award for battery-coolant lines from 2 passenger-car manufacturers were also successful new product launches for Kongsberg Automotive Fluid Transfer Systems.

Corporate governance

The Board of Directors of Kongsberg Automotive ASA has established a set of general principles and guidelines for corporate governance. These principles cover the Board of Directors' responsibility for determining the Group's risk profile, approving the organization of the business, allocating responsibility and authority, as well as providing requirements with respect to reporting lines and information, risk management and internal control. The tasks and responsibilities of the Board of Directors and the CEO are laid out in separate directives covering the Board of Directors and the CEO, respectively.

The Board of Directors has issued directives to ensure adoption and compliance with the Group's principles and guidelines for corporate governance. The Group's guidelines for corporate responsibility summarize how work in this area is to be integrated into the Group's corporate governance processes for investments, product development, procurement and the well-being of employees. The Board determines the Group's objectives in the field of corporate responsibility.

Guidelines for investor relations intend to ensure that investors, lenders and other stakeholders are provided with reliable, timely and identical information. As an extension of the general principles and guidelines, a Code of Conduct has been adopted that applies to all Group employees and elected officers. Uniform regulations for risk management, internal control, financial reporting, handling of insider information and primary insiders' own trading activities have also been adopted.

Kongsberg Automotive complies with the latest version of the Norwegian Code of Practice for Corporate Governance. The Group's compliance with the requirements of each of the 15 main principles of the Norwegian Code of Practice for Corporate Governance and the provisions of section 3-3b of the Norwegian Accounting Act is further detailed in the Corporate Governance section in the Annual Report. This information is also available on the Company's website. In accordance with section 3-3a of the Norwegian Accounting Act, the Board hereby confirms that the consolidated financial statements and the financial statements of the Parent company have been prepared on the basis of going concern

assumptions, and that there are reasonable grounds to make such an assumption.

Operational risk

Kongsberg Automotive supplies products that are safety-critical. Suppliers in the automotive industry face the possibility of substantial financial liability for warranty claims relating to potential product or delivery failures. This liability represents a potential risk. Working methods and validation procedures implemented by the Company are designed to minimize this risk.

Kongsberg Automotive is normally contracted as a supplier with a long-term commitment. The commitment is usually based on a vehicle platform where volumes are estimated and not guaranteed. Even if present commitments are cost reimbursable they can be adversely affected by many factors and short-term variances including shortages of materials, equipment and labor, political risk, customer default, industrial disputes, accidents, environmental pollution, the prices of raw materials, the implementation of new tariffs and other unforeseen problems, changes in circumstances that may lead to cancellations and other risk factors beyond the control of the Group.

For more information regarding risk management, see note 21.

Going concerns

In accordance with section 3-3a of the Norwegian Accounting Act, the Board hereby confirms that the consolidated financial statements and the financial statements of the Parent company have been prepared on the basis of going concern assumptions, and that there are reasonable grounds to make such an assumption.

Financial risk

Due to the Group's capital structure and the nature of its operations, the Group is exposed to the following financial risks: market risk (including foreign exchange rate risk, raw material price risk and interest rate risk); credit risk and liquidity and capital management risk.

Foreign exchange rate risk

The Group operates in many different geographical markets and the resulting net assets, earnings and cash flows are influenced by multiple currencies. Kongsberg Automotive is exposed to foreign exchange rate risks in the following areas: transaction exposures-, which include commercial transactions and financing transactions both internally and externally; translation exposure which relate to net investments in foreign entities which are converted to Euros in the consolidated financial statements. This concerns European operations in non-Eurozone countries which have costs in local currencies and revenues primarily in Euro, as well as Canadian and Mexican operations, which have revenues primarily in USD. The Group seeks to align its revenue and cost base to reduce the currency exposure on a net cash flow basis.

Raw material price risk

The Group is exposed to market fluctuations in the price of the following major raw materials: steel, copper, zinc, aluminum, polymer resins and electronics. A sudden fluctuation in the market conditions could therefore impact the Group's financial position, revenues, profits and cash flow. Raw material sourcing cost are also exposed to customs and duties and politically driven changes of those.

Interest risk

Interest risk is linked to long-term debt and is primarily driven by changes in EUR and USD interbank lending interest rates. The risks are related to how the Company's borrowing cost will change in relation to changes in interest rates.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk with financial institutions and

other parties because of cash-in-bank and customer trade receivables arising from operating activities. Credit risks are considerable in the automotive industry. The Group closely monitors outstanding amounts, and rapidly implements actions if receivables become overdue. Kongsberg Automotive has good routines for receivables in place and losses in this area have been minimal in the past.

Liquidity and capital risk

The capital of the Group consists of shareholder's equity, borrowings and third-party financing. Total capital is defined as total equity plus net debt and is managed to safeguard the business as a going concern, to maximize returns for its owners and to maintain an optimal capital structure to minimize the weighted average cost of capital.

All activities around cash funding, borrowings and financial instruments are centralized within the Kongsberg Automotive Treasury department. The development of net interest-bearing debt and liquidity reserve is closely monitored. The reduction in financial leverage continued in 2018.

Rating risk

The Group is subject to non-public solvency ratings by external business partners and institutions and to public ratings by the rating agencies Moody's and Standard & Poor's.

Pension liability risk

The evaluation of the Group's pension liabilities is subject to changes in insurance-technical assumptions, such as discount rates and local pension evaluation guidelines.

Regulatory and tax risks

The Group is subject to a wide variety of laws, tax regulations, government and supranational policies that may change in significant ways. There can be no assurance that laws, tax regulations and policies or its practical application by authorities will not be altered in ways that will require modification of business models and objectives or affect returns on investments.

Legal proceedings

Kongsberg Automotive is subject to a few legal proceedings and legal compliance risks in the USA and other parts of the world, including the matters described in the Contingent Liabilities section. Reserves have been established for these and other legal matters as appropriate in line with IFRS guidelines. However, the estimation of legal reserves for possible losses involves significant judgment and may not reflect the full range of uncertainties and unpredictable outcomes inherent in litigation. Consequently, actual losses arising from particular matters may exceed current estimates and adversely affect the results of operations.

Brexit risk

Kongsberg Automotive supplies from EU-based plants UK-based customers and sources from EU-based 3rd-party suppliers products into its UK-based Normanton plant. Inversely, we supply from our UK-based Normanton plant products to EU-based customers, and we source for our EU-based plants products from UK-based 3rd-party suppliers. The total logistics and import/export cost associated with these transactions and the timeliness of the supply chain may get adversely affected by the Brexit. Kongsberg Automotive has undertaken some efforts to mitigate potential effects, but due to the significant uncertainty of the final Brexit conditions and timing of events, there is a remaining risk.

Cybercrime risk

The Group uses various digital technologies for communication and process management. Like other multinational companies we are facing active cyber threats which pose risks to the security of our processes, systems and networks as well as the confidentiality, availability and integrity of data. There is a risk that confidential information may get stolen or that the integrity of our portfolio may be compromised, for example by attacks into our networks, social engineering, data manipulation in critical applications and a loss of critical resources, resulting in financial damages.

KA's Cyber security measures implemented cover our whole Group Information Systems and Technologies (IS&T) ranging from managerial systems and applications to our operational environment such as manufacturing and research and development (R & D). In addition, we mitigate these risks by employing several measures including employee training, comprehensive monitoring of our networks and systems, and maintenance of backup and protective systems such as firewalls and virus scanners.

Risk management

Responsibility for the Group's financial risk management is mostly centralized, and the risk exposure is continuously monitored. The Group constantly evaluates, and potentially uses derivatives to minimize risks relating to currency fluctuation, interest rate changes and raw material prices. As the Group operates in many countries, it is vulnerable to currency risk. The greatest currency exposures are associated with EUR, USD and NOK, while raw material exposure is greatest in copper, zinc, aluminum, polymer components, electronics and steel. Risk assessment is also conducted with regards to other elements such as market, operations, environment, etc. to identify proper countermeasures. For regulatory and tax risks, the Group consults professional advisors and implements recommended actions. For further risk analysis, see note 21 to the financial statements.

Employees

At the end of 2018, the Group had 11,401 full-time equivalents (FTEs), which reflects an increase of 919 FTEs from the end of 2017.

Mexico had the largest number of employees with 3,164 FTEs employed at four locations (Ramos Arizpe, 175; Reynosa, 901; Matamoros, 912; and Nuevo Laredo 1,176). The largest workforce increase occurred in Poland, where 599 FTEs were added following business expansion and the opening of a new plant.

In order to secure a diverse future for the organization, succession planning is reviewed annually to ensure that an equitable gender and ethnic balance exists within the Group. Women currently make up 48% of the total workforce, 25% of the executive management and 20% of Top-50 management. Company policy is to ensure fair and competitive remuneration for all employees.

The Board of Directors of Kongsberg Automotive ASA consists of three (37.5%) women and

11,401

Full-time employees

five (62.5%) men, with 40% (2/5) of the Company's shareholder-elected directors being female.

Kongsberg Automotive recognizes the importance of attracting and retaining skilled and motivated personnel at all levels of the organization. Employees are expected to have a strong commitment to the business and the Group's ethical guidelines and values. Kongsberg Automotive is committed to a culture of diversity and inclusion where all employees are valued for their unique differences and contributions to the success of the Company. This commitment is defined in the Group's Diversity policy and reflected in its focus on diversity in recruitment processes.



A quality employer

Kongsberg Automotive aims to be an employer of choice in the 19 countries where we operate. Worker benefits and competitive compensation are only part of KA's value proposition to its workforce and future employees. The rest of the KA offering hinges on the employee experience. For KA, the full engagement of talented engineers, managers and skilled production technicians is part of the Company success formula.

KA Dialogue

Employee engagement is ensured by a regular, company-wide survey of workforce perceptions that help produce yearly appraisals of management.

These KA Dialogue surveys measure the quality of communication coming from local management teams and the overall effect of these on employee performance and engagement. Employees provide input on improving production, on site improvements and on management's own ability to communicate.

Staff learn how they impact KA quality and how they can contribute to broader Company goals like safety and improving environmental performance. KA sees this management-employee dialogue as so crucial to the success of the business that we merged our Communications & Human Resources departments.

Staying with KA

While communication is important, employee surveys reveal the multitude of reasons voluntary staff turnover at KA is relatively low and falling in the Americas and stable in Europe.

Employee interviews also reveal the wealth of reasons KA has become an employer of choice. The reasons cited for staying with KA were many and included these considerations: positive pressure to produce, salary, on-the-job safety, atmosphere, an interesting mix of people, a passion for cars, professional development and the opportunity to make an impact.

Generally, the monthly voluntary turnover of KA's worldwide office-worker staff is very low at between

1 and 1.5%. KA notes that plant staff, when they leave, tend to leave during the summer months.

Making a difference

KA values the desire of its employees to make a positive difference and this is recognized at the local plant level. Their efforts to make a difference in the workplace and in their communities are recorded and broadcast on KAI, the Company Intranet.

While management and plant staffs can be proud of the impact they have on the quality of work, many also enjoy making a positive impact on the quality of life. Together, KA management and employees regularly involve themselves in heartfelt causes via fund-raising and gift-giving drives that draw on the charitable nature of KA's employees. Examples include "Movember moustache-growing" in support of prostate cancer awareness at Normanton, UK, and funding drives at several European plants in support of breast cancer.

KA strives to care about the families of employees. Family Days have been held at several plants worldwide and typically involve activities for children along with plant tours and cooking contests for adult family members.

The Company also recognizes its outstanding employees. One example of this are the perfect-attendance ceremonies of our Nuevo Laredo plant, where employees are honored for flawless attendance with special recognition, gifts and plant-wide celebration.

Health, safety and environment

Kongsberg Automotive gives the highest priority to the health and safety of its employees while seeking to minimize the environmental impact of our manufacturing processes. These Health, Safety and Environment (HSE) policies are well established and articulate the key actions necessary to achieve the highest industry standards in HSE performance and KA's business objectives. These commitments are communicated throughout the organization.

The authorities in the countries where the Group operates set HSE standards through legislation, regulations and specific requirements. KA's businesses comply with these strictures through our own internal HSE requirements. The Group sets expectations for all units while requiring improved performance and regular assessments of progress. In the health and safety area, all manufacturing facilities are aligning their safety management systems to the new ISO 45001 standard. All manufacturing locations implement externally certified Environmental Management Systems in accordance with the ISO 14001 standard: this standard ensures that all business units consider the environmental impact of their work and set appropriate targets for improved performance. As a supplier, KA also meets the HSE expectations of its customers.

Objectives and plans for continuous improvement in HSE performance were set and communicated in early 2018. Key performance indicators were reviewed regularly at the top levels of the organization, and adjustments were immediately made when needed. As a result, the Group continues to report good performance with respect to HSE.

Absences due to illness are tracked by the Company, and for all KA employees, sick leave averaged approximately 3% in 2018 (2.2% in 2017).

Safety record improves

Health and safety activity continued its focus on eliminating unsafe conditions at manufacturing plants. In 2018, the Group reported 30 injuries (an improvement by 38% over last year's reported 49 injuries), and 9 manufacturing locations reported zero accidents in

reduction in injuries by

56%

over a four-year period

2018. The Group averaged 0.9 accidents for every one million person-hours worked in 2018 versus 2.7 accidents for every one million person-hours worked in 2017. The results indicate an improving performance level for the year and a reduction in injuries by 56% over a four-year period. The Group also sought a reduction in work-related lost-time injuries by tracking an H-value of lost time injuries per million person-hours worked. For 2018, there was a reduction to 0.5 lost-time injuries per million person-hours worked (versus 2.6 lost-time injuries per million person-hours worked in 2017). These results support KA's focus on resources, employee engagement, training and awareness, improved work processes and ergonomic analysis.

Positive HSE impact was also derived from the increased employee awareness and engagement seen at manufacturing locations that carried out Healthy Activity Days and Safety Days.

Environmental reporting

All manufacturing units collected energy consumption data for electricity and the burning of fossil fuels used in production. Their target for 2018 was to decrease overall energy intensity (energy consumption relative to total product sales) by 1.0%.

Group energy intensity in 2018 decreased by 18% to 105 kilowatt-hours for every Euro of total product sales (down from 127 kWh/€ in 2017). In addition to a focus on energy conservation initiatives, the positive trend is also a result of the conversion to LED lighting in many facilities. While energy intensity was the primary key performance indicator, manufacturing units did work to reduce overall energy consumption. Absolute energy use was cut 15% from about 142 million kWh in 2017 to 120 million kWh in 2018. This

**8**

manufacturing locations were
landfill free in 2018

18%

reduction in energy intensity

7%

reduction in CO₂ emissions

produced the extra benefit of reduced CO₂ emissions for the year. Using UN Greenhouse Gas Calculators, the Group calculated that its 2018 CO₂ emissions were approximately 41,120 metric tons, or a 7% decrease from last year's 44,110 t. Group CO₂ emissions intensity in 2018 improved to 36 t of CO₂/1M€ of total product sales from 39 t of CO₂/1M€ in 2017.

Pollution control is important to KA and in the communities where it operates. In 2018, the Group's aim was to reduce by 1% the yearly amount of waste sent to landfills. There was a parallel effort to lower the toxicity of waste requiring special treatment or disposal. The measure of waste to sales is the waste index. All units sought opportunities to reuse and recycle. Notably, 8 manufacturing locations were landfill free in 2018. However, plant-restructuring programs did affect KA's waste index, and it increased by 26% from 1.16 kilogram/1000€ in 2017 to 1.57 kg/1000€ in 2018.

The Group's absolute waste count also increased by 18% in 2018 to 1.8 million kg from 1.3 million kg in 2017.

Following an established baseline, KA's water use was tracked in 2018 as a key performance indicator. While all manufacturing sites were tasked with reducing their water use by 1%, identifying conservation opportunities helped produce a 4% overall reduction.

The Group reported no fires resulting in significant property damage or causing interruption to normal business. Additionally, there were no harmful releases into the environment requiring disclosure to legal authorities.

A close-up photograph of a man with dark hair, wearing clear safety glasses and a blue vest over a light-colored collared shirt. He is looking slightly to the right with a subtle smile. His right hand is raised, holding a thin, clear object. The background is a blurred industrial setting. A dark blue semi-transparent box is overlaid on the bottom left of the image, containing white text.

Our values ▶

Passionate
Accountable
Prepared


LONGSHORE
AUTOMOTIVE

Corporate responsibility

For Kongsberg Automotive, Corporate Responsibility (CR) means managing operations so that the business has a positive impact on our industry and on communities.

Aligning CR with our core activities helps us achieve our strategic objectives and demonstrates our commitment to compliance with local rules and norms, with our own Code of Conduct and with our Corporate Responsibility Policy. In 2018, the Group continued to implement practices consistent with a responsible organization.

The Global Leadership Team is ultimately responsible for CR and regularly reviews performance. The Executive Vice President, HR & Communications, leads the CR program and is a member of the GLT.

Acting responsibly starts with the Group's Code of Conduct. Its guidelines help ensure that all employees act in compliance within the laws and ethical standards the international community recognizes and expects from a top-tier, automotive supplier. In 2018, the Code of Conduct was updated, translated into thirteen languages for a global workforce and communicated to all employees.

Kongsberg Automotive does not tolerate corruption or bribery and encourages reporting of suspected misconduct. All personnel are required to comply with the Code of Conduct when performing their work and when representing the Group. Employees are expected to report concerns about suspected breaches. Kongsberg Automotive promotes the Compliance Reporting Procedure throughout the Company and on the company's public Web page. The process allows concerns to be reported in a confidential and anonymous manner, without retaliation.

Kongsberg Automotive provides employees with training and guidance, including descriptions of the types of activities that should be reported. Training – designed with a focus on relevant ethical dilemmas to ensure employees understand the Code and their responsibilities – is held through classroom-style training, workshops, and an e-learning program.

Kongsberg Automotive develops and produces automotive parts that help reduce environmental impact.

The Group manages CR performance through a rigorous framework of policies and procedures. The United Nations Global Compact and Universal Declaration of Human Rights are considered when determining human rights issues and labor practices relevant to Kongsberg Automotive. The Group applies fair labor practices while respecting the national and local laws of the communities where it operates and will not tolerate or engage in forced or exploitive labor. The Group promotes the International Labour Organization's fundamental principles including the right to freedom of association and the elimination of child-labour, forced labour and discrimination linked to employment. The Group fully supports the Convention on the Rights of the Child which states that all children have the right to leisure and education: neither Kongsberg Automotive nor its partners shall exploit children as a labour force.

Suppliers are expected to adopt similar standards and assurances. The Group's commitment to ethical and socially responsible sourcing are outlined in the Supplier Declaration and Supplier Sustainability Manual. A supplier assessment process is in place to vet new suppliers and ensure existing suppliers meet requirements consistent with a responsible organization. In addition, the Company's purchasing organization can access training in supplier sustainability topics as part of their standard development.

A due-diligence process has been established to identify the possible presence of conflict minerals in

our supply chains. The Group has a robust process to query and track suppliers and to embrace principled sourcing practices. No material risks in this area have been identified.

The Group is committed to providing a respectful, inclusive workplace free from harassment, discrimination, violence and intimidation. The Diversity Policy helps to promote a culture of respect. The Group also encourages its employees to be involved in their communities and to support issues such as education, health, social responsibility and advocacy for children.

Kongsberg Automotive develops and produces automotive parts that help reduce environmental impact.

The Group's product offering supports the sustainability and CR requirements of its customers. The Group will inform stakeholders of its efforts toward these goals and ensure their involvement in meeting the Company's own CR goals. In summary, Kongsberg Automotive is committed to promoting a CR culture that considers stakeholder interests, aligns with its business-growth strategy and achieves outcomes consistent with its Corporate Responsibility Policy and Code of Conduct.

Outlook

Light-vehicle production

Light-vehicle production in 2019 is forecast to grow by 1.0% to 95.1 million vehicles. Production in Asia and South America is expected to drive this turnaround. China alone is expected to increase production by more than 500,000 units, or an increase of 1.7% compared to 2018. North American and European production is expected to stabilize at or near 2018 levels.

Commercial-vehicle production

Commercial-vehicle production is expected to decrease in 2019 by 4.5% to 3.2 million trucks. North American and Western European production is expected to be stable. Eastern European and South American production are forecast at almost double-digit growth rates.

This leaves China the main driver of an overall decline in forecast production, as advanced truck purchases made due to stricter regulations – which fueled growth in 2017 and H1 2018 – ran out in mid-2018.

Implication on KA

Taking the overall market outlook as published by leading market research companies as well as our order book into consideration, and assuming no significant change in expected vehicle production figures and foreign exchange rates, we expect our own revenues to outperform the overall market development in 2019.

Board of Directors

Kongsberg Automotive's Board has eight directors.
Five are elected by shareholders and three by employees.



Firass Abi-Nassif
Chairman



Ellen M. Hanetho
Board member



Thomas Falck
Board member



Gunilla Nordstrom
Board member



Ernst Kellermann
Board member



Jon-Ivar Jørnby
Employee elected



Tonje Sivesindtjæret
Employee elected



Bjørn Ivan Ødegård
Employee elected

Henning E. Jensen
President and CEO

Kongsberg, February 27, 2019
The Board of Directors of Kongsberg Automotive ASA

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► Consolidated Statement of Comprehensive Income

MEUR	Note	2018	2017
Operating revenues	7	1,123.1	1,056.6
<i>Operating expenses</i>			
Raw material expenses		(508.3)	(478.7)
Change in inventories		15.8	26.1
Salaries and social expenses	8	(313.6)	(304.8)
Other operating expenses	9	(227.7)	(230.1)
Depreciation and impairment	13	(30.9)	(30.9)
Amortization and impairment	12	(4.7)	(14.5)
Total operating expenses		(1,069.4)	(1,032.8)
Operating profit		53.7	23.8
<i>Financial items</i>			
Financial income	10	1.3	0.2
Financial expenses	10	(16.5)	(17.6)
Net financial items	10	(15.2)	(17.4)
Profit before taxes		38.5	6.4
Income taxes	11	(14.7)	(14.4)
Net profit / (loss)		23.8	(8.0)
<i>Other comprehensive income</i>			
<i>Items that may be reclassified to profit or loss in subsequent periods:</i>			
Translation differences on foreign operations		7.5	(3.8)
Tax on translation differences		(3.1)	2.8
<i>Items that will not be reclassified to profit or loss in subsequent periods:</i>			
Translation differences on non-foreign operations		(7.2)	(6.4)
Remeasurement of net PBO	18	(0.2)	(0.1)
Tax on net PBO remeasurement		0.1	0.0
Other comprehensive income		(3.0)	(7.5)
Total comprehensive income for the year		20.8	(15.4)
<i>Net profit / (loss) attributable to</i>			
Equity holders (Parent company)		23.7	(8.0)
Non-controlling interests		0.1	0.0
Total		23.8	(8.0)
<i>Total comprehensive income attributable to</i>			
Equity holders (Parent company)		20.7	(15.2)
Non-controlling interests		0.0	(0.2)
Total		20.8	(15.4)
<i>Earnings per share:</i>			
Basic earnings per share, Euros	17	0.06	(0.02)
Diluted earnings per share, Euros	17	0.06	(0.02)

► Consolidated Statement of Cash Flows

MEUR	Note	2018	2017
<i>Operating activities</i>			
Profit before taxes		38.5	6.4
Depreciation	13	30.9	30.9
Amortization	12	4.7	14.5
Interest income	10	(0.6)	(0.2)
Interest and other financial expenses	10	6.0	10.1
Taxes paid		(8.9)	(13.0)
(Gain) / Loss on sale of non-current assets	12, 13	2.0	(1.0)
Changes in trade receivables	15	(30.7)	(20.5)
Changes in inventory	14	(15.8)	(26.1)
Changes in trade payables	22	29.0	19.7
Currency differences	10	3.0	5.4
Changes in value of financial derivatives	10	0.0	0.7
Changes in other items ¹		(15.0)	11.5
Cash flow from operating activities		43.2	38.3
<i>Investing activities</i>			
Capital expenditures, including intangible assets	12, 13	(68.2)	(52.7)
Proceeds from sale of fixed assets	12, 13	3.2	3.0
Interest received		0.6	0.2
Proceeds from sale of subsidiaries		(0.0)	0.2
Net payments for other long-term investments		(5.5)	0.0
Cash flow used by investing activities		(70.0)	(49.3)
<i>Financing activities</i>			
Proceeds from increases in equity		41.2	0.0
Proceeds from sale / (purchase) of treasury shares		0.0	(2.5)
Net drawing of debt ²	19	11.2	30.6
Interest paid		(6.5)	(9.9)
Other financial charges		(1.1)	0.0
Cash flow from financing activities		44.9	18.2
Currency effects on cash		1.6	(2.3)
Net change in cash		19.8	4.9
Net cash as at January 1 ³		39.5	34.6
Net cash as at December 31 ³		59.2	39.5
Of this, restricted cash		0.1	1.6

¹ Comprises changes in other current receivables, other short-term liabilities and provisions.

² Comprises MEUR 275.0 senior secured notes issued, deduction of fees paid and repayment of MEUR 266.5 outstanding under the former loan facilities.

³ Comprises the net amount of bank deposits, cash and bank overdraft.

► Consolidated Statement of Financial Position

MEUR	Note	2018	2017
ASSETS			
<i>Non-current assets</i>			
Deferred tax assets	11	20.1	23.7
Intangible assets including goodwill	12	162.2	162.0
Property, plant and equipment	13	196.3	169.7
Other non-current assets	15	10.1	3.5
Total non-current assets		388.6	358.9
<i>Current assets</i>			
Inventories	14	120.4	104.7
Trade and other receivables	15	231.2	201.1
Cash and cash equivalents	19	59.2	39.5
Other current assets	15	20.7	17.9
Total current assets		431.6	363.1
Total assets		820.2	721.9
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital	16	22.6	20.8
Treasury shares	16	0.0	(0.1)
Share premium	16	205.8	171.4
Other reserves		43.9	42.1
Retained earnings		(22.4)	(46.9)
Attributable to equity holders		249.9	187.1
Non-controlling interests		3.6	3.6
Total equity		253.5	190.7
<i>Non-current liabilities</i>			
Deferred tax liabilities	11	23.6	19.5
Retirement benefit obligations	18	16.8	17.1
Interest-bearing liabilities	19, 21	269.4	257.8
Other non-current interest-free liabilities	20	5.1	2.4
Total non-current liabilities		314.9	296.8
<i>Current liabilities</i>			
Other current interest-bearing liabilities		0.1	0.1
Current income tax liabilities	11	4.0	3.0
Trade and other payables	22	247.7	231.4
Total current liabilities		251.8	234.5
Total liabilities		566.7	531.2
Total equity and liabilities		820.2	721.9

► Consolidated Statement of Changes in Equity

MEUR	Share capital	Treasury shares	Share premium	Other reserves	Retained earnings	Equity holders of the Parent	Non-controlling interests	Total equity
Equity as at 01.01.2017	22.5	(0.1)	185.6	35.8	(38.9)	204.9	3.8	208.6
Sale of treasury shares		(0.0)		(2.5)		(2.5)		(2.5)
Value of share options charged to income statement				0.1		0.1		0.1
<i>Total comprehensive income for the year:</i>								
Profit for the year					(8.0)	(8.0)	0.0	(8.0)
<i>Other comprehensive income:</i>								
Translation differences	(1.7)	0.0	(14.2)	6.0		(10.0)	(0.2)	(10.2)
Tax on translation differences				2.8		2.8		2.8
Remeasurement of net defined pension liability				(0.1)		(0.1)		(0.1)
Tax on remeasurement of net pension liability				0.0		0.0		0.0
Total comprehensive income for the year	(1.7)	0.0	(14.2)	8.7	(8.0)	(15.2)	(0.2)	(15.4)
Equity as at 31.12.2017	20.8	(0.1)	171.4	42.1	(46.9)	187.1	3.6	190.7
Prior year adjustment*								
Equity increase	2.1		37.6			39.7		39.7
Sale of treasury shares		0.1		0.8		0.9		0.9
Value of share options charged to income statement				0.6		0.6		0.6
<i>Total comprehensive income for the year:</i>								
Profit for the year					23.7	23.7	0.1	23.8
<i>Other comprehensive income:</i>								
Translation differences	(0.3)		(3.2)	3.7		0.3	(0.0)	0.3
Tax on translation differences				(3.1)		(3.1)		(3.1)
Remeasurement of net defined pension liability				(0.2)		(0.2)		(0.2)
Tax on remeasurement of net pension liability				0.1		0.1		0.1
Total comprehensive income for the year	(0.3)	0.0	(3.2)	0.5	23.7	20.7	0.0	20.8
Equity as at 31.12.2018	22.6	(0.0)	205.8	43.9	(22.4)	249.9	3.6	253.5

* Adjustments due to initial adoption of IFRS 15 and IFRS 9.

Specification of constituent elements of equity:

- Share capital: par value for shares in issue
- Treasury shares: par value for own shares
- Share premium: premium over par value for shares in issue
- Other reserves: translation differences, premium treasury shares, warrants, share options and other comprehensive income
- Retained earnings: accumulated retained profits and losses
- Non-controlling interests: non-controlling interests' share of equity in Group companies

► Notes

NOTE 1 Reporting Entity

Kongsberg Automotive ASA (“the Company” or “the Parent company”) and its subsidiaries (together “the Group”) develop, manufacture and sell products to the automotive industry worldwide. The Company is a limited liability company incorporated and domiciled in Norway.

The address of its registered office is Dyrmyrgata 48, NO-3601 Kongsberg, Norway. The Company is listed on the Oslo Stock Exchange. The Group’s consolidated financial statements were authorized for issue by the Board of Directors on February 27, 2019.

NOTE 2 Statement of Compliance

The Group’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as endorsed by the EU.

NOTE 3 Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability the Group considers the characteristics of the asset or liability if market participants would do so. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transaction within the scope of IAS 17 and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurement are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Kongsberg Automotive ASA and its subsidiaries as of December 31 each year. The financial statements of subsidiaries are prepared for the same reporting periods as the Parent company, using consistent accounting principles.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full.

Changes in the Group’s ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group’s interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in the other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary and reclassified to profit or loss or transferred to another category of equity as specified by applicable IFRSs. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9.

NOTE 3 Significant Accounting Policies (continued)

Business combinations

Business acquisitions are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognized in the profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognized at fair value, except (i) that deferred tax assets or liabilities or liabilities related to employee benefits are recognized in accordance with IAS 12 and IAS 19, respectively, (ii) liabilities or equity instruments related to share-based payments of the Group to replace arrangements of the acquiree are measured according to IFRS 2 and (iii) assets classified as held for sale and discontinued operations are measured in accordance with IFRS 5. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. Non-controlling interests that are present ownership interests and entitle their holder to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at fair value or a non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. There is only one non-controlling interest, which the Group has chosen to measure at the proportionate share of the recognized amounts of the acquiree's identifiable net assets.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost established at the date of acquisition of the business, less accumulated impairment losses, if any.

For purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the combination.

A cash-generating unit to which a goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the unit and then the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss and is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Functional and presentation currency

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Euro using the exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income, accumulated in equity, and attributed to non-controlling interests as appropriate.

On the disposal of a foreign operation, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in comprehensive income.

Exchange differences on monetary items are recognized in profit or loss (in financial items) in the period in which they arise except for monetary items receivable from or payable to a foreign operation for which the settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation). These are recognized initially on other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

The Group presents its consolidated financial statements in Euros. The presentation currency of the Parent company is Euro, whilst its functional currency is Norwegian Kroner. The reason for the use of Euros is to enable all amounts in the published financial statements of both the Group and the Company to be presented in the same currency. All financial information presented in Euro has been rounded to the nearest thousands, except when otherwise indicated.

Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Executive Committee (led by the CEO).

NOTE 3 Significant Accounting Policies (continued)

Intangible assets other than goodwill

Internally generated intangible assets – Research and development expenditure

Research expenditures are expensed as incurred. An internally generated intangible asset arising from development on specific projects is recognized only when all of the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or for sale
- its intention to exercise the right to use or to sell the asset
- the ability to use or sell the intangible asset
- how the asset will generate probable future economic benefits
- the availability of resources to complete the project
- the ability to reliably measure the expenditure incurred

The amount initially recognized for the internally generated asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses. The amortization period is five years.

Software

Costs associated with maintaining computer software are expensed as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the abovementioned criteria are demonstrated to be fulfilled.

Development expenses that do not meet these criteria are expensed as incurred and are not recognized as an asset in a subsequent accounting period.

Software costs are amortized over their estimated useful lives, which do not exceed three years.

Other intangible assets – acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date, which is regarded as their cost.

After initial recognition, intangible assets are reported at cost less accumulated amortization and accumulated impairment losses.

The useful life of patents is considered to be up to 21 years, the useful life of customer relationship is estimated to be 10 years.

Impairment of tangible and intangible assets (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current marked assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years.

Property, plant & equipment (PP&E)

PP&E are carried at cost less accumulated depreciation and impairment losses. The assets are depreciated over their useful economic lives using the straight-line method.

Costs include duties, taxes, installation and commissioning costs relating to making the non-current asset available for use. Subsequent costs, such as repair and maintenance costs, are expensed when incurred unless increased future economic benefits arise as a result of repair and maintenance work. Such costs are recognized in the Statement of Financial Position sheet as additions to non-current assets. straight-line depreciation is calculated at the following rates:

Land	Not depreciated
Buildings	3–4%
Production machinery and tooling	10–25%
Computer equipment	33%

NOTE 3 Significant Accounting Policies (continued)**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group leases several buildings for office space and production facilities which are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are determined on a first-in, first-out basis. Cost of raw materials comprise purchase price, inbound freight and import duties. Cost of finished and semi-finished goods include variable production cost and fixed costs allocated on normal capacity. Interest costs are not included. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from fair value of the financial assets or liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets*Subsequent measurement*

All recognized financial assets are subsequently measured at either amortized cost or fair value based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group holds loans and receivables (including trade receivables and other receivables, bank balances and cash) within the business model hold to collect the contractual cash flows. Consequently, they are subsequently measured at amortized cost using the effective interest method, less any impairments.

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

Impairment of financial assets

From January 1, 2018, the group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost. For trade receivables and contract assets the group applies the simplified approach which requires expected lifetime losses to be recognized from initial recognition of the receivables. See note 15 for further details.

Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flow from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Financial liabilities

The Group classifies and measures its financial liabilities (including borrowings and trade and other payables) at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a debt instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial derivative instruments

The Group uses financial derivative instruments to reduce risks associated with interest and currency rate risk. See note 21.

These derivatives are not designated as hedging instruments. The derivatives are measured at fair value. Changes in fair value are recognized in the income statement as financial income or expenses, depending upon whether they represent gains or losses. They are disclosed on the line "Changes in value of financial derivatives" within note 10 – Financial Items.

Taxes payable and deferred taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the profit or loss statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" because of items of income or expense that are taxable or deductible on other years and items that are never taxable or deductible. The Group's current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries in which it's subsidiaries operate.

NOTE 3 Significant Accounting Policies (continued)

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, using tax rates that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the deferred tax asset is realized or the deferred tax liability settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilized. Deferred tax positions are netted within the same tax entity.

Employee benefits, retirement benefit cost and termination benefits

Payment to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailment and settlements)
- net interest expense or income
- remeasurement

The Group presents the first two components of defined benefit cost in profit or loss in the line item Salaries and social expenses. Curtailment gains and losses are accounted for as past service costs. The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer or the termination benefit and when the entity recognized any related restructuring costs.

Pension plans in the group

The Parent company Kongsberg Automotive ASA and its Norwegian subsidiary Kongsberg Automotive AS have defined benefit and defined contribution pension plans. The plans were changed from defined benefit to defined contribution in 2004. The defined benefit plan was continued for employees who had already retired. The other defined benefit plan was an early retirement plan for the former CEO, but this plan was terminated in 2016.

Defined benefit pension plans also exist in two subsidiaries in Germany, one subsidiary in France and one subsidiary in Switzerland. The subsidiaries in Sweden, the UK and the USA have defined contribution pension plans for employees.

The former early-retirement arrangement in Norway was replaced in 2011. Financing of the early-retirement arrangement is now done by an annual fee, which represents the final cost for the companies included. The arrangement is defined as a multi-employer plan and is accounting for as a defined contribution pension plan. Norwegian employees are included in this scheme.

The defined contribution plans in Norway have legislative limitations when it comes to maximum salary as calculation basis for tax deductibility. Norwegian employees with salaries that exceed this limit will be granted an addition to the pension that includes the salary above the maximum limit. This obligation will only materialize if the person is employed in KA at the time of retirement. This plan is accounting for as a defined benefit pension plan.

Short-term and other long-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave for the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for the service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimate future cash outflow expected to be made by the Group in respect of services provided by employees up to the reporting date.

NOTE 3 Significant Accounting Policies (continued)

Share-based payments

Equity-settled share-based payments to employees and others providing services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 16.

In 2018 a new Long-Term Incentive Plan (LTIP) for management and key employees was implemented. The award consists of two equity instruments, (i) Stock Options (SO) and (ii) Restricted Stock Units (RSU). Both instruments are based on a service condition to vest.

The SO may be exercised at the earliest three years after the grant date. Regarding the RSU, one third of the RSU granted in 2018 vests annually in 2019, in 2020 and 2021 each.

In addition, the SO is based on a performance condition, defined as the Company's total shareholder return (TSR) measured relatively to a defined peer group.

Whereas that performance condition has been reflected in the fair value of the SO, the service condition for the RSU must not be considered when determining the fair value of the RSU. Instead the number of shares expected to vest will be estimated on a regular basis. The fair value of the SO as of grant date was determined to amount to NOK 2.08 based on Monte-Carlo-Simulation. The fair value of RSU was the share price of grant date being NOK 9.32. As both instruments are based on a service condition to vest, the expense is recorded on a pro-rata basis.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) because of a past event; it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

Restructuring provisions

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Warranties

Provisions for expected cost of warranty obligations under local sale of goods legislation are recognized at the date of the sale of the relevant products, at management's best estimate of the expenditure required to settle the Group's obligation.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all its liabilities. Equity instruments issued by the Parent company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Revenue Recognition

The KA Group is in the business of providing products to the global vehicle industry. In doing so the Group provides service covering engineering and tooling, as well as the manufacturing and delivery of automotive parts. Engineering services is development of customized designs in collaboration with the customer. Tooling is production of equipment such as cutting tools and molds needed in manufacturing of parts. Tooling can be highly customized or developed to produce standardized products to a wider range of customers. Product parts are the continuous supply of automotive parts such as seat heaters, cables, driver control systems, and fluid transfer systems.

Engineering, tooling and product part delivery may be contracted in separate agreements (concluded at different points in time) or may be contracted in one agreement. In either case any binding obligation for the customer with respect to parts is created only upon issuance of purchase orders. The Group has determined that engineering, tooling and the delivery of product parts are separate and distinct for the customer and therefore constitute separate performance obligations under IFRS 15, when ownership is transferred. As is normal in the automotive industry, the customer does not guarantee to purchase a minimum quantity of parts. The prices agreed in the contracts for the single-performance obligations are considered to be the stand-alone selling prices and are therefore used for recognizing revenue.

NOTE 3 Significant Accounting Policies (continued)*Engineering services*

Before manufacturing and sale of automotive parts start, the Group normally undertakes engineering services to tailor the design of a part to customer needs. Where the ownership of the results of the engineering is transferred to the customer, the Group recognizes any consideration received from the customer as revenue. The Group has determined that the engineering services performance obligation is satisfied at a point in time and upon transfer of ownership of the results of the engineering. Transfer of ownership normally takes place when engineering is complete, and the tooling phase is initiated. Consideration from the customer may be agreed as installments following the progress of the engineering, as one installment upon completion of the engineering phase, or may be explicitly included in the piece price over a certain specific sales volume. Consideration received in advance of transfer is deferred and recognized as contract liability. Any consideration to be received through piece price is recognized as revenue and accrued as receivable upon transfer of engineering services to the customer, if the consideration for the engineering services is a guaranteed amount.

Tooling equipment

After the engineering phase, and before manufacturing and sale of automotive parts start, the Group manufactures, or has manufactured, the tooling equipment for use in the subsequent production of automotive parts. Where the ownership of tooling equipment is transferred to the customer, the Group recognizes any consideration received from the customer as revenue. The Group has determined that the tooling equipment performance obligation is satisfied at a point in time and upon final approved transfer of ownership of the tooling to the customer. Transfer of ownership normally takes place in connection with start of production of the automotive parts. Consideration from the customer may be agreed as installments following the progress of the manufacture of the tooling equipment, as one installment upon final approval of the tooling equipment by the customer or may explicitly be included in the piece price. Revenue is recognized at a point in time upon transfer of ownership and final approval of the tooling equipment by the customer. Consideration received in advance of transfer is deferred and recognized as contract liability. Any consideration to be received through piece price is recognized as revenue and accrued as receivable upon approval of the tooling by the customer.

Delivery of automotive parts

The sale of manufactured automotive parts is satisfied upon transfer of control over the parts to the customer, which in general is upon delivery to the customer. Each delivery is considered as a performance obligation that is satisfied at a point in time.

Variable consideration

Revenue will be recognized (only) to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

A few contracts with customers entitle the customer to price reductions after exceeding defined volume thresholds. Such variable considerations are estimated at contract inception and updated thereafter.

As it is common industry practice most of the contracts have variable elements in the form of year-on-year price reductions or staggered rebates. The Group has determined that the price reductions reflect the competition in the industry and therefore are not to be considered as a loyalty bonus. Revenue recognition is therefore based on the sales price for each delivery to the customer.

Warranty obligations

The Group generally provides for warranties for general repairs and does not provide extended warranties in its contracts with customers. As such, most existing warranties will be assurance-type warranties under IFRS 15, which will continue to be accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its current practice.

NOTE 4 Critical Accounting Estimates and Judgments

In application of its accounting policies the Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities which are not readily available from other sources. The estimates and judgments are based on historical experience and other factors, including expectations of future events that are considered to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

The cash-generating units in KA are the business units (Interior segment: Light-duty cables and Comfort systems. Powertrain and Chassis segment: Driveline and On-Highway / Europe, Asia and Americas. Specialty Products segment: Hose and Tubes, Couplings and Off Highway). The forecasts of future cash flows are based on the Group's best estimates of future revenues and expenses for the cash-generating units to which goodwill has been allocated.

A number of assumptions and estimates can have significant effects on these calculations and include parameters such as macroeconomic assumptions, market growth, business volumes, margins and cost effectiveness. Changes to any of these parameters, following changes in the market conditions, competition, strategy or other factors, affect the forecasted cash flows and may result in impairment of goodwill.

The carrying amount of goodwill at December 31, 2018 was MEUR 147.8 (2017: MEUR 146.2). No impairment losses were recognized in 2018 or 2017. Details of the impairment loss calculation are set out in note 12.

Recoverability of internally generated intangible assets – research and development expenditure

Significant investments are made towards product improvements and innovation to secure the Group's position in the market. Estimates and judgments used when deciding how the costs should be accounted (charged to profit or loss or capitalized as an asset) will have a significant effect on the statement of comprehensive income and statement of financial position. Internally generated intangible assets are subject to impairment reviews as described in note 3.

The carrying amount of internally generated intangible assets for patents and development expenditure at December 31, 2018 was MEUR 9.8 (2017: MEUR 9.7).

Refer to notes 3 and 12 for further information.

Deferred tax asset

Deferred income tax assets are recognized at MEUR 9.0 for tax losses carried forward only to the extent that realization of the related benefit is probable. Several subsidiaries have losses carried forward on which they have recognized deferred tax assets. The probability of their realization is determined by applying a professional judgment to forecast cash flows. These cash flows are based on assumptions and estimates and, accordingly, changes to the forecasts may result in changes to deferred tax assets and tax positions.

See note 11 – Taxes.

Discount rate used to determine the carrying amount of the Group's defined benefit obligation

The Projected Benefit Pension Obligation (PBO) for major pension plans is calculated by external actuaries using demographic assumptions based on the current population. A number of actuarial and financial parameters are used as bases for these calculations. The most important financial parameter is the discount rate. Other parameters such as assumptions as to salary increases and inflation are determined based on the expected long-term development.

NOTE 5 New Standards and Interpretations**New and amended standards and interpretations**

The Group applied for the first time certain amendments to the standards, which are effective for annual periods beginning on or after January 1, 2018. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The nature and the impact of each amendment is described below.

New and amended IFRS Standards that are effective for the current year**Impact of initial application of IFRS 9 Financial Instruments**

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after January 1, 2018. The Group has elected not to restate comparatives in respect of the classification and measurement of financial instruments in accordance with the transition provisions of IFRS 9.

Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments.

IFRS 9 introduced new requirements for:

- the classification and measurement of financial assets and financial liabilities,
- impairment of financial assets, and
- General hedge accounting.

Classification and measurement of financial assets

The Group has applied the requirements of IFRS 9 to instruments that continue to be recognized as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Group continues to classify and measure trade and other receivables at amortized cost.

Classification and measurement of financial liabilities

No financial liabilities have been designated as at fair value through profit and loss (FVTPL) at the date of initial application of IFRS 9.

Under IAS 39 a non-substantial modification in the terms of a financial liability does not require the reporting entity to recognize a gain or loss. A non-substantial modification in terms is where the net present value of the cash flows with the modified terms is 10% or less different from the net present value prior to the modification, both discounted at the original effective interest rate. Under IFRS 9 it has now been clarified that a gain or loss should be recognized for any modification. The change must be applied retrospectively to all financial liabilities that are still recognized at the date of initial recognition. The Group has modified the terms of the interest-bearing financial liabilities (bank loans) three times in the past which leads to an increase in long-term debt of MEUR 2.3 as at January 1, 2018.

Impact on assets (increase), and liabilities and equity (increase/decrease) as of January 1, 2018 (in MEUR):

Assets	
Deferred tax asset	0.5
Total assets	0.5
Liabilities and equity	
Interest-bearing liabilities	2.3
Retained earnings	(1.8)
Total liabilities and equity	0.5

Impact on profit or loss in the current year:

- The adjustment to the 2018 opening balance of interest-bearing liabilities (MEUR 2.3) has been reversed in its entirety through profit and loss, of which MEUR 0.5 had been amortized before repayment of the interest-bearing liabilities (bank loans) and the remaining MEUR 1.8 was recognized as income upon repayment of the bank loans as of July 23, 2018.

Refer to note 19 for the current classification and measurement.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The Group has determined that, due to the immateriality of past losses on trade receivables and considering all reasonable and supportable information including forward-looking information, the effect of implementing expected lifetime losses for receivables and contract assets is immaterial and therefore no additional bad debt reserve has been made.

Impact on assets and equity / liabilities as at January 1, 2018:

- There is no impact as of the date of first application of IFRS 9.

Impact on profit or loss in the current year:

- There is no impact on the earnings before tax (EBT).

The application of IFRS 9 has had no impact on the consolidated cash flows of the Group.

NOTE 5 New standards and interpretations (continued)**Impact of initial application of IFRS 15 Revenue from Contracts with Customers**

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after January 1, 2018. IFRS 15 introduced a 5-step approach to revenue recognition.

Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 15 on the required effective date using the modified retrospective method in accordance with IFRS 15.C3(b), recognizing the cumulative effect of initial application as an adjustment to the opening balance of retained earnings as of January 1, 2018. In addition, the Group has elected to apply this Standard retrospectively only to contracts that are not completed contracts as of January 1, 2018.

IFRS 15 uses the terms "contract asset" and "contract liability" to describe what might more commonly be known as "accrued revenue" and "deferred revenue", however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the terminology used in IFRS 15 to describe such balances. The term deferred income is used in respect of the government grant balances that are disclosed in note 59 and are not within the scope of IFRS 15.

The Group's accounting policies for its revenue streams are disclosed in detail in note 3 below. In some contracts the engineering services have been determined to be a separate performance obligation, being satisfied upon transfer of ownership. Any consideration to be received through piece price is recognized as revenue and accrued as receivable upon transfer of engineering services to the customer, if the consideration for the engineering services is a guaranteed amount.

Apart from this and from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. The amount of adjustment for each financial statement line item affected by the application of IFRS 15 is illustrated below.

NOTE 5 New standards and interpretations (continued)

Impact of the IFRS 15 on the opening balance (OB) of January 1, 2018 and on the closing balance (CB) at at December 31, 2018

MEUR	2017	Adj. to OB 2018	OB 2018 including IFRS 15	2018	IFRS 15 related CB 2018	2018 without IFRS 15
ASSETS						
Other non-current assets	3.5	2.3	5.8	10.1	4.1	5.9
Total non-current assets	358.9	2.3	361.2	388.6	4.1	384.5
Trade receivables	180.0	0.0	180.0	210.7	0.4	210.3
Other current receivables	38.9	1.0	39.9	41.2	0.8	40.4
Total current assets	363.1	1.0	364.1	431.6	1.2	430.4
Total assets	721.9	3.3	725.2	820.2	5.3	814.9
EQUITY AND LIABILITIES						
Prior year retained earnings	42.1	2.5	36.6	43.9	2.5	41.5
Profit of the year	(8.0)	0.0	(8.0)	23.8	1.3	22.5
Total equity	190.7	2.5	193.2	253.5	3.8	249.7
Deferred tax liabilities	19.5	0.5	20.0	23.6	1.1	22.5
Total non-current liabilities	296.8	0.5	297.2	314.9	1.1	313.8
Other short-term liabilities	100.7	0.3	101.1	88.0	0.4	87.6
Total current liabilities	234.5	0.3	234.8	251.8	0.4	251.4
Total liabilities	531.2	0.8	532.1	566.7	1.5	565.2
Total equity and liabilities	721.9	3.3	725.2	820.2	5.3	814.9
PROFIT AND LOSS						
Development				16.5	2.6	13.8
Operating revenues				1,123.1	2.6	1,120.5
Total operating expenses				(1,069.4)	(0.9)	(1,068.5)
Operating profit				53.7	1.7	52.0
Net financial items				(15.2)	0.0	(15.2)
Profit before taxes				38.5	1.7	36.8
Income taxes				(14.7)	(0.4)	(14.3)
Net profit				23.8	1.3	22.5

NOTE 5 New standards and interpretations (continued)

New and amended standards and interpretations not yet adopted

At the date of the authorization of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- IFRS 17 Insurance Contracts
- Amendments to IFRS 9 – Prepayment Features with Negative Compensation
- Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle – Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
- Amendments to IAS 19 Employee Benefits – Plan Amendment, Curtailment or Settlement
- IFRS 10 Consolidated Financial Statements and IAS 28 Venture (amendments) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRIC 23 Uncertainty over Income Tax Treatments

The Group does not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019. The date of initial application of IFRS 16 for the Group will be January 1, 2019.

The Group has chosen the modified retrospective application of IFRS 16 in accordance with IFRS 16:C7. There are two options for measuring a right-of-use asset on transition (on a lease-by-lease basis): by measuring the asset as if IFRS 16 had been applied since the commencement date of a lease using a discount rate based on the lessee's incremental borrowing rate at the date of initial application; or by measuring the asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application. The Group has chosen the second option.

As allowed under the modified retrospective approach, the Group has elected to apply the following practical expedients:

- apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- apply an explicit recognition and measurement exemption for leases for which the term ends within 12 months or fewer of the date of initial application and account for those leases as short-term leases;
- use hindsight in applying the new leases standard, for example, in determining the lease term if the contract contains options to extend or terminate the lease; and
- exclude initial direct costs in the measurement of the right-of-use asset.

In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group. The contracts relate mainly to buildings as well as manufacturing and other equipment. Any options to extend contractual lease periods were considered to be virtually certain to be exercised only if the lessee manufacturing plant has considerable growth potential. Services were separated from the lease.

Impact on lessee accounting

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. On initial application of IFRS 16, for all leases (except as noted below), the Group will:

- recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

NOTE 5 New standards and interpretations (continued)

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

As at December 31, 2018, the Group has operating lease commitments of about MEUR 119.7.

A preliminary assessment based on a discount rate of 5.0% (taking the fixed coupon of the newly issued bond as a relevant approximation of the incremental borrowing rate), indicates that MEUR 117.3 of these arrangements relate to leases other than short-term leases and leases of low value assets, and hence the Group will recognize a right of use asset of MEUR 90.4 and a corresponding lease liability of MEUR 90.7 in respect of all these leases. The impact on profit or loss in 2019 is expected to decrease operating expenses by MEUR 16.0, to increase depreciation by MEUR 12.7 and to increase interest expense by MEUR 4.2.

Lease liability incentives of MEUR 0.2 previously recognized in respect of the operating leases will be derecognized and the amount factored into the measurement of the right-to-use assets and lease liabilities. The preliminary assessment indicates that none of these arrangements relate to short-term leases and leases of low-value assets.

Finance leases

The main differences-between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17.

Based on an analysis of the Group's finance leases as at December 31 2018, on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the impact of this change will not have a significant impact on the amounts recognized in the Group's consolidated financial statements.

NOTE 6 Subsidiaries

Entity name	Country of incorporation	Ownership as at 31.12.2018	Entities owned by Parent company
Kongsberg Automotive Ltda	Brazil	100%	x
Kongsberg Inc	Canada	100%	
Kongsberg Automotive (Shanghai) Co Ltd	China	100%	
Kongsberg Automotive (Wuxi) Ltd	China	100%	x
Shanghai Kongsberg Automotive Dong Feng Morse Co Ltd*	China	75%	
Shanghai Lone Star Cable Co Ltd	China	100%	
Kongsberg Automotive SARL	France	100%	x
Kongsberg Driveline Systems SAS	France	100%	
Kongsberg Raufoss Distribution SAS	France	100%	
SCI Immobilière La Clusienne	France	100%	
Kongsberg 1 GmbH	Germany	100%	
Kongsberg Actuation Systems GmbH	Germany	100%	
Kongsberg Automotive GmbH	Germany	100%	
Kongsberg Driveline Systems GmbH	Germany	100%	
Kongsberg Actuation Systems Ltd	Great Britain	100%	
Kongsberg Automotive Ltd	Great Britain	100%	
CTEX Seat Comfort (Holding) Ltd	Great Britain	100%	x
Kongsberg Power Products Systems Ltd	Great Britain	100%	
Kongsberg Automotive Hong Kong Ltd	Hong Kong	100%	
Kongsberg Interior Systems Kft	Hungary	100%	
Kongsberg Automotive (India) Private Ltd	India	100%	x
Kongsberg Automotive Driveline System India Ltd	India	100%	x
Kongsberg Automotive Japan KK	Japan	100%	x
Kongsberg Automotive Ltd	Korea	100%	x
Kongsberg Automotive S. de RL de CV	Mexico	100%	
Kongsberg Driveline Systems S. de RL de CV	Mexico	100%	
Kongsberg Fluid Transfer Systems, S. de R.L. de CV	Mexico	100%	
Kongsberg Interior Systems S. de RL de CV	Mexico	100%	
Kongsberg Actuation Systems BV	Netherlands	100%	
Kongsberg Automotive AS	Norway	100%	
Kongsberg Automotive Holding 2 AS	Norway	100%	x
Kongsberg Automotive Sp. z.o.o.	Poland	100%	
Kongsberg Automotive s.r.o.	Slovakia	100%	
Kongsberg Actuation Systems SL	Spain	100%	
Kongsberg Automotive AB	Sweden	100%	
Kongsberg Power Products Systems AB	Sweden	100%	
KA Group AG	Switzerland	100%	
Kongsberg Driveline Systems I LLC.	US	100%	
Kongsberg Actuation Systems II LLC.	US	100%	
Kongsberg Holding III Inc.	US	100%	
Kongsberg Interior Systems II LLC.	US	100%	
Kongsberg Automotive Inc.	US	100%	
Kongsberg Power Products Systems I LLC.	US	100%	x

* Non-controlling interest refers to the 25% not owned of Shanghai Kongsberg Automotive Dong Feng Morse Co Ltd.

NOTE 7 Segment Information**Operating segments**

The reporting structure was changed during the first quarter of 2017 in order to better align the organizational structure with the opportunities and challenges of Kongsberg Automotive business units. The Group has three reportable segments, which are the strategic business segments: Interior, Powertrain & Chassis Products and Specialty Products.

The strategic business areas (segments) offer different products and services, and are managed separately because they require different technology and marketing strategies. The Group's risks and rates of return are affected predominantly by differences in the products manufactured. The three segments have different risk profiles in the short-term perspective, but over a long-term perspective the profiles are considered to be the same. The Group's Executive Committee (led by the CEO) reviews the internal management reports from all strategic business areas on a monthly basis.

Information regarding the results of each reportable segment is included below. Performance is measured by EBITDA and EBIT as included in the internal management reports issued on a monthly basis. Segment EBIT is used to measure performance as management believes that such information is the most relevant in evaluating the results of the segments (also relative to other entities that operate within these industries).

Sales transactions and cost allocations between the business units are based on the arms' length principle. The results for each segment and the capital allocation elements comprise both items that are directly related to and recorded within the segment, as well as items that are allocated based on reasonable allocation keys.

The following summary describes the operations of each of the Group's reportable segments:

Interior

Interior segment is a global leader in the development, design and manufacture of seat comfort systems and mechanical and electro-mechanical light-duty motion controls to Tier 1 and OEM customers. The product range includes seat adjuster cables and other cabling systems, lumbar support and side bolsters, seat heating, ventilation and massage systems and head restraints.

Powertrain & Chassis Products

Powertrain & Chassis Products is a global Tier 1 supplier of driver control and driveline products to the passenger and commercial vehicle automotive markets. The portfolio includes custom-engineered cable controls and complete shift systems, clutch actuation systems, vehicle dynamics, shift cables and shift towers for transmissions.

Specialty Products

The Specialty Products segment designs and manufactures fluid handling systems for both the automotive and commercial vehicle markets, couplings systems for compressed-air circuits in heavy-duty vehicles, operator control systems for power sports construction, agriculture, outdoor power equipment and power electronics products.

NOTE 7 Segment Information (continued)

2018

MEUR	Interior	Powertrain & Chassis	Specialty Products	Others*	Total Group
Product sales	272.7	418.8	391.8	0.0	1,083.4
Tooling	3.8	10.2	2.9	0.0	16.9
Development	5.4	5.6	5.5	0.0	16.5
Other revenues	3.7	2.5	0.1	0.2	6.4
Operating revenues	285.6	437.1	400.2	0.2	1,123.1
EBITDA	19.2	23.1	67.9	(21.0)	89.3
Depreciation	(10.2)	(12.9)	(7.3)	(0.5)	(30.9)
Amortization	(0.7)	(2.3)	(1.2)	(0.5)	(4.7)
Operating profit / (loss) - EBIT	8.3	7.9	59.4	(21.9)	53.7
<i>Timing of revenue recognition</i>					
Ownership transferred at a point in time	285.6	437.1	400.2	0.2	1,123.1
<i>Assets and liabilities</i>					
Goodwill	57.0	22.9	67.9	0.0	147.8
Other intangible assets	0.8	11.2	1.4	1.1	14.4
Property, plant and equipment	74.8	67.9	51.9	1.6	196.3
Inventories	27.8	44.0	50.0	(1.3)	120.4
Trade receivables	63.4	81.8	65.3	0.3	210.7
Segment assets	223.7	227.8	236.5	1.7	689.6
Unallocated assets	0.0	0.0	0.0	130.6	130.6
Total assets	223.7	227.8	236.5	132.3	820.2
Trade payables	45.1	58.5	52.8	3.2	159.7
Unallocated liabilities	0.0	0.0	0.0	407.0	407.0
Total liabilities	45.1	58.5	52.8	410.2	566.7
Capital expenditure	26.2	18.3	18.5	0.9	63.9

* The column "Others" mainly includes corporate expenses and balance sheet items related to tax, pension and financing. See next section for specification of unallocated assets and liabilities.

For segment reporting purposes the revenues are only external revenues, the related expenses are adjusted accordingly. The EBIT is thus excluding IC profit.

NOTE 7 Segment Information (continued)

2017

MEUR	Interior	Powertrain & Chassis	Specialty Products	Others*	Total Group
Product sales	254.4	388.3	376.0	0.0	1,018.7
Tooling	4.0	12.7	4.2	0.0	21.0
Development	3.5	5.9	3.1	0.0	12.4
Other revenues	2.0	0.5	2.0	0.1	4.5
Operating revenues	263.9	407.4	385.3	0.1	1,056.6
EBITDA	18.9	7.0	57.9	(14.7)	69.2
Depreciation	(7.9)	(14.0)	(8.5)	(0.5)	(30.9)
Amortization	(2.4)	(4.6)	(7.0)	(0.4)	(14.5)
Operating profit / (loss) - EBIT	8.6	(11.5)	42.4	(15.7)	23.8
<i>Timing of revenue recognition</i>					
Ownership transferred at a point in time	263.9	407.4	385.3	0.1	1,056.6
<i>Assets and liabilities</i>					
Goodwill	56.8	22.8	66.6	0.0	146.2
Other intangible assets	1.3	11.2	2.0	1.3	15.8
Property, plant and equipment	60.3	63.6	44.8	1.1	169.7
Inventories	22.1	40.4	43.9	(1.8)	104.7
Trade receivables	53.8	68.8	57.4	(0.0)	180.0
Segment assets	194.3	206.6	214.8	0.7	616.4
Unallocated assets				105.5	105.5
Total assets	194.3	206.6	214.8	106.2	721.9
Trade payables	33.0	52.4	43.2	2.0	130.6
Unallocated liabilities				400.6	400.6
Total liabilities	33.0	52.4	43.2	402.5	531.2
Capital expenditure	22.6	15.8	8.2	0.8	47.4

* The column "Others" mainly includes corporate expenses and balance sheet items related to tax, pension and financing. See next section for specification of unallocated assets and liabilities.

For segment reporting purposes the revenues are only external revenues, the related expenses are adjusted accordingly. The EBIT is thus excluding IC profit.

NOTE 7 Segment Information (continued)**Operating segments – reconciliation to total assets**

MEUR	2018	2017
Segment assets of reportable segments	688.0	615.7
Assets of Others	1.7	0.7
<i>Unallocated assets include:</i>		
Deferred tax assets	20.1	23.7
Other non-current assets	10.1	3.5
Cash and cash equivalents	59.2	39.5
Other current receivables	41.2	38.9
Total assets as of the Statement of Financial Position	820.2	721.9

Operating segments – reconciliation to total liabilities

MEUR	2018	2017
Trade payables of reportable segments	156.5	128.7
Liabilities of Others	3.2	2.0
<i>Unallocated liabilities include:</i>		
Deferred tax liabilities	23.6	19.5
Retirement benefit obligations	16.8	17.1
Interest-bearing loans and borrowings	269.4	257.8
Other non-current interest-free liabilities	5.1	2.4
Other current interest-bearing liabilities	0.1	0.1
Current income tax liabilities	4.0	3.0
Other short-term liabilities	88.0	100.7
Total liabilities as of the Statement of Financial Position	566.7	531.2

Operating segments – geographical areas

The following segmentation of the Group's geographical sales to external customers is based on the geographical locations of the customers. The segmentation of non-current assets is based on the geographical locations of its subsidiaries. Non-current assets comprise intangible assets (including goodwill) and property, plant and equipment.

Sales to external customers by geographical location

MEUR	2018		2017	
	Jan-Dec	%	Jan-Dec	%
Europe	570.2	51%	554.1	52%
North America	379.9	34%	341.6	32%
South America	24.5	2%	22.9	2%
Asia	144.7	13%	116.7	11%
Other	3.8	0%	21.3	2%
Total operating revenues	1,123.1		1,056.6	

NOTE 7 Segment Information (continued)

Non-current assets by geographical location

MEUR	2018		2017	
	Dec	%	Dec	%
Europe	203.6	57%	194.3	59%
North America	121.5	34%	109.9	33%
South America	1.9	1%	1.6	0%
Asia	31.5	8%	25.9	8%
Total non-current assets	358.4		331.7	

Operating segments – major customers

Included in revenues arising from Interior segment are revenues of approximately MEUR 118.9 (MEUR 102.7 in 2017) which arose from sales to the Group's largest customer. No other single customers contributed 10% or more to the Group's revenue in 2018. In 2017, the Group had no single customers accounting for more than 10% of total revenues.

NOTE 8 Salaries and Social Expenses

Specification of salaries and social expenses as recognized in the statement of comprehensive income

MEUR	2018	2017
Wages and salaries	225.1	219.3
Social security tax	46.6	48.9
Pension cost (defined benefit plans)	1.1	0.8
Pension cost (defined contribution plans)	9.0	10.3
Other employee-related expenses*	31.8	25.4
Total salaries and social expenses	313.6	304.8

* Other employee-related expenses include bonus costs.

As at December 31, 2018 the Group had 11,401 employees, while as of December 31, 2017 the number of employees was 10,482.

NOTE 9 Other Operating Expenses

Specification of other operating expenses as recognized in the Statement of Comprehensive Income

MEUR	2018	2017
<i>Operating expenses</i>		
Freight, packaging and customs duties charges	53.5	48.0
Facility costs	26.0	23.6
Consumables	35.7	36.4
Repairs and maintenance	16.2	18.0
Service costs	13.6	22.4
Other costs	5.2	10.9
<i>Administrative expenses</i>		
Leasehold expenses	6.1	8.0
Service costs	34.9	35.9
Consumables	9.3	10.0
Travel costs	8.2	8.7
Other costs	19.0	8.2
Total other operating expenses	227.7	230.1

NOTE 10 Financial Items

Specification of financial items as recognized in the Statement of Comprehensive Income

MEUR	2018	2017
Dividend and other financial income	0.0	0.0
Gain from derecognition of financial liabilities measured at amortized cost*	0.7	0.0
Foreign currency gains**	0.0	0.0
Changes in value of financial derivatives	0.0	0.0
Interest income	0.6	0.2
Total financial income	1.3	0.2
Interest expense	(12.8)	(10.1)
Foreign currency losses**	(3.0)	(5.4)
Changes in value of financial derivatives	0.0	(0.7)
Other items	(0.7)	(1.5)
Total financial expenses	(16.5)	(17.6)
Total financial items	(15.2)	(17.4)

* Repayment of bank loans: income of MEUR 1.8 following IFRS 9 adjustment offset by MEUR 1.1 capitalized fees.

** Includes unrealized currency loss of MEUR 8.3 (2017: unrealized loss of MEUR 3.9).

NOTE 11 Taxes**Tax recognized in Statement of Income**

The major components of income tax expense:

MEUR	2018	2017
Current tax on profits for the year*	(12.4)	(10.2)
Adjustments in respect of prior years – current tax	3.0	(0.3)
Total current tax	(9.4)	(10.6)
Current year change in deferred tax	(4.6)	7.1
Impact of changes in tax rates	2.3	(6.9)
Adjustments in respect of prior years – deferred tax	(3.0)	(4.0)
Total change in deferred tax	(5.3)	(3.8)
Total income tax expense	(14.7)	(14.4)

* Includes withholding tax. Further details can be found in the table below.

Tax recognized in other comprehensive income

MEUR	2018	2017
Tax on translation differences	(3.1)	2.8
Tax on pension remeasurement	0.1	0.0
Tax in other comprehensive income	(3.0)	2.8

Reconciliation of Norwegian nominal statutory tax rate to effective tax rate

MEUR	2018	2017
Profit before taxes	38.5	6.4
Expected tax calculated at Norwegian tax rate	(8.9)	(1.4)
Dividends (permanent differences)	0.0	0.0
Other permanent differences / currency	(0.6)	(1.0)
Effect of withholding tax	(0.6)	(0.5)
Effect of different tax rates	(1.3)	(0.6)
Impact of changes in tax rates and legislation	2.3	(6.9)
Losses not recognized as deferred tax assets	(1.8)	(1.0)
Write-down of deferred tax assets	(3.6)	0.0
Adjustments in respect of prior years and other adjustments	(0.2)	(2.9)
Income tax expense	(14.7)	(14.4)
Average effective tax rate	38%	224%

NOTE 11 Taxes (continued)**Tax recognized in the Statement of Financial Position****Current tax liability**

MEUR	2018	2017
Current income tax liabilities	4.0	3.0
Total	4.0	3.0

During 2018, due to a tax group contribution, MEUR 3.0 that was a current income tax liability as at December 31 2017 was reclassified to a deferred tax liability.

Deferred tax

MEUR	2018	2017
Deferred tax asset	20.1	23.7
Deferred tax liability	(23.6)	(19.5)
Total	(3.5)	4.2

Deferred tax positions are netted within the same tax entity.

Specification of deferred tax assets and liabilities recognized in the Statement of Financial Position

MEUR	Opening balance	Charged to income	Changes in rate	OCI	Exchange differences	Closing balance
Property, plant and equipment	(0.8)	(0.4)	(0.0)	(0.0)	0.1	(1.2)
Intangible assets	(7.0)	(1.2)	(0.0)	0.0	(0.0)	(8.3)
Retirement benefits obligations	3.5	0.0	(0.1)	0.1	(0.1)	3.4
Losses	8.5	0.1	0.0	0.0	0.1	8.7
Account receivables	(2.2)	0.1	(0.1)	0.0	(0.0)	(2.3)
Accrued expenses	1.3	(1.4)	0.1	0.0	(0.0)	(0.0)
Accrued interest	10.4	(3.6)	0.0	0.0	(0.1)	6.7
Restructuring reserves	4.4	(3.2)	0.0	0.0	0.0	1.2
Unrealized FX on long-term receivables / payables	(23.3)	(3.1)	2.3	0.0	0.8	(23.3)
Other temporary differences	9.5	5.1	0.2	(3.1)	(0.0)	11.6
Net deferred tax asset / (liability)	4.2	(7.6)	2.3	(3.0)	0.7	(3.5)

NOTE 11 Taxes (continued)**Measurement of deferred taxes**

Deferred tax assets and liabilities are measured at the tax rates realized. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. The Group's subsidiaries are located in different countries, so there will always be risks arising from local tax jurisdictions' assessments of the respective tax positions, and to limitations to the utilization of losses carried forward. Local tax decisions could therefore influence the carrying value of the Group's consolidated deferred tax asset.

Limitation and assumptions for the utilization of losses carried forward and deferred tax assets

The carrying amount of deferred tax assets is reviewed at each balance sheet date and recognized only to the extent that it is probable that future taxable profit will be available against which it may be offset. As part of the review, the Group conducts comprehensive analyses of future profits within the legal entity as well as considering possibilities for utilization within the Group. Estimates indicate that it is probable that future taxable profit will be available against which the recognized deferred tax assets may be utilized. There are however uncertainties as the estimates are based on assumptions about market development and the success of KA's customers. Due to the time restrictions associated with the utilization of some losses carried forward, timing assumptions may influence the carrying amount.

Tax positions not recognized

MEUR	2018	2017
Tax positions not recognized	22.8	25.8
Total	22.8	25.8

Remaining lifetime of tax losses (net tax value)

MEUR	2018	2017
Less than five years	5.1	4.7
5-10 years	2.1	2.9
10-15 years	3.0	0.0
15-20 years	0.0	0.0
Without time limit	21.7	25.8
Total	31.8	33.4

NOTE 12 Intangible Assets

MEUR	Goodwill	Customer relationships	Patents and Development	Software and other	Total
Cost	177.9	97.5	48.6	19.6	343.7
Accumulated amortization	(22.9)	(87.5)	(34.4)	(16.6)	(161.4)
Book value as at 31.12.2016	155.0	10.1	14.2	3.1	182.3
Cost as at 01.01.2017	177.9	97.5	48.6	19.6	343.7
Additions	0.0	0.0	4.7	0.6	5.3
Disposals accumulated cost	0.0	(3.2)	(1.7)	(6.1)	(11.0)
Translation differences on cost	(11.5)	(7.1)	(2.7)	(0.6)	(21.9)
Acquisition costs as at 31.12.2017	166.4	87.2	48.9	13.5	316.1
Accumulated amortization as at 01.01.2017	(22.9)	(87.5)	(34.4)	(16.6)	(161.4)
Amortization/impairment loss*	0.0	(9.1)	(4.2)	(1.3)	(14.5)
Disposals accumulated amortization	0.0	3.1	1.1	5.7	9.9
Translation differences on amortization	2.7	6.7	1.8	0.7	11.9
Accumulated amortization as at 31.12.2017	(20.3)	(86.8)	(35.6)	(11.4)	(154.1)
Cost	166.4	87.2	48.9	13.5	316.1
Accumulated amortization	(20.3)	(86.8)	(35.6)	(11.4)	(154.1)
Book Value as at 31.12.2017	146.2	0.3	13.3	2.1	162.0
Cost as at 01.01.2018	166.5	93.3	49.7	13.3	322.8
Additions	0.0	0.0	3.5	0.9	4.4
Disposals accumulated cost	0.0	0.0	(0.9)	(0.1)	(0.9)
Translation differences	2.5	1.2	(0.2)	(0.0)	3.5
Acquisition costs as at 31.12.2018	169.0	94.6	52.1	14.1	329.7
Accumulated amortization as at 01.01.2018	(20.3)	(93.0)	(36.4)	(11.2)	(160.9)
Amortization/impairment loss*	(0.0)	(0.2)	(3.7)	(0.8)	(4.7)
Disposals accumulated amortization	0.0	0.0	0.1	0.0	0.1
Translation differences	(0.9)	(1.2)	0.1	0.0	(2.1)
Accumulated amortization as at 31.12.2018	(21.2)	(94.4)	(40.0)	(11.9)	(167.5)
Cost	169.0	94.6	52.1	14.1	329.7
Accumulated amortization	(21.2)	(94.4)	(40.0)	(11.9)	(167.5)
Book value as at 31.12.2018	147.8	0.1	12.1	2.1	162.2

* See details on next page for impairment loss. In 2017, intangible assets related to Heiligenhaus closing have been written-off at a total amount of MEUR 0.2.

NOTE 12 Intangible Assets (continued)**Internally developed intangible assets**

MEUR	2018	2017
Internally developed intangible assets as at 01.01.	9.7	8.0
Additions during the year	2.1	4.3
Amortization / impairment	(1.8)	(2.2)
Translation differences	(0.2)	(0.4)
Internally developed intangible assets as at 31.12.	9.8	9.7
Non-capitalized development costs net of customer contribution	(45.0)	(52.7)
Amortization of internally developed intangible assets	(1.8)	(2.2)
Total recognized development cost in the reporting period*	(46.8)	(54.9)
Cash investment in development	(47.1)	(57.0)

* Net amount, gross amount MEUR 63.2 in 2018 (2017: MEUR 67.5).

The internally developed intangible assets include capitalized costs related to development of new products. These assets are included in "Patents and Development" above.

Impairment testing

The Group has performed impairment tests on the carrying values of all intangible assets (including goodwill), property, plant and equipment in accordance with the requirements of IAS 36. Value in use (VIU) was used to determine the recoverable amount, which is derived as the Net Present Value (NPV) of projected future cash flows for each of the CGUs (cash-generating units). The business units Interior Comfort Systems, Light Duty Cables, Driveline, On-Highway, Couplings, Fluid Transfer Systems and Off-Highway were identified as the respective CGUs.

Cash flow projections and assumptions

The model was based on a three-year projection of discounted cash flows plus a terminal value (calculated using the Gordon growth model with the perpetual growth of 2%). The net discounted cash flows were calculated before tax. The projected cash flows were derived from the business plans set up by the management of the business units and reviewed and finally approved by the top management in course of the budget and strategic planning process covering the period of 2019 to 2021. The business plans were based on the Group's strategic three-year plan, adjusted for relevant recent changes in internal short-term forecasts and market data. Adjustments were made to exclude significant cash flows from future restructuring, investments or enhancements. Assumptions on labor inflation, ranging from 2% to 7% depending on the region, as well as on raw material price development, increasing by 3%, were provided centrally. The input data on developments of the relevant markets were taken from renowned external sources, such as LMC Automotive, IHS and customers, in addition to all relevant internal information such as change in orders, customer portfolio, fitment rate for products, geographical development, market shares, etc. The three-year plan is considered as realistic forecast taking into account macroeconomic, industry and company-specific factors. The short-term forecasts were a "bottom-up model" where all input data had been produced by the respective entities in the Group. The financial development for the BUs throughout the forecast period is primarily driven by increased top line with the effects of operational leverage and effects from restructuring already completed or initiated.

Discount rate assumptions

The required rate of return was calculated using the Weighted Average Cost of Capital (WACC) method. The input data of the WACC was chosen by an individual assessment of each parameter. Information from representative sources, peer groups, etc. was used to determine the best estimate. The WACC was calculated to be 9.8% pre-tax. The same WACC was used for all CGUs, the reason being that the long-term risk profiles of the CGUs are not considered to be significantly different. The key parameters were set to reflect the underlying long-term period of the assets and time horizon of the forecast period of the business cases. The following parameters were applied:

- Risk-free interest rate: 2.3%. Based on 10-year governmental Eurobond rate and US treasury yield, weighted 50/50.
- Beta: 1.36. Based on an estimated unlevered beta for the automotive industry levered to the Group's structure.
- Market Risk Premium: 5.37% (post tax). Based on market sources.
- Cost of Debt: based on the Group's cost of debt.

Sensitivity analysis

The value in use for the assets depends on the cash flow and discount rate. The cash flow will move in relation to change in prices, currency, and volume. Business awards, success of the car model, product fitment rates, government regulations, and economic conditions in turn influence the volume. For information on inputs used in the computation of the discount rate, please see above. A reasonable change in assumptions used in the impairment test regarding discount rate would not cause the carrying amount to exceed the recoverable amount for any CGU. Sensitivity analyses regarding growth rate as well as taking 2019 as basis for terminal value do not indicate an impairment either. Driveline would need to improve performance, in line with cash flow projections, in order to support its carrying amount (MEUR 97.9).

Impairment – test results and conclusion

In all business areas the value in use (VIU) exceeded the carrying amount, and no requirement for write-down was indicated.

NOTE 13 Property, Plant and Equipment (PP&E)

MEUR	Land	Buildings	Equipment	Total
Cost	4.7	36.6	496.1	537.4
Accumulated depreciation	0.0	(25.6)	(351.6)	(377.3)
Book value as at 31.12.2016	4.7	11.0	144.5	160.2
Cost as at 01.01.2017	4.7	36.6	496.1	537.4
Additions	0.0	0.2	47.3	47.4
Disposals accumulated cost	0.0	1.5	(7.4)	(5.8)
Translation differences	(0.1)	(2.1)	(37.4)	(39.5)
Acquisition costs as at 31.12.2017	4.6	36.2	498.7	539.5
Accumulated depreciation as at 01.01.2017	0.0	(25.6)	(351.6)	(377.3)
Depreciation/impairment loss*	0.0	(2.3)	(28.7)	(30.9)
Disposals accumulated depreciation	0.0	(1.6)	7.5	5.9
Translation differences	0.0	1.3	31.2	32.5
Accumulated depreciation as at 31.12.2017	0.0	(28.1)	(341.6)	(369.8)
Cost	4.6	36.2	498.7	539.5
Accumulated depreciation	0.0	(28.1)	(341.6)	(369.8)
Book value as at 31.12.2017	4.6	8.1	157.0	169.7
Cost as at 01.01.18	4.6	30.5	493.6	528.7
Additions	(0.0)	1.5	62.4	63.9
Disposals accumulated cost	(0.1)	(3.0)	(22.0)	(25.1)
Translation differences	0.0	0.1	0.1	0.2
Acquisition costs as at 31.12.2018	4.5	29.1	534.1	567.7
Accumulated depreciation as at 01.01.2018	0.0	(22.4)	(336.5)	(358.9)
Depreciation/impairment loss*	0.0	(1.1)	(29.7)	(30.9)
Disposals accumulated depreciation	0.0	3.0	16.7	19.7
Translation differences	0.0	(0.1)	(1.2)	(1.3)
Accumulated depreciation as at 31.12.2018	0.0	(20.6)	(350.8)	(371.4)
Cost	4.5	29.1	534.1	567.7
Accumulated depreciation	0.0	(20.6)	(350.8)	(371.4)
Book value as at 31.12.2018	4.5	8.5	183.3	196.3

* Includes write-off of fixed assets in business held for sale and write-off of idle assets. In 2017, tangible assets related to Heiligenhaus closing have been written-off at a total amount of MEUR 0.8.

Security for debt: See note 19 regarding use of PP&E as security for debt.

Financial leases: The Group is a lessee under financial lease, but the Group has only a limited number of financial lease contracts and the total amount is considered insignificant.

Impairment testing: See note 12 for information related to impairment testing of non-current intangible assets and PP&E.

NOTE 14 Inventories

Specification of inventories

MEUR	2018	2017
Raw materials	74.6	66.3
Work in progress	21.1	18.0
Finished goods	24.8	20.4
Total inventories	120.4	104.7

The values displayed above are net of provisions for excess and obsolete inventory.

Provision for slow-moving and obsolete inventory

MEUR	2018	2017
Book value as at 01.01.	(7.9)	(7.9)
Write-down	(2.8)	(1.6)
Products sold (previously written down)	0.1	0.5
Reversal	0.5	0.7
Foreign currency effects	0.1	0.4
Book value as at 31.12.	(10.0)	(7.9)

NOTE 15 Trade and Other Receivables

Specification of trade and other receivables

MEUR	2018	2017
Trade receivables	210.7	180.0
Public duties	8.0	15.3
Account receivables related to IFRS 15*	0.6	0.0
Other short-term receivables	11.8	5.8
Total trade and other receivables	231.2	201.1

* MEUR 1.0 in total including MEUR 0.4 reported in trade receivables, refer to note 5.

NOTE 15 Trade and Other Receivables (continued)**Trade receivables maturity**

MEUR	2018	2017
Not overdue	187.3	162.9
Overdue 1-20 days	12.9	8.7
Overdue 21-40 days	2.8	5.0
Overdue 41-80 days	2.1	1.5
Overdue 81-100 days	1.1	0.5
Overdue > 100 days	5.2	1.9
Gross trade receivables	211.3	180.5
Total provision for bad debt	(0.6)	(0.5)
Net trade receivables	210.7	180.0

The provision for bad debt has increased by MEUR 0.1 compared to 31.12.2017. Trade receivables are subject to constant monitoring. Impaired receivables are reflected through provision for bad debt. Monthly assessments of loss risk, including forward-looking information, are performed and corresponding provisions are made on entity level. The provision for bad debt reflects the total loss risk on the Group's trade receivables. The oldest trade receivables, overdue >100 days, represent the highest risk level. Most of the impaired trade receivables are included in that category. Actual losses on trade receivables was MEUR 0.9. The risk for losses on other receivables than trade receivables is assessed to be insignificant. For risk management see note 21.

Receivables by currency

MEUR	2018	2017
EUR	94.2	70.7
USD	64.3	49.2
CNY	37.9	29.0
NOK	9.7	4.2
Other	25.1	48.0
Total receivables	231.2	201.1

Other current assets

MEUR	2018	2017
Tooling (Work in Progress)	11.5	10.0
Development (Work in Progress)	1.2	1.0
Prepayments	8.1	6.9
Total other current assets	20.7	17.9

NOTE 15 Trade and Other Receivables (continued)**Other non-current assets**

MEUR	2018	2017
Receivables long-term	4.3	0.0
Grants and others	5.8	3.5
Total other non-current assets	10.1	3.5

NOTE 16 Share Capital**Shares**

The share capital of the Company is NOK 223,722,471.50 comprising 447,444,943 ordinary shares with a par value of NOK 0.50. The Company holds 168,454 shares as treasury shares. For more information see "Statement of Changes in Equity." The Company is listed on the Oslo Stock Exchange. The ticker code is KOA.

	2018	2017
Number of shares in issue as at 01.01.	406,768,131	406,768,131
New shares issued	40,676,812	0
Number of shares in issue as at 31.12.	447,444,943	406,768,131
Of these, treasury shares	168,454	1,849,212

The twenty largest shareholders in the Company as at December 31, 2018 were as follows:

Shareholders and nominees	No. of shares	%	Country
MORGAN STANLEY & CO. INT. PLC.	116,287,282	26.0%	UK
MORGAN STANLEY & CO. LLC	54,627,093	12.2%	US
KLP AKSJENORGE	17,131,633	3.8%	Norway
VPF NORDEA KAPITAL	15,786,187	3.5%	Norway
THE BANK OF NEW YORK MELLON SA/NV	15,304,548	3.4%	Belgium
VPF NORDEA AVKASTNING	13,290,215	3.0%	Norway
FOLKETRYGDFONDET	12,277,732	2.7%	Norway
KOMMUNAL LANDSPENSJONSKASSE	12,270,182	2.7%	Norway
ENNISMORE SMALLER COM PUB LTD COM	11,247,810	2.5%	UK
CITIBANK, N.A.	9,867,476	2.2%	US
MP PENSJON PK	8,531,014	1.9%	Norway
ERLING NEBY AS	7,000,000	1.6%	Norway
NORDEA 1 SICAV	6,809,199	1.5%	UK
VERDIPAPIRFONDET NORDEA NORGE PLUS	6,473,353	1.4%	Norway
VERDIPAPIRFONDET PARETO INVESTMENT	6,401,118	1.4%	Norway
EUROCLEAR BANK S.A./N.V.	6,064,119	1.4%	Belgium
NORDNET BANK AB	4,773,837	1.1%	Sweden
N-UCIT NORDEA PRIVATE BK NO AK PT	4,306,633	1.0%	UK
KLP AKSJENORGE INDEKS	3,954,200	0.9%	Norway
JPMORGAN CHASE BANK, N.A., LONDON	3,638,941	0.8%	UK
Total twenty largest shareholders	336,042,572	75.1%	
Other shareholders	111,402,371	24.9%	
Number of shares in issue as at 31.12.2018	447,444,943	100.0%	
Number of shareholders	3,906		
Foreign ownership	62.2%		

NOTE 16 Share Capital (continued)**Share options**

Options at NOK 4.5, NOK 2.0, NOK 1.5, NOK 5.8, NOK 5.9 and NOK 6.20 expire after 7 years, and options at NOK 3.0 and NOK 6.2 expire 10 years after the date of grant. The Company has no legal or constructive obligation to repurchase or settle the options in cash. See Statement of Change in Equity for information on amounts recognized in 2018. Refer to note 3.

Movements in share options

NOK	2018		2017	
	Average exercise price	Options	Average exercise price	Options
Options as at 01.01.	5.98	4,681,765	5.96	12,096,212
Granted	10.64	2,353,388		
Forfeited	6.50	(595,046)	7.92	(3,609,055)
Expired	18.91	(170,774)		
Exercised	5.09	(1,634,203)	4.07	(3,805,392)
Options as at 31.12.	8.12	4,635,130	5.98	4,681,765

Outstanding options at the end of the year

Expiry date	2018		2017	
	Exercise price (NOK)	Options	Exercise price (NOK)	Options
31.03.2018			20.00	158,774
31.03.2018			4.50	169,000
31.03.2019	3.00	39,348	3.00	160,549
31.03.2019	2.00	58,800	2.00	105,134
10.04.2020	1.50	142,000	1.50	273,001
10.04.2021	5.80	226,200	5.80	769,200
10.04.2022	5.90	535,586	5.90	1,263,254
10.04.2023	6.20	1,337,853	6.20	1,782,853
05.06.2028	10.64	2,295,343		
Options as at 31.12.		4,635,130		4,681,765

Treasury shares

The Company holds 168,454 treasury shares (2017: 1,849,212). No treasury shares were acquired in 2018.

NOTE 17 Earnings and Dividend per Share**Earnings per Share**

	2018	2017
Net (loss) / profit attributable to equity shareholders (MEUR)	23.7	(8.0)
Weighted average number of shares in issue	425.7	404.8
Weighted average total number of ordinary shares	426.9	406.8
Weighted average number of treasury shares held	(1.2)	(1.9)
Basic earnings per share, Euros	0.06	(0.02)
Weighted average number of shares in issue (diluted)	430.3	415.0
Weighted average number of outstanding options	4.6	10.2
Diluted earnings per share, Euros	0.06	(0.02)

Dividend per Share

EUR	2018	2017
Dividend per share paid	0.0	0.0
Dividend per share proposed	0.0	0.0

No dividend was proposed for 2018.

NOTE 18 Retirement Benefit Obligations**Retirement benefit obligations recognized in the Statement of Financial Position**

MEUR	2018	2017
Defined benefit pension obligation	16.4	16.5
Top hat, retirement provisions and other employee obligations	0.4	0.6
Retirement benefit obligations	16.8	17.1

Defined benefit scheme – assumptions

MEUR	2018	2017
Discount rate	1.9%	1.7%
Rate of return on plan assets	0.4%	0.8%
Salary increases	1.2%	1.2%
Increase in basic government pension amount	1.0%	1.1%
Pension increase	0.6%	0.5%

The assumptions for KA group is presented as a weighted average of the assumptions reported from respective subsidiaries.

Defined benefit scheme – net periodic pension cost

MEUR	2018	2017
Service cost	0.8	0.5
Interest on benefit obligations	0.3	0.3
Expected return on pension assets	0.0	(0.0)
Employee contributions	0.0	0.0
Effect of curtailment	0.0	(0.0)
Administration cost	0.0	0.0
Social security taxes	0.0	0.0
Net periodic pension cost	1.1	0.8
Remeasurement of net defined benefit liability	0.2	0.1
Actual return on plan assets	1.7%	0.8%

NOTE 18 Retirement Benefit Obligations (continued)**Defined benefit scheme – net pension liability**

MEUR	2018	2017
<i>Pension liabilities and assets:</i>		
Projected benefit obligation (PBO)	20.3	18.6
Fair value of pension assets	(3.9)	(2.2)
Unrecognized effects	0.0	0.0
Net pension liability before social security taxes	16.4	16.4
Social security taxes liabilities	0.0	0.1
Net pension liability	16.4	16.5

Specification of carrying value of net pension liability

MEUR	2018	2017
Retirement benefit obligation	20.3	18.7
Retirement benefit asset	(3.9)	(2.2)
Net pension liability	16.4	16.5

Defined benefit scheme – change in net pension liability

MEUR	2018	2017
Net pension liability as at 01.01.	16.5	16.9
Pension cost for the year	1.1	0.8
Remeasurement of net defined benefit liability	0.2	0.1
Paid pensions	(0.6)	(1.2)
Pension plan contributions	(0.7)	0.0
Translation differences	(0.1)	(0.1)
Net pension liability as at 31.12.	16.4	16.5

NOTE 18 Retirement Benefit Obligations (continued)**Defined benefit scheme – sensitivities***

MEUR	DBO as at 31.12.2018	DBO as at 31.12.2017
Actual valuation	16.4	16.5
Discount rate +0.5%	15.6	15.6
Discount rate -0.5%	17.4	17.5
Expected rate of salary increase +0.5%	16.6	16.5
Expected rate of salary increase -0.5%	16.4	16.5
Expected rate of pension increase +0.5%	17.2	17.3
Expected rate of pension increase -0.5%	15.8	15.8

* The sensitivity does not include all schemes, however it covers the significant part of the pension liability.

Defined benefit scheme – average expected lifetime**Average expected lifetime at the balance sheet date for a person retiring on reaching age 65:**

Male employee	21 years
Female employee	24 years

Average expected lifetime 20 years after the balance sheet date for a person retiring on reaching age 65:

Male employee	23 years
Female employee	26 years

Expected pension payment: The pension payment for 2019 is expected to be in line with the 2018 payment.

NOTE 19 Interest-bearing Liabilities**Interest-bearing liabilities as presented in the Statement of Financial Position**

MEUR	2018	2017
Non-current interest-bearing loans and borrowings	276.1	259.2
Capitalized arrangement fees	(6.7)	(1.4)
Total interest-bearing liabilities	269.4	257.8

On July 23, 2018 the Company completed an offering of MEUR 275.0 in aggregate principal amount of 5.0% Senior Notes due 2025 (the "Notes") pursuant to indentures among the Company, the guarantors party thereto, and The Law Debenture Trust Corporation p.l.c., as trustee.

The Group was in compliance with all applicable debt covenants at and for the year ended December 31, 2018.

The indentures for our outstanding Senior Notes contain customary terms and conditions, including amongst other things, incur or guarantee additional indebtedness or issue certain preferred stock, pay dividends, redeem capital stock and make other distributions, make certain other restricted payments or restricted investments, prepay or redeem subordinated debt or equity, create or permit to exist certain liens, impose restrictions on the ability of the Restricted Subsidiaries to pay dividends, transfer or sell certain assets, merge or consolidate with other entities, engage in certain transactions with affiliates and impair the security interests for the benefit of the Holders of the Notes.

NOTE 19 Interest-bearing Liabilities (continued)

Specification of total interest-bearing liabilities

MEUR	2018	2017
EUR	275.0	162.0
USD	0.0	95.9
Other currencies	1.1	1.3
Capitalized arrangement fee	(6.7)	(1.4)
Total interest-bearing liabilities	269.4	257.8

Changes in liabilities arising from financing activities

MEUR	2018	2017
Opening balance as at 01.01.	257.8	238.4
Net cash flows	11.2	30.6
Foreign exchange movement	(5.7)	6.7
Translation effect	6.4	(18.2)
Other	(0.4)	0.3
Closing balance as at 31.12.	269.4	257.8

Liquidity reserve

The liquidity reserve of the Group consists of cash and cash equivalents in addition to undrawn credit facilities.

MEUR	2018	2017
Cash and cash equivalents	59.2	39.5
Restricted cash	(0.1)	(1.6)
Undrawn facility	50.0	67.5
Liquidity reserve	109.1	105.4

Other current interest-bearing liabilities

These comprise accrued interest and capital repayments on long-term loans payable within twelve months of the balance-sheet date, as well as certain other short-term interest-bearing liabilities.

NOTE 20 Other Non-current Interest-free Liabilities

Specification of other non-current interest-free Liabilities

MEUR	2018	2017
Contract liabilities long-term	1.7	0.0
Loss-making contracts	2.3	2.4
Other non-current interest-free liabilities	1.0	0.0
Total other non-current interest-free liabilities	5.1	2.4

Loss-making contracts covering a contract period beyond one year after the balance-sheet date are split into a short- and long-term component.

NOTE 21 Risk Management

Finance risk management policies

The Group's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group exploits derivative financial instruments for potential hedging of certain risk exposures, however the current usage of such instruments is limited.

Foreign exchange risk

Kongsberg Automotive operates internationally in a number of countries and is exposed to foreign exchange risk arising from various currency exposures. The primary exposures are EUR and USD. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. As the Group reports its financial results in EUR, changes in the relative strength of EUR to the currencies in which the Group conducts business can adversely affect the Group's financial development. Historically, changes in currency rates have had an effect on the top line development, however it has not had a significant impact on operating profit since the costs usually offset the effects from the top line.

Management is monitoring the currency exposure on a group level. The Group treasury uses the debt structure and profile to balance some of the net exposure of the cash flow from operations. The Group's treasury function regularly evaluates the use of hedging instruments but currently has low usage of such instruments.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is partially managed through borrowings denominated in the relevant foreign currencies.

Sensitivity

At December 31, 2018, if the currency USD had weakened/strengthened by 5% against the EUR with all other variables held constant, revenues would vary by around +/- 1.6% or MEUR +/- 18. Operating profit would not have been significantly changed. A change in EUR of +/- 5% versus the NOK would have influenced the conversion of the long-term debt and hence influenced the financial items with approximately MEUR +/- 14. These changes would also have generated changes in currency conversion in the equity, hence the equity change would have been less significant.

Operational risks

Operation and investment risks and uncertainties

The Group is usually contracted as a supplier with a long-term commitment. The commitment is usually based on the model platforms, which for passenger cars are typically 3 to 5 years, while on commercial vehicles it is typically 5 to 7 years and in some cases even longer. Purchase orders are achieved on a competitive bidding basis for either a specific time period or indefinite time. Even if present commitments are cost reimbursable they can be adversely affected by many factors and short-term variances including shortages of materials, equipment and work force, political risk, customer default, labor conflicts, accidents, environmental pollution, the prices of raw materials, unforeseen problems, changes in circumstances that may lead to cancellations and other factors beyond the control of the Group. In addition, some of the Group's customer contracts may be reduced, suspended or terminated by the customer at any time upon the giving of notice. Customer contracts also permit the customer to vary the scope of work under the contract. As a result, the Group may be required to renegotiate the terms or scope of such contracts at any time, which may result in the imposition of terms less favorable than the previous terms.

Competition

The Group has significant competitors in each of its business areas and across the geographical markets in which the Group operates. The Group believes that competition in the business areas in which it operates will continue in the future. The Group continuously monitors its competitive environment.

Volatility in prices of input factors

The Group's financial performance is dependent on prices of input factors, i.e. raw materials and different semi-finished components with a varying degree of processing, used in the production of the various automotive parts. Some of the major raw materials are:

- Steel including rod and sheet metal, cast iron and machined steel components
- Polymer components of rubber, foam, plastic components and plastic
- Copper
- Zinc
- Aluminum

NOTE 21 Risk Management (continued)

Because of the raw material exposure, a change in the prices of these raw materials will have an effect on the Group. Steel, copper, zinc, aluminum and polymer prices have reached historically high levels over recent years, being subject to large fluctuations in response to relatively minor changes in supply and demand and a variety of additional factors beyond the control of the Group, including government regulation, capacity, and general economic conditions.

A substantial part of the Group's products based on steel and brass (copper and zinc) is sold to truck manufacturers. Business practice in the truck industry allows the Group to some extent to pass increases in steel, aluminum and brass prices over to its customers. However, there is a time lag of three to six months before the Group can adjust the price of its products to reflect fluctuations in the mentioned raw material prices, and a sudden change in market conditions could therefore impact the Group's financial position, revenues, profits and cash flow. When the market prices go down the adverse effect will occur. For products sold to passenger car applications, the Group does not have the same opportunity to pass along increases in raw materials prices.

Uninsured losses

The Group maintains a number of separate insurance policies to protect its core businesses against loss and/or liability to third parties. Risks insured include general liability, business interruption, workers' compensation and employee liability, professional indemnity and material damage.

Interest rate risk

Through its refinancing via senior secured notes with a fixed coupon, the Group is not exposed to interest rate risk for the duration of the notes.

Credit risk

Credit risk is managed on group and entity level. Credit risk arises mainly from trade with customers and outstanding receivables. The level of receivables overdue is monitored on a weekly basis. Historically the Group have had limited loss on receivables. Applying forward-looking information, we do not see any material increase in the credit risk. Refer to note 15.

The automotive industry consists of a limited number of vehicle manufacturers; hence the five biggest customers will be around 35% of total sales. The Group has a diversified customer base, where only one individual customer represents more than 10% of the Group's revenues. In addition, the customer base consists of solvent vehicle manufacturers and Tier 1 suppliers. It is in the opinion of the Group that concentration risk is not present, however due to the number of vehicle manufacturer and hence customers concentration risk could be considered to exist.

Funding and liquidity risk

Cash flow forecasting is performed by each operating entity of the Group on a weekly basis for the next 15 weeks. The Group keeps track of its liquidity requirements and monitors to ensure there is sufficient cash to meet both operational needs while maintaining sufficient headroom on its undrawn committed borrowing facility at all times. Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. For unused liquidity reserve, see note 19.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital and balance the risk profile.

The Group monitors capital on the basis of the gearing ratio and the level of equity. These ratios are calculated as net debt divided by EBITDA and equity divided by total balance. The Group has a treasury policy regulating the levels on these key ratios.

NOTE 22 Trade and Other Payables

Specification of trade and other payables as presented in the Statement of Financial Position

MEUR	2018	2017
Trade payables	159.7	130.6
Accrued expenses	60.0	52.9
Provisions	10.1	17.9
Other short-term liabilities	17.9	30.0
Total trade and other payables	247.7	231.4

Provisions

MEUR	Warranty reserve	Restructuring and other provisions	Total 2018	Warranty reserve	Restructuring and other provisions	Total 2017
Opening balance*	6.6	11.9	18.5	2.1	8.4	10.5
Reclassification	2.7	0.7	3.1	6.5	14.1	20.7
P&L charge	(0.3)	(5.2)	(5.5)	(2.0)	(9.4)	(11.3)
Payments	(5.3)	(1.1)	(6.1)	0.0	(1.2)	(1.2)
Release	0.0	0.1	0.1	0.0	(0.8)	(0.8)
Translation effect	(0.0)	0.0	(0.0)	0.0	(0.8)	(0.8)
Closing balance	3.8	6.3	10.1	6.7	11.2	17.9

* MEUR 0.7 were recorded in 2017 as accrued expenses.

Restructuring provisions mainly consist of termination benefits, lease termination payments and plant clean-up costs. Restructuring provisions relate to the closure of the plants in Burton (UK), Rollag (Norway), and Easley (US).

Maturity structure

MEUR	Provisions	Accrued expenses	Other short-term liabilities	Trade payables	Total 2018
Repayable 0–3 months after year-end	2.8	34.3	11.1	151.7	199.9
Repayable 3–6 months after year-end	0.9	9.7	0.4	5.1	16.1
Repayable 6–9 months after year-end	1.4	9.4	0.1	1.8	12.8
Repayable 9–12 months after year-end	4.9	6.7	6.3	1.1	19.0
Total	10.1	60.0	17.9	159.7	247.7

NOTE 23 Financial Instruments

Classification, measurement and fair value of financial instruments

2018

MEUR	Notes	Derivatives at fair value through profit and loss	Loans and receivables at amortized cost	Financial liabilities at amortized cost	Total 2018	Non-financial assets and liabilities
Trade and other receivables	15		231.2		231.2	
Cash and cash equivalents			59.2		59.2	
Other current assets					0.0	20.7
Interest-bearing loans and borrowings	19			(269.4)	(269.4)	
Other current interest-bearing liabilities	15, 22			(0.1)	(0.1)	
Trade and other payables	22			(219.7)	(219.7)	(28.0)
Total			290.4	(489.2)	(198.8)	(7.2)
Fair value			290.4	(485.3)	(194.9)	(7.2)
Unrecognized gain / (loss)*				3.9	3.9	

* Based on level 1 input.

2017

MEUR	Notes	Derivatives at fair value through profit and loss	Loans and receivables at amortized cost	Financial liabilities at amortized cost	Total 2017	Non-financial assets and liabilities
Trade and other receivables	15		201.1		201.1	
Cash and cash equivalents			39.5		39.5	
Other current assets					0.0	17.9
Interest-bearing loans and borrowings	19			(257.8)	(257.8)	
Other current interest-bearing liabilities	15, 22			(0.1)	(0.1)	
Trade and other payables	22			(183.5)	(183.5)	(47.8)
Total			240.5	(441.4)	(200.9)	(30.0)
Fair value			240.5	(442.8)	(202.2)	(30.0)
Unrecognized gain / (loss)*				(1.4)	(1.4)	

* Unrecognized loss on financial instruments is related to capitalization of arrangement fees.

NOTE 24 Remuneration and Fees for Management, Board of Directors and Auditor

Remuneration and fees recognized in the Statement of Comprehensive Income

KEUR	2018	2017
Total remuneration of the Board of Directors	281.4	280.4
Gross base salary to the CEO	568.2	562.3
Bonus to the CEO (short-term incentive)	556.2	547.0
CEO's option gains (long-term incentive)	56.2	0.0
Pension costs to the CEO	91.4	91.0
Other remuneration to the CEO*	253.1	307.9
Management salaries other than to the CEO	2,400.2	2,404.4
Bonus, option gains, and other remuneration of management other than the CEO	1,521.9	1,514.5
Pension costs of management other than the CEO	257.2	318.7
Total – Board of Directors and Senior Management	5,985.8	6,026.1

* Including statutory, social security employer contributions and grossed-up moving and transition costs associated with move to Switzerland.

Specification of remuneration to the Board of Directors

Name	KEUR	Compensation Committee	Audit Committee	BOD fees	Total 2018	Total 2017
Firas Abi-Nassif*	Chair (from 11.12.2018)	0.4		3.1	3.5	0.0
Bruce E. Taylor	Chair (until 11.12.2018)	5.9		57.4	63.3	72.9
Ellen M. Hanetho	Board member		7.3	37.5	44.8	45.6
Ernst F. Kellermann	Board member		7.3	37.5	44.8	28.4
Gunilla Nordstrom	Board member	4.7		37.5	42.2	27.1
Thomas Falck	Board member	4.7	9.4	37.5	51.6	58.2
Bjørn Ivan Ødegård	Employee representative			10.4	10.4	5.4
Jon-Ivar Jørnby	Employee representative			10.4	10.4	10.2
Kari Brænden Aaslund	Employee representative			10.4	10.4	10.2
Other (replaced board member)						22.5
Total – Board of Directors		15.7	24.0	241.8	281.4	280.4

* Remuneration for Firas Abi-Nassif is paid to Teleios Capital Partners.

Board members Bruce E. Taylor, Ellen M. Hanetho, Ernst F. Kellermann, Gunilla Nordstrom and Thomas Falck were each granted 9,311 restricted shares in Kongsberg Automotive.

The shares were granted on terms resolved by the Company's Annual General Meeting on 5 June, 2018:

- Each of the directors shall receive restricted shares in KA for NOK 100,000.
- No consideration shall be paid for the shares, but the directors cannot sell any of these shares before 2 June, 2021.

In the table above, the receipt of NOK 100,000 has been recorded as BOD fees.

Specification of remuneration to the Nomination Committee

Name	KEUR	2018	2017
Tor Himberg-Larsen	Committee chairman	9.3	12.9
Hans Trogen	Committee member	1.9	4.3
Heidi Finskas	Committee member	1.3	8.0
Total – Nomination Committee		12.4	25.2

NOTE 24 Remuneration and Fees for Management, Board of Directors and Auditor (continued)

Specification of remuneration to management other than Board of Directors

2018

Name	KEUR	Until/From	Base salary	Bonus	LTI*	Pension	Other**	Total 2018
Norbert Loers	CFO		389.6	279.7	52.4	60.9	52.2	834.8
Ralf Voss	President, Interior	From 16.03.2018	218.4	62.1	19.7		29.7	329.9
Anders Nyström	President, Interior	Until 30.04.2018	98.4			11.8		110.2
Bob Riedford	President, P&C		336.0	81.8	33.6	42.9	88.5	582.8
David Redfearn	EVP, Fluid Transfer		189.2	34.1	21.3	37.9		282.5
Linda Nyquist-Evenrud	SVP, Couplings		155.4	88.4	17.1	7.1	0.3	268.3
Robert Pigg	SVP, Off-Highway		194.8	106.6	26.8		11.6	339.8
Jon Munthe	General Counsel		180.4	92.7	24.5	7.1	0.3	305.0
Lovisa Söderholm	EVP, Purchase		177.4	35.7	19.9	44.4		277.4
Marcus von Pock	EVP, HR & Comm		252.8	132.0	23.3	29.4	35.0	472.5
Virginia Grando	EVP, QA		207.8	108.5	11.2	15.7	33.0	376.2
Total – Senior Management other than CEO			2,400.2	1,021.6	249.8	257.2	250.6	4,179.3

* Long-term incentives plans – share based compensation.

** Including statutory and social security employer contributions.

2017

Name	KEUR	Until/From	Base salary	Bonus	Options*	Pension	Other	Total 2017
Norbert Loers	CFO		386.8	263.6		60.6	39.6	750.6
Anders Nyström	President, Interior		222.1		95.7	49.9		367.7
Bob Riedford**	President, P&C	From 28.11.2017	200.8	50.5		5.0	32.1	288.3
Geert Quaegebeur	President, P&C	Until 31.12.2017	337.4			42.0	431.8	811.2
David Redfearn	EVP, Fluid Transfer		189.9	123.8	9.5	45.7		369.0
Linda Nyquist-Evenrud	SVP, Couplings		144.7	63.5		11.9		220.1
Robert Pigg	SVP, Off-Highway		172.1	77.1			26.3	275.5
Jon Munthe	General Counsel		180.1	87.6	44.6	22.6		334.9
Lovisa Söderholm	EVP, Purchase		179.5	77.1	37.7	51.2		345.6
Marcus von Pock	EVP, HR & Comm	From 01.11.2017	43.8			5.1	19.6	68.5
Helga Bollmann Leknes	EVP, HR & Comm	Until 30.09.2017	142.3			5.3		147.7
Virginia Grando	EVP, QA	From 02.11.2017	36.0	12.6		2.7	16.3	67.6
Matthias Vogel	EVP, QA, HSE & CR	Until 30.04.2017	60.5			2.7	5.3	68.5
Staffan Spethz	Dir Marketing	Until 30.11.2017	69.1			10.1		79.2
Philippe Toth	EVP, BD & IR	Until 31.03.2017	39.1			4.0		43.1
Total – Senior Management other than CEO			2,404.4	755.8	187.6	318.7	571.1	4,237.6

* Net proceeds from exercise financial year 2017.

** Total amount 2017, including months in previous position, before promotion.

The Management participates in a short-term incentive (STI) bonus scheme. Details on the STI in note 25. Target bonus for management is 40% to 75% of base salary. Max bonus is 80% to 100% of base salary. The average bonus of the last five years for the CEO is 52% of base salary.

NOTE 24 Remuneration and Fees for Management, Board of Directors and Auditor (continued)**Outstanding number of share options granted to Senior Management**

Issued in	2018	2016	2015	2014	2013	2012
Strike price, NOK	10.64	6.20	5.90	5.80	1.50	2.00
Expiry year	2028	2023	2022	2021	2020	2019
Henning E. Jensen	204,291	180,753				
Norbert Loers	101,880					
Ralf Voss	71,432					
Bob Riedford	86,259					
David Redfearn	35,768	125,000	50,000	50,000	33,334	
Linda Nyquist-Evenrud	28,895	15,000	15,000	15,000	12,000	12,000
Robert Pigg	38,519	50,000	50,000			
Jon Munthe	35,089	50,000	50,000			
Lovisa Söderholm	33,498	125,000	41,667			
Marcus von Pock	49,582					
Virginia Grando	40,752					
Total options	725,965	545,753	206,667	65,000	45,334	12,000

Outstanding number of restricted stock units (RSU) granted to Senior Management

Issued in	2018	2019	2020	2021
Vesting in				
Henning E. Jensen	139,947	46,649	46,649	46,649
Norbert Loers	69,792	23,264	23,264	23,264
Ralf Voss	48,933	16,311	16,311	16,311
Bob Riedford	59,091	19,697	19,697	19,697
David Redfearn	24,504	8,168	8,168	8,168
Linda Nyquist-Evenrud	19,794	6,598	6,598	6,598
Robert Pigg	26,388	8,796	8,796	8,796
Jon Munthe	24,039	8,013	8,013	8,013
Lovisa Söderholm	22,947	7,649	7,649	7,649
Marcus von Pock	33,966	11,322	11,322	11,322
Virginia Grando	27,918	9,306	9,306	9,306
Total restricted stock units	497,319	165,773	165,773	165,773

For more details about the share option plan see note 16.

Specification of fees paid to the auditors

KEUR	2018	2017
Statutory audit services to the Parent company (Deloitte)	123.9	75.2
Audit related services related to the issuance of the bond (Deloitte)	90.6	0.0
Statutory audit services to subsidiaries (Deloitte)	528.5	577.8
Statutory audit services to subsidiaries (Other)	78.5	135.5
Non-audit services (Deloitte)	99.5	8.7
Tax services (Deloitte)	239.9	319.8
Total	1,161.0	1,116.9

NOTE 25 Shares Owned by Board of Directors and Senior Management

As at December 31, 2018 the following shares were owned by:

Board of Directors

Name	Position	No. of shares
Firas Abi-Nassif*	Chair (from 11.12.2018)	0
Bruce E. Taylor	Chair (until 11.12.2018)	167,059
Ellen M. Hanetho	Board member	24,017
Ernst F. Kellermann	Board member	34,017
Gunilla Nordstrom	Board member	24,017
Thomas Falck	Board member	1,024,017
Bjørn Ivar Ødegård	Employee representative	0
Jon-Ivar Jørnby	Employee representative	0
Kari Brænden Aaslund	Employee representative	0
Total number of shares		1,273,127

* Does not own personally shares but is shareholder of Teleios, which owns 124,090,437 shares.

Senior Management

Name	Position	No. of shares
Henning E. Jensen	CEO & President	350,000
Norbert Loers	CFO	75,000
Ralf Voss	President, Interior	0
Bob Riedford	President, Powertrain & Chassis	19,527
David Redfearn	EVP, Fluid Transfer	67,315
Linda Nyquist-Evenrud	SVP, Couplings	36,700
Robert Pigg	SVP, Off-Highway	33,800
Jon Munthe	General Counsel	47,582
Lovisa Söderholm	EVP, Purchase	58,200
Marcus von Pock	EVP, Human Resources & Comm	18,000
Virginia Grando	EVP, QA	0
Total number of shares		706,124

NOTE 26 Statement of Remuneration of Management

The Group needs to be able to attract and retain capable executives who are able at all times to secure shareholders' and other stakeholders' interests in the best possible manner. One important element in order to achieve this is to offer each leader a competitive compensation package which is in alignment with the market and other stakeholders' interests.

Remuneration governance

The Board has appointed a Compensation Committee (CC) that is headed by the Chair of the Board. The CC monitors decisions on matters regarding remuneration and terms for executives, based on clear and transparent principles. In addition, it reviews global short-term (STI) and long-term incentive (LTI) plans, and makes recommendations to the Board of Directors.

The CEO's remuneration package, and any adjustments thereof, are first reviewed by the CC and then approved by the Board. The remuneration packages for the executives reporting directly to the CEO, including adjustments of these, are proposed by the CEO and approved by the CC.

Remuneration structure

The structure of total remuneration should be highly performance and success oriented to ensure that shareholder and management interests are aligned. As part of our reward approach, performance based short-term and long-term incentives in relation to base salary / total compensation increase with higher responsibility/grade.

NOTE 26 Statement of Remuneration of Management (continued)

In 2017, the Board commissioned external consultants, Willis Tower Watson, in order to benchmark Kongsberg Automotive's remuneration principles and philosophy for its executives. The directions given to the consultants were to suggest a remuneration system that was at market median levels for median market performance, above market median for above-market performance, and below market median for below-median performance levels. The result was a report that made recommendations for base salary, benefits, and short- and long-term incentives. The main difference between the old and the new remuneration principles is a shift from short-term to longer-term incentives. The Board decided to adopt the recommendations from Willis Tower Watson, in some cases effective immediately, and in other cases through a phased approach. As a consequence of this decision, in 2018 a strong focus was made to implement a consistent and transparent incentive structure for the TOP 200 population embedded into a strong communication roll-out.

Principles for base salary

The fixed salary should reflect the individual's area of responsibility and performance over time. Kongsberg Automotive offers base salary levels which are competitive, but not market leading in the market in which we operate. Salaries are regularly benchmarked versus salary statistics provided by a global compensation consultant (Willis Towers Watson) and other relevant market data.

Variable compensation and incentive schemes*Kongsberg Automotive's short-term incentive plan (STI):*

The Management Incentive Plan (MIP) is a short-term incentive plan with a timeframe of one year. The MIP is a worldwide incentive program designed to motivate and incentivize eligible employees for the contributions they make towards meeting KA's financial and business objectives and targets. The plan is based on very transparent and measurable pillars:

- Earnings (Group and (if applicable) business segment or unit)
- New business wins (Group / business segment / unit)
- Special initiatives (defined strategic projects and initiatives crucial to our Improvement Plan)

The performance goals for the MIP are recommended by the CC and approved by the Board.

Target bonus for the CEO is 75% of gross base salary. Average actual bonus payout in the last five years for the CEO is 51.5% of gross base salary.

For all other participants the individual target bonus ranges - according to role & responsibility - between 55% and 10% of gross base salary, with the chance to achieve maximum 200% of target bonus. Maximum cash bonus is capped at 100% of gross base salary.

Kongsberg Automotive's long-term incentive plan (LTI):

The Board of Directors has established in the past years share option programs for executives and selected managers that have been approved by shareholders in the Annual General Meeting and have been outlined in our Annual Report. It is the Company's conviction that it is positive for long-term value creation in the Group that this management population hold shares and share options in Kongsberg Automotive.

In 2017, there was no grant of share options. In light of not having finalized the more market-aligned future LTI plan, the BOD decided to substitute the "old" options program with a cash-based subsidy to promote ownership in KOA shares for eligible management in Kongsberg Automotive. The maximum subsidy under the 2017 LTI program amounted to 6.25% of an annual salary for any eligible member of Kongsberg Automotive's management and this subsidy was paid out as taxable income subject to certain restrictions. The cash subsidy was subject to a strict holding period of three years, and a requirement to self invest approximately 11.5% of an annual gross salary in KA shares to foster share ownership in the management population. The after-tax subsidy represented a discount in the Kongsberg Automotive share price of approximately 30% for the eligible management population.

The new LTI 2018 plan now introduced an equally weighted mix of two plan types. Half of the respective LTI target value will be allocated into performance-contingent stock options (SO), the other half is based on time-vested restricted shares units (RSU).

The vesting of the performance-contingent stock options is based on our Total Shareholder Return (TSR) performance against a defined relative peer group of dedicated automotive companies. Only in case we clearly outperform this peer group with more than one standard deviation from average, 100% of granted stock options will vest. With a performance at average level of our peer group, 75% of options will vest. If we are lower than one standard deviation from average, no manager will receive any performance-contingent stock options. The vesting period is defined as three years from Grant, and the overall lifetime of the plan is additionally seven years to exercise (10 years in total).

The time-vested restricted shares will have a defined vesting period of three years. In 2018 - to mitigate the cash flow impacts of the substantial pay-mix adjustment - there will be a staggered vesting for each vesting year of one third of the total restricted shares.

Based on the individual LTI target of each eligible participant, the number of performance-contingent stock options and restricted shares were derived.

NOTE 26 Statement of Remuneration of Management (continued)

Eligible are defined TOP 150 executives and selected 25 key employees, the individual LTI target value is based on the role and responsibility and is increased with higher responsibility/grade (between 55% and 5% of base salary).

In June, 2018 the first grant happened and more than 2.3 million SO and 1.6 million RSU have been granted. The acceptance rate of the program was very high with 93% acceptance, also the respective executives had to commit to a comprehensive Share Ownership Guideline, which includes an individual holding of shares in the amount of between 50% and 200% of gross base salary over the period of the next five years.

Principles for benefits

In addition to fixed and variable salary, other benefits such as health insurance, newspaper, internet and telephone might be provided. The total value of these benefits should be modest and only account for a limited part of the total remuneration package.

Principles for company car and car allowance shall be allowed to vary in accordance with local conditions.

Pension:

Executives participate in the same pension plans as other employees within the unit in which they are employed.

The CEO has no special retirement agreement.

Severance pay

CEO's agreed period of notice is 6 months.

The CEO has 12 months severance pay (base salary). The employee is not entitled to redundancy payment in the event he himself terminates the employment.

At the year-end no other executives had any agreement for redundancy payment. The notice period for the rest of the management is 6 months.

NOTE 27 Commitments and Guarantees**Commitments***Operating leases*

The Group is party to lease agreements classified as operating leases. The total Group cost for operating leases was MEUR 20.0 in 2018 (2017: MEUR 15.0). Operating leases are mostly used for the rental of office space, production buildings and office equipment. Maturity schedule for KA Group operational leases:

MEUR	2019	2020	2021	2022	2023	Thereafter	Total
Operational lease commitments	17.0	15.2	12.0	10.8	8.9	55.7	119.7

Guarantees

The issued notes are guaranteed on a senior basis by Kongsberg Automotive ASA (Parent Guarantor), Kongsberg Automotive Holding 2 AS, Kongsberg Automotive AS, Kongsberg Automotive AB, Kongsberg Power Products Systems AB, Kongsberg Driveline Systems SAS, Kongsberg Raufoss Distribution SAS, Kongsberg Actuation Systems Ltd, Kongsberg Automotive Slovakia s.r.o., Kongsberg Interior Systems Kft., Kongsberg Automotive Sp. z.o.o., Kongsberg Inc., Kongsberg Holding III, Inc., Kongsberg Actuation Systems II, LLC, Kongsberg Power Products Systems I, LLC, Kongsberg Automotive, Inc., Kongsberg Driveline Systems I, LLC, Kongsberg Interior Systems II, LLC and KA Group AG.

General Information

A Parent guarantee has been submitted for two legal entities in the United Kingdom. A statement of the legal entities for which a Parent guarantee is submitted is stated in the note on group companies and participating interests.

The Company has issued notices of liability in respect of the legal entities listed in the following table pursuant to the section 479C of the United Kingdom Companies Act 2006:

- Kongsberg Actuation Systems Ltd
- Kongsberg Power Products Systems Ltd

NOTE 28 Contingent Liabilities

The following is an overview of current material disputes involving either the Parent company Kongsberg Automotive ASA or its subsidiaries.

Republic Services of New Jersey v. Kongsberg Actuation Systems II, Inc. et al (US)

Kongsberg Actuation Systems II, LLC ("KAS") is a defendant in a lawsuit arising out of an incident in which a garbage truck owned by Republic Services of New Jersey ("Republic") exploded and caught fire, injuring one person and causing property damage to buildings and vehicles. Republic alleges that the cause of the fire was a rupture in the stainless steel-braided CNG fuel line manufactured by KAS. KAS has not yet confirmed that it provided the CNG fuel line in question nor has the cause of the rupture been determined. KAS believes this claim is covered by its insurance.

Kenneth Tolman et al v. BRP USA et al (Canada)

Kongsberg Inc. is named in a case arising out of an accident where a vehicle designed and manufactured by Bombardier Recreational Products ("BRP"), "the Can-Am Spyder", has been involved and where the driver died and a young passenger suffered personal injuries. The claimant has alleged that the design of the vehicle in several respects, including the steering, was defective. The Dynamic Steering Unit for the Can-Am Spyder was supplied by Kongsberg Inc. to BRP. Kongsberg Inc. believes that this claim is covered by its insurance.

Bombardier Recreational Products Inc. v. Kongsberg Inc. (Canada)

In addition to the direct claim in the Tolman case (above), BRP has claimed that Kongsberg Inc. is obligated to indemnify BRP from the above claims as it follows from BRP's purchasing conditions that Kongsberg Inc. as a supplier shall indemnify BRP from product liability claims. Kongsberg Inc. believes that this claim is covered by its insurance.

Endeavor Group, LLC v. Kongsberg Power Products Systems I, LLC (US)

Kongsberg Power Products Systems I, LLC is contesting a claim by a neighboring property owner for compensation for use of a detention pond on the neighboring property in Willis, Texas. Water runoff from the Kongsberg property was diverted to the neighboring property at a time when both parcels were owned by a predecessor of Kongsberg. Kongsberg does not believe that the plaintiff is entitled to significant compensation. This case is in the very early stages.

NOTE 29 Subsequent Events

There are no subsequent events to be reported.

NOTE 30 Related-Party Transactions

Kongsberg Automotive group is listed on the Oslo Stock Exchange. The Group's, ultimate Parent is Kongsberg Automotive ASA. The Group has no material transactions with related parties.

Senior management and BOD compensation

See note 24 - includes remuneration for management and Board of Directors.

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► Statement of Comprehensive Income

MEUR	Note	2018	2017
Operating revenues	23	10.1	29.9
<i>Operating expenses</i>			
Salaries and social expenses	5	(0.2)	(0.9)
Other operating expenses	6	(8.6)	(27.5)
Depreciation and impairment	9	(0.0)	(0.0)
Amortization and impairment	10	(0.5)	(0.4)
Total operating expenses		(9.3)	(28.9)
Operating profit		0.8	1.0
<i>Financial items</i>			
Financial income	7	34.1	22.4
Financial expenses	7	(12.1)	(16.9)
Net financial items	7	21.9	5.5
Profit before taxes		22.7	6.5
Income taxes	8	(4.1)	0.2
Net profit		18.6	6.7
<i>Other comprehensive income</i>			
Translation differences		(5.3)	(23.9)
Remeasurement of net PBO	13	(0.0)	(0.0)
Tax on net PBO remeasurement		0.0	0.0
Other comprehensive income		(5.3)	(23.9)
Total comprehensive income for the year		13.5	(17.2)

► Statement of Cash Flows

MEUR	Note	2018	2017
<i>Operating activities</i>			
Profit before taxes		22.7	6.5
Depreciation	10	0.0	0.0
Amortization	9	0.5	0.4
Interest income	7	(24.1)	(22.0)
Interest and other financial expenses	7	9.9	9.4
Taxes paid		(0.1)	(0.2)
Changes in trade receivables	11	(3.5)	0.0
Changes in trade payables	16	20.1	0.4
Currency differences	7	(8.7)	7.0
Dividends received	7	(0.6)	(0.4)
Changes in other items ¹		(0.8)	8.4
Cash flow from operating activities		15.4	9.5
<i>Investing activities</i>			
Capital expenditures, including intangible assets	9, 10	(0.3)	(0.5)
Issue of new Group loans		0.0	(16.0)
Repayment of Group loans		(1.1)	28.7
Investments in subsidiaries		(48.3)	(42.9)
Interest received	7	24.1	22.0
Dividends received	7	0.6	0.4
Cash flow used by investing activities		(25.0)	(8.3)
<i>Financing activities</i>			
Proceeds from increases in equity		35.5	0.0
Proceeds from sale / (purchase) of treasury shares		0.0	(2.5)
Net drawing / (repayment) of debt		(18.7)	30.6
Changes in cash pool overdraft		0.0	(4.4)
Interest paid		(11.1)	(9.3)
Other financial charges		(0.1)	(0.0)
Cash flow from financing activities		5.7	14.4
Currency effects on cash		(5.5)	(0.7)
Net change in cash		(9.4)	14.8
Net cash as at January 1 ²		21.3	6.4
Net cash as at December 31²		12.0	21.3
Of this, restricted cash		(0.0)	1.4

¹ Comprises changes in other current receivables, other short-term liabilities and provisions.

² Comprises the net amount of bank deposits, cash and bank overdraft.

► Statement of Financial Position

MEUR	Note	2018	2017
ASSETS			
<i>Non-current assets</i>			
Deferred tax assets	8	0.0	0.0
Intangible assets including goodwill	9	1.1	1.3
Property, plant and equipment	10	0.0	0.1
Investments in subsidiaries	4	267.1	224.6
Loans to subsidiaries and other non-current assets	23	408.8	398.4
Total non-current assets		677.1	624.4
<i>Current assets</i>			
Trade and other receivables	11	21.2	17.8
Cash and cash equivalents		12.0	21.3
Total current assets		33.1	39.0
Total assets		710.2	663.4
EQUITY AND LIABILITIES			
<i>Equity</i>			
Share capital		22.5	20.7
Treasury shares		0.0	(0.1)
Share premium		205.8	171.4
Other reserves		(32.8)	(32.4)
Retained earnings		153.5	136.7
Total equity		349.0	296.2
<i>Non-current liabilities</i>			
Deferred tax liabilities	8	20.2	16.7
Retirement benefit obligations	13	0.3	0.4
Interest-bearing liabilities	14	267.3	256.5
Other non-current interest-free liabilities		0.0	(0.0)
Total non-current liabilities		287.8	273.6
<i>Current liabilities</i>			
Bank overdraft		(0.0)	35.8
Other current interest-bearing liabilities		0.0	0.0
Current income tax liabilities	8	(0.7)	2.8
Trade and other payables	16	74.1	55.0
Total current liabilities		73.4	93.6
Total liabilities		361.2	367.2
Total equity and liabilities		710.2	663.4

► Statement of Changes in Equity

MEUR	Share capital	Treasury shares	Share premium	Other reserves	Retained earnings	Total equity
Equity as at 01.01.2017	22.4	(0.1)	185.6	(22.1)	130.0	315.8
Sale of treasury shares		(0.0)		(2.5)		(2.5)
Value of share options charged to income statement				0.1		0.1
<i>Total comprehensive income for the year:</i>						
Profit for the year					6.7	6.7
<i>Other comprehensive income:</i>						
Translation differences	(1.7)	0.0	(14.2)	(7.9)		(23.9)
Tax on translation differences				0.0		0.0
Remeasurement of net defined pension liability				(0.0)		(0.0)
Tax on remeasurement of net pension liability				0.0		0.0
Total comprehensive income for the year	(1.7)	0.0	(14.2)	(7.9)	6.7	(17.2)
Equity as at 31.12.2017	20.7	(0.1)	171.4	(32.5)	136.7	296.2
<i>Total comprehensive income for the year:</i>						
Prior year adjustment*					(1.8)	(1.8)
Equity increase	2.1		37.6			39.7
Sale of treasury shares		0.1		0.8		0.9
Value of share options charged to income statement				0.6		0.6
Other changes in equity				0.1		0.1
<i>Total comprehensive income for the year:</i>						
Profit for the year					18.6	18.6
<i>Other comprehensive income:</i>						
Translation differences	(0.3)		(3.2)	(1.8)		(5.3)
Tax on translation differences				0.0		0.0
Remeasurement of net defined pension liability				0.0		0.0
Tax on remeasurement of net pension liability				(0.0)		(0.0)
Total comprehensive income for the year	(0.3)	0.0	(3.2)	(1.8)	18.6	13.5
Equity as at 31.12.2018	22.5	(0.0)	205.8	32.8	153.5	349.0

* Adjustments due to initial adoption of IFRS 9.

► Notes

NOTE 1 Reporting Entity

Kongsberg Automotive ASA (“the Company” or “the Parent company”) is a limited liability company incorporated and domiciled in Norway. The address of its registered office is Dyrmyrgata 48, NO-3601 Kongsberg, Norway. The Company is listed on the Oslo Stock Exchange. The Company is the Parent in the Group and serves the purpose of holding company in the Group.

The information provided in the consolidated financial statements of the Group covers the Company to a significant degree. For a description of the operative activities of the subsidiaries of Kongsberg Automotive ASA, please refer to the consolidated financial statement of the Group. The Company’s financial statements were authorized for issue by the Board of Directors on February 27, 2019.

NOTE 2 Statement of Compliance

The Company’s financial statements are prepared in accordance with simplified IFRS according to the Norwegian Accounting Act § 3-9, and regulations regarding simplified application of IFRS issued by the Ministry of Finance on January 21, 2008.

NOTE 3 Significant Accounting Policies

The Company’s significant accounting principles are consistent with the accounting principles of the Group, as described in note 1 of the consolidated financial statement.

New IFRS standards effective for the current year

Impact of initial application of IFRS 9 Financial instruments

In the current year, the Company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after January 1, 2018. The Company has elected not to restate comparatives in respect of the classification and measurement of financial instruments in accordance with the transition provisions of IFRS 9.

Additionally, the Company adopted consequential amendments to IFRS 7 Financial Instruments. IFRS 9 introduced new requirements for:

- Classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

Classification and measurement of financial assets:

The Company has applied the requirements of IFRS 9 to instruments that continue to be recognized as at January 1, 2018 and has not applied the requirements to instruments that have already been derecognized as at January 1, 2018.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value based on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Company continues to classify and measure trade and other receivables at amortized cost.

Classification and measurement of financial liabilities:

No financial liabilities have been designated as at fair value through profit and loss (FVTPL) at the date of initial application of IFRS 9.

Under IAS 39 a non-substantial modification in the terms of a financial liability does not require the reporting entity to recognize a gain or loss. A non-substantial modification in the terms of a financial liability is where the net present value of the cash flows with the modified terms, is 10% or less different from the net present value prior to the modification, both discounted at the original effective interest rate. Under IFRS 9 it has now been clarified that a gain or loss should be recognized for any modification. The change must be applied retrospectively to all financial liabilities that are still recognized at the date of initial recognition. The Company has modified the terms of the interest-bearing financial liabilities (bank loans) three times in the past which leads to an increase in long-term debt of 2.3 MEUR as of January 1, 2018.

Impact on assets (increase), and liabilities and equity (increase/ decrease) as of January 1, 2018 (in MEUR):

Assets	
Deferred tax asset	0.5
Total assets	0.5
Liabilities and equity	
Interest-bearing liabilities	2.3
Retained earnings	(1.8)
Total liabilities and equity	0.5

Impact on profit or loss in the current year:

- The adjustment to the 2018 opening balance of interest-bearing liabilities (MEUR 2.3) has been reversed in its entirety through profit and loss, of which MEUR 0.5 had been reversed before repayment of the interest bearing liabilities (bank loans) and the remaining MEUR 1.8 was recognized as income upon repayment of the bank loans as of July 23, 2018.

Refer to note 14 for the current classification and measurement.

NOTE 3 Significant Accounting Policies (continued)*Impairment of financial assets*

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

The financial assets of the Company consist mainly of loans and receivables towards subsidiaries. Those are tested in connection with the impairment test of net investment. As this is done on the basis of future cash flows, the expected losses are taken into account.

Impact on assets and equity/liabilities as at January 1, 2018:

- There is no impact as at the date of initial application of IFRS 9.

Impact on profit or loss in the current year:

- There is no impact on the earnings before tax.

The application of IFRS 9 has had no impact on the cash flows of the Company.

Investments in subsidiaries

Investments in subsidiaries and associated shares in subsidiaries are valued at cost and tested for impairment. Any impairment losses and reversal of impairment losses are classified as net gains (loss and impairment) on investments in subsidiaries in the income statement. Loans provided to subsidiaries continued to be measured at amortized cost according to IFRS 9.

NOTE 4 Investments in Subsidiaries

Entity name	Country of incorporation	Ownership 2018	2018	2017
Kongsberg Automotive Holding 2 AS	Norway	100%	201.0	148.0
KA Group AG	Switzerland	0%	53.4	38.3
Kongsberg Automotive (Wuxi) Ltd	China	100%	7.3	7.3
Kongsberg Automotive Ltda	Brazil	100%	2.4	2.4
Kongsberg Automotive Ltd	Korea	100%	1.8	1.8
Kongsberg Automotive (India) Private Ltd	India	100%	0.9	0.0
Kongsberg Automotive Driveline System India Ltd	India	100%	0.4	0.6
Kongsberg Automotive Japan KK	Japan	100%	0.1	0.1
Kongsberg Automotive SARL	France	100%	0.0	0.0
CTEX Seat Comfort (Holding) Ltd	Great Britain	100%	0.0	0.0
Kongsberg Automotive AB	Sweden	0%	0.0	15.0
Kongsberg Automotive AS	Norway	0%	0.0	10.9
Kongsberg Automotive Sp. z.o.o.	Poland	0%	0.0	0.2
Kongsberg Automotive GmbH	Germany	0%	0.0	0.1
Total investments in subsidiaries			267.1	224.6

Investment in Kongsberg Automotive Holding 2 AS

The increase of the investment in Kongsberg Automotive Holding 2 AS is attributable to the following transactions.

Contribution to Kongsberg Actuation Systems B.V. (KA BV)

KA BV is a subsidiary of Kongsberg Automotive Holding 2 AS. As part of the Offering of Senior Secured Notes, the following subsidiaries have been contributed at their carrying values from the Company to the subsidiary KA BV as other paid in equity:

- Kongsberg Automotive AB (Sweden)
- Kongsberg Automotive Sp. z.o.o. (Poland)
- Kongsberg Automotive AS (Norway)

Germany tax group formation

In connection to the formation of a tax group in Germany, the following subsidiary has been contributed at its carrying value from the Company to the subsidiary Kongsberg Automotive Holding 2 AS as other paid in equity:

- Kongsberg Actuation Systems GmbH

Equity increase of US group

A cash contribution of MUSD 20.0 has been granted to Kongsberg Automotive Holding 2 AS to be provided to its US-based subsidiaries as equity increase.

Norwegian tax group contribution 2017

As part of the Norwegian tax group, the Company has contributed MNOK 66.8 to Kongsberg Automotive Holding 2 AS for 2017.

NOTE 4 Investments in Subsidiaries (continued)**Impairment testing**

The Parent has performed impairment tests on all KA companies owned or financed directly by Kongsberg Automotive ASA.

The following assets have been considered for impairment: share investments, loans to Subsidiary companies, intercompany receivables. The impairment assessment is made on a "Net Investment" level (all direct loans, receivables and share investments are considered together). Shares are impaired before loans, and loans before receivables.

In a first step, the net investment was compared to the carrying value of the equity of the respective subsidiaries. The equity carrying value is considered as a conservative valuation of the company value.

In a second step, the net investment has been compared to the enterprise value. The enterprise value has been derived from the net present value of all future cash flows including terminal value.

The Swiss principal model has been taken into account as well as all assumptions used for the three-year strategic planning in the cash flow estimation of each of the subsidiaries tested.

Discount rate assumptions

The required rate of return was calculated using the WACC method. The same WACC was used as calculated for Group impairment purposes. For details please refer to note 12 in the Group Financial Statements.

Impairment test results and conclusion

The testing resulted in an impairment of shares and accounts receivables booked by Kongsberg Automotive ASA only for entity Kongsberg Automotive Driveline Systems India Ltd.

NOTE 5 Salaries and Social Expenses

MEUR	2018	2017
Wages and salaries	0.2	0.3
Social security tax	0.0	0.0
Pension cost (defined benefit plans)	0.0	0.0
Pension cost (defined contribution plans)	0.0	0.0
Other employee-related expenses	0.0	0.6
Total salaries and social expenses	0.2	0.9

The Parent company had no employees as at December 31, 2018 and there were no employees as at December 31, 2017 either. Wages and salaries comprise director's fees.

NOTE 6 Other Operating Expenses

MEUR	2018	2017
Leasehold expenses	0.2	0.2
Service costs	5.4	5.1
Consumables	0.0	0.0
Travel costs	0.2	0.2
Other costs*	2.8	22.0
Total other operating expenses	8.6	27.5

* Includes write-down and loss on Group loans and receivables.

NOTE 7 Financial Items

MEUR	2018	2017
Dividend and other financial income	0.6	0.4
Gain from derecognition of financial liabilities measured at amortized cost*	0.7	0.0
Foreign currency gains**	8.7	0.0
Changes in value of financial derivatives	0.0	0.0
Interest income	24.1	22.0
Total financial income	34.1	22.4
Interest expense	(12.1)	(9.4)
Foreign currency losses**	0.0	(7.0)
Changes in value of financial derivatives	0.0	0.0
Other items	(0.0)	(0.5)
Total financial expenses	(12.1)	(16.9)
Total financial items	21.9	5.5

* Repayment of bank loans: income of MEUR 1.8 following IFRS 9 adjustment offset by MEUR 1.1 capitalized fees.

** Includes unrealized currency gain of MEUR 3.8 (2017: unrealized loss of MEUR 6.9).

NOTE 8 Taxes**Tax recognized in Statement of Income**

The major components of income tax expense:

MEUR	2018	2017
Current tax on profits for the year*	(3.4)	(3.7)
Adjustments in respect of prior years – current tax	3.0	0.0
Total current tax	(0.4)	(3.7)
Current year change in deferred tax	(1.7)	1.8
Impact of changes in tax rates	1.0	0.8
Adjustments in respect of prior years – deferred tax	(3.0)	1.4
Total change in deferred tax	(3.7)	4.0
Total income tax (expense) income	(4.1)	0.2

* Includes withholding tax. Further details can be found in table below.

Tax recognized in other comprehensive income

There is no tax recognized in other comprehensive income.

NOTE 8 Taxes (continued)

Reconciliation of Norwegian nominal statutory tax rate to effective tax rate

MEUR	2018	2017
Profit before taxes	22.7	6.5
Expected tax calculated at Norwegian tax rate	(5.2)	(1.6)
Dividends (permanent differences)	0.1	0.1
Other permanent differences / currency	(0.3)	(0.2)
Effect of withholding tax	(0.2)	(0.2)
Effect of different tax rates	0.0	0.0
Impact of changes in tax rates and legislation	1.0	0.8
Losses not recognised as deferred tax assets	0.0	0.0
Write-down of deferred tax assets	0.0	0.0
Adjustments in respect of prior years and other adjustments	0.5	1.3
Income tax (expense) / income	(4.1)	0.2
Average effective tax rate	18%	(4%)

Tax recognized in the Statement of Financial Position

Current tax liability

MEUR	2018	2017
Current income tax liabilities	(0.7)	2.8
Total	(0.7)	2.8

Deferred tax

MEUR	2018	2017
Deferred tax asset	0.0	0.0
Deferred tax liability	(20.2)	(16.7)
Total	(20.2)	(16.7)

Deferred tax positions are netted within the same tax entity.

Specification of deferred tax assets and liabilities recognized in the Statement of Financial Position

MEUR	Opening balance	Charged to income	Changes in rate	OCI	Exchange differences	Closing balance
Property, plant and equipment	0.1	0.0	0.0	0.0	0.0	0.1
Retirement benefits obligations	1.3	0.0	(0.1)	0.0	0.0	1.2
Losses	0.0	0.0	0.0	0.0	0.0	0.0
Account receivables	1.3	0.0	(0.1)	0.0	(0.1)	1.1
Unrealized FX on long-term receivables / payables	(19.0)	(5.0)	1.1	0.0	0.2	(22.7)
Other temporary differences	(0.3)	0.3	0.0	0.0	0.0	(0.0)
Net deferred tax asset / (liability)	(16.7)	(4.7)	1.0	0.0	0.2	(20.2)

NOTE 8 Taxes (continued)**Tax positions not recognized**

MEUR	2018	2017
Tax positions not recognized	0.0	0.0
Total	0.0	0.0

Remaining lifetime of tax losses (net tax value)

MEUR	2018	2017
Less than five years	0.0	0.0
5-10 years	0.0	0.0
10-15 years	0.0	0.0
15-20 years	0.0	0.0
Without time limit	0.0	0.0
Total	0.0	0.0

NOTE 9 Intangible Assets

MEUR	Customer relationships*	Software and other	Total
Cost	0.0	4.3	4.3
Accumulated amortization	0.0	(3.0)	(3.0)
Book value as at 31.12.2016	0.0	1.3	1.3
Cost as at 01.01.2017	0.0	4.3	4.3
Additions	0.0	0.5	0.5
Disposals accumulated cost	0.0	0.0	0.0
Translation differences on cost	0.0	(0.4)	(0.4)
Acquisition costs as at 31.12.2017	0.0	4.4	4.4
Accumulated amortization as at 01.01.2017	0.0	(3.0)	(3.0)
Amortization/impairment loss	0.0	(0.4)	(0.4)
Disposals accumulated amortization	0.0	0.0	0.0
Translation differences on amortization	0.0	0.2	0.2
Accumulated amortization as at 31.12.2017	0.0	(3.1)	(3.1)
Cost	0.0	4.4	4.4
Accumulated amortization	0.0	(3.1)	(3.1)
Book value as at 31.12.2017	0.0	1.3	1.3
Cost as at 01.01.2018	0.2	4.2	4.4
Additions	0.0	0.3	0.3
Disposals accumulated cost	0.0	0.0	0.0
Translation differences	(0.0)	(0.1)	(0.1)
Acquisition costs as at 31.12.2018	0.2	4.4	4.6
Accumulated amortization as at 01.01.2018	(0.2)	(2.9)	(3.1)
Amortization/impairment loss	0.0	(0.5)	(0.5)
Disposals accumulated amortization	0.0	0.0	0.0
Translation differences	0.0	0.0	0.1
Accumulated amortization as at 31.12.2018	(0.2)	(3.3)	(3.5)
Cost	0.2	4.4	4.6
Accumulated amortization	(0.2)	(3.3)	(3.5)
Book value as at 31.12.2018	0.0	1.1	1.1

* MEUR 0.2 fully amortized customer relationship was reported in other intangible assets in the 2017 Financial Statements.

NOTE 10 Property, Plant and Equipment (PP&E)

MEUR	Equipment
Cost	0.9
Accumulated depreciation	(0.8)
Book value as at 31.12.2016	0.1
Cost as at 01.01.2017	0.9
Additions	0.0
Disposals accumulated cost	0.0
Translation differences	(0.1)
Acquisition costs as at 31.12.2017	0.8
Accumulated depreciation as at 01.01.2017	(0.8)
Depreciation/impairment loss	(0.0)
Disposals accumulated depreciation	0.0
Translation differences	0.1
Accumulated depreciation as at 31.12.2017	(0.8)
Cost	0.8
Accumulated depreciation	(0.8)
Book value as at 31.12.2017	0.1
Cost as at 01.01.2018	0.8
Additions	0.0
Disposals accumulated cost	0.0
Translation differences	(0.0)
Acquisition costs as at 31.12.2018	0.8
Accumulated depreciation as at 01.01.2018	(0.8)
Depreciation/impairment loss	(0.0)
Disposals accumulated depreciation	0.0
Translation differences	0.0
Accumulated depreciation as at 31.12.2018	(0.8)
Cost	0.8
Accumulated depreciation	(0.8)
Book value as at 31.12.2018	0.0

NOTE 11 Trade and Other Receivables

Specification of trade and other receivables

MEUR	2018	2017
Trade receivables	0.0	0.0
Short-term Group loans and receivables	21.0	17.5
Public duties	0.0	0.0
Other short-term receivables	(0.0)	0.0
Receivables	21.0	17.5
Prepayments	0.1	0.3
Total trade and other receivables	21.2	17.8

Receivables by currency

MEUR	2018	2017
EUR	10.4	6.4
USD	10.0	11.0
NOK	0.6	0.0
CNY	0.0	0.0
Other	0.1	0.1
Total receivables	21.0	17.5

NOTE 12 Share Capital

Refer to note 16 in the Group's consolidated financial statements.

NOTE 13 Retirement Benefit Obligations

Retirement benefit obligations recognized in the Statement of Financial Position

MEUR	2018	2017
Defined benefit pension obligation	0.1	0.1
Top hat, retirement provisions and other employee obligations	0.2	0.3
Retirement benefit obligations	0.3	0.4

Defined benefit scheme – assumptions

MEUR	2018	2017
Discount rate	2.6%	2.3%
Rate of return on plan assets	2.6%	2.3%
Salary increases	2.8%	2.5%
Increase in basic government pension amount	2.5%	2.3%
Pension increase	2.5%	2.3%

NOTE 13 Retirement Benefit Obligations (continued)**Defined benefit scheme – net periodic pension cost**

MEUR	2018	2017
Service cost	0.0	0.0
Interest on benefit obligations	0.0	0.0
Expected return on pension assets	0.0	0.0
Amortization of estimate differences	0.0	0.0
Effect of curtailment	0.0	0.0
Administration cost	0.0	0.0
Social security taxes	0.0	0.0
Net periodic pension cost	0.0	0.0
Remeasurement of net defined benefit liability	(0.0)	0.0
Actual return on plan assets	0.0%	0.0%

Defined benefit scheme – net pension liability

MEUR	2018	2017
<i>Pension liabilities and assets:</i>		
Projected benefit obligation (PBO)	0.1	0.1
Fair value of pension assets	0.0	0.0
Unrecognized effects	0.0	0.0
Net pension liability before social security taxes	0.1	0.1
Social security taxes liabilities	0.0	0.0
Net pension liability	0.1	0.1

Specification of carrying value of net pension liability

MEUR	2018	2017
Retirement benefit obligation	0.1	0.1
Retirement benefit asset	0.0	0.0
Net pension liability	0.1	0.1

Defined benefit scheme – change in net pension liability

MEUR	2018	2017
Net pension liability as at 01.01.	0.1	0.2
Pension cost for the year	0.0	0.0
Remeasurement of net defined benefit liability	(0.0)	0.0
Paid pensions	0.0	(0.1)
Pension plan contributions	0.0	0.0
Translation differences	(0.1)	(0.0)
Net pension liability as at 31.12.	0.1	0.1

Expected pension payment:

The pension payment for 2019 is expected to be in line with the 2018 payment.

NOTE 14 Interest-bearing Liabilities

Interest-bearing liabilities as presented in the Statement of Financial Position

MEUR	2018	2017
External non-current interest-bearing loans and borrowings	0.0	257.9
Internal non-current interest-bearing loans and borrowings	274.0	0.0
Capitalized arrangement fees	(6.7)	(1.4)
Total interest-bearing liabilities	267.3	256.5

Specification of total interest-bearing liabilities

MEUR	2018	2017
EUR	274.0	162.0
USD	0.0	95.9
Other currencies	0.0	0.0
Capitalized arrangement fee	(6.7)	(1.4)
Total interest-bearing liabilities	267.3	256.5

Changes in liabilities arising from financing activities

MEUR	2018	2017
Opening balance as at 01.01.	256.5	236.9
Net cash flows	(18.3)	30.8
Foreign exchange movement	(5.7)	6.7
Translation effect	6.5	(18.2)
Other	28.2	0.3
Closing balance as at 31.12.	267.3	256.5

NOTE 15 Risk Management

The Company's risk management is an integral part of the Group's risk management. Refer to note 21 of the consolidated financial statements for details.

Currency exposure

Management is monitoring the currency exposure on a group level. The Group treasury uses the debt structure and profile to balance

some of the net exposure of the cash flow from operations. The Group's treasury function regularly evaluates the use of hedging instruments but currently has low usage of such instruments.

Interest risk

Due to repayment of bank loans, the Company is not exposed to any interest risk exposure.

NOTE 16 Trade and Other Payables

Specification of trade and other payables as presented in the Statement of Financial Position

MEUR	2018	2017
Trade payables	1.6	0.9
Short-term group liabilities	71.3	51.9
Accrued expenses	1.2	1.9
Other short-term liabilities	0.0	0.3
Total trade and other payables	74.1	55.0

Provisions

The Company had no provisions as of December 31, 2018 and December 31, 2017.

Maturity structure

MEUR	Accrued expenses	Other short-term liabilities	Trade payables	Total 2018
Repayable 0–3 months after year-end	0.5	0.0	1.6	2.1
Repayable 3–6 months after year-end	0.4	0.0	0.0	0.4
Repayable 6–9 months after year-end	0.0	0.0	0.0	0.0
Repayable 9–12 months after year-end	0.3	0.0	0.0	0.3
Total	1.2	0.0	1.6	2.9

NOTE 17 Remuneration and Fees for Management, Board of Directors and Auditors

Refer to note 24 in the Group's consolidated financial statements.

NOTE 18 Shares Owned by Board of Directors and Senior Management

Refer to note 25 in the Group's consolidated financial statements.

NOTE 19 Statement of Remuneration of Management

Refer to note 26 in the Group's consolidated financial statements.

NOTE 20 Commitments and Guarantees**Commitments***Operating leases*

The Company is party to lease agreements classified as operating leases.

MEUR	2019	2020	2021	2022	2023	Thereafter	Total
Operational lease commitments	0.1	0.1	0.0	0.0	0.0	0.0	0.2

Guarantees

Some subsidiaries require a financial support guarantee from the Parent company to satisfy the going concern assumption.

The Company has also issued guarantees towards suppliers of subsidiaries for a total amount of MEUR 71.9. The risk exposure is not considered material.

NOTE 21 Contingent Liabilities

Refer to note 28 in the Group's consolidated financial statements.

NOTE 22 Subsequent Events

There are no subsequent events to be reported.

NOTE 23 Related-Party Transactions

The Group's ultimate Parent is Kongsberg Automotive ASA.

The Company has carried out the following transactions with related parties:

Senior management and Board of Directors compensation

See notes 17, 18 and 19 - includes remuneration for management and Board of Directors.

Revenues

MEUR	2018	2017
Group benefit fees from subsidiaries	2.8	4.2
Service fee from KA AG	7.2	6.3
Information Systems and Technology	0.0	12.7
Other revenues	0.1	6.7
Operating revenue	10.1	29.9

Since 2017, the Group benefit fee (GBF) has largely been replaced by a new service fee income, paid by KA AG, for KA ASA's services benefiting the Group. GBF is continuing for areas outside the scope of the Swiss Principal model and contains a trademark fee from KA AG. Information Systems and Technology (MEUR 12.7 intercompany revenue in 2017) is now centralized at KA AG as part of the Swiss Principal model.

NOTE 23 Related-party transactions (continued)**Revenues by geographical area**

MEUR	2018	2017
Switzerland	10.0	9.3
Norway	0.0	2.2
USA	0.0	2.3
Sweden	0.1	2.2
China	0.0	3.1
Mexico	0.0	3.1
Other countries	0.0	7.8
Operating revenue	10.1	29.9

Outstanding loans with other Group companies*Loans to other Group companies*

MEUR	2018	2017
Kongsberg Automotive Holding 2 AS	351.9	342.9
Kongsberg Automotive Sp. z.o.o.	18.6	18.6
Kongsberg Automotive AB	11.2	11.7
Kongsberg Actuation Systems S.L.	10.0	10.0
Kongsberg Automotive Slovakia s.r.o.	10.0	10.0
Other Group companies	7.0	5.0
Total outstanding loans with other Group companies	408.7	398.3

The majority of the Parent company's loans to Group companies have due dates exceeding one year. The interest rate on loans to Group companies consist of the reference rate in the respective currency plus a margin. The margin on new intercompany loans is determined according to Moody's rating methodology.

Outstanding receivables with other Group companies

MEUR	2018	2017
Kongsberg Automotive Hong Kong Ltd	8.4	5.6
Kongsberg Automotive (Wuxi) Ltd.	3.8	3.8
KA Group AG	2.9	0.0
Kongsberg Automotive Holding 2 AS	1.3	0.0
Kongsberg Automotive Driveline Systems (India) Private Ltd	0.9	0.9
Other Group companies	3.6	7.1
Total outstanding loans with other Group companies	21.0	17.5

Current assets and liabilities have due dates within one year. The outstanding accounts are repayable on demand based on available liquidity in the respective subsidiary.

Outstanding receivables with other Group companies

MEUR	2018	2017
Cash pool overdraft*	(0.0)	35.8
Trade and other payable Group companies**	71.3	51.9
Total	71.3	87.6

* Net position of the Company in the Group cash pool

** Mainly Group contribution to Kongsberg Automotive Holding 2 AS (MEUR 58.1)

Corporate Governance



1. IMPLEMENTATION OF THE PRINCIPLES FOR CORPORATE GOVERNANCE

KA's guidelines for Corporate Governance conform to the Norwegian Code of Practice For Corporate Governance of October 17, 2018, and the Company's compliance with the 15 recommendations of the Code are explained in the following.

The Board of Directors has defined the Company's core values which are reflected in the Company's Code of Conduct which was revised in 2018. The Code of Conduct includes ethical guidelines and guidelines for corporate social responsibility, hereunder a ban on bribery, corruption and facilitation payments, prohibition of unlawful discrimination and prohibition of forced and child labor. All suppliers to the Company are required to confirm their adherence to these principles by signing a particular certificate. The Company has further clear policies on environmental issues and health and safety. The policies are available on the Company's web pages.

2. DEFINITION OF KA'S BUSINESS

The objective is defined in the Articles of Association for the Company, article 2:

"The Company's objective is to engage in engineering industry and other activities naturally related thereto, and the Company shall emphasize development, marketing and manufacturing of products to the auto industry. The Company shall be managed in accordance with general business practice. The Company may cooperate with, establish and participate in other companies."

Article 2 provides a clear description of the actual business of the Company at present. The Annual Report contains a description of the Company's objectives and principal strategies. The Board of Directors evaluates the Company's objectives, strategies and risk profile every year.

3. EQUITY AND DIVIDENDS

The Company shall have an equity capital which over a period of time is at an appropriate level for its objective, strategy and risk profile.

The Company's Dividends Policy of 26 November 2015 states the following:

"Kongsberg Automotive shall create good value for its shareholders, employees and society. Returns to shareholders will be a combination of changes in share price and dividends. The Board of Directors' intention is that dividends will be approximately 30% of the Company's net income, provided that the Company has an efficient capital structure."

The General Meeting held 5 June, 2018 granted two mandates to the Board of Directors to increase the share capital; the first by up to NOK 20,338,406 for the purposes of acquiring funding for the Company's operations or acquisition of other enterprises or making possible the use of the Company's shares as remuneration in connection with acquisitions and mergers or for executing the Company's share option program. The share capital was further to this mandate increased by NOK 20,338,406 by Board resolution of 27 June, 2018. This mandate was thus exhausted.

The second mandate is limited to NOK 30,807,609 and is restricted to the purpose of acquiring other enterprises. The two mandates may be used separately or in combination with other authorizations.

The General Meeting of 5 June, 2018 further granted a mandate to purchase up to 40,676,812 own shares.

The above mandates are time limited and expire at the earlier of the next ordinary General Meeting or 30 June, 2018.

4.

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

KA has only one class of shares and all shareholders in KA enjoy equal rights. Transactions in own shares are in general carried out through the stock exchange or at prevailing stock exchange prices. Possible buybacks will be carried out at market prices.

In the event of transactions between the Company and its shareholders, Board directors or members of the executive management, or parties closely associated with such parties, independent valuation will be obtained if such transactions are not immaterial, provided that the transactions are not to be approved by the General Meeting according to law. Independent valuation will also be obtained for transactions within the same group of companies even if such companies involved have minority shareholdings.

There have not been any significant transactions in 2018 between the Company's shareholders, Board directors or members of the executive management, or parties closely associated with such parties and the Company. Nor have there been any between the Company and other companies in the KA Group.

notice is sent to all known shareholders on the same date. Supporting information, such as proposals for resolutions to be considered by the General Meeting and recommendations by the Nomination Committee are enclosed with the notice and also made available on the web pages at the same time. The supporting materials are sufficiently detailed and comprehensive to allow all shareholders to form a view on all matters to be considered at the General Meeting. Documents that according to law shall be distributed to the shareholders may according to the Articles of Association be made available on the Company's web pages.

Shareholders who wish to attend the General Meeting shall according to the Articles of Association notify the Company or its announced representative no later than 5 days prior to the General Meeting.

The notice calling the General Meeting will provide information on procedures the shareholders must observe at the General Meeting including the procedure for representation by proxy.

Shareholders who cannot attend the General Meeting may vote by proxy. Forms for the granting of proxies are enclosed with the summons to the General Meetings and available on the web pages. The form of proxy includes provisions that allows for instructions on the voting on each individual matter. The Company will nominate a person who will be available to vote on behalf of the shareholders as their proxy.

To the extent possible, members of the Board of Directors, the Nomination Committee, the Auditor, the Chief Executive Officer and the Chief Financial Officer will be present at the General Meeting.

The General Meetings are usually opened by the Chairman of the Board of Directors. A person that is independent of the Board of Directors, the management and the major shareholders is elected to chair the General Meeting and the shareholders are encouraged to propose candidates.

The General Meeting follows a procedure that allows the shareholders to vote on each individual matter, including on each individual candidate nominated for election.

The Company's web pages will further provide information regarding the right of

5.

FREELY NEGOTIABLE SHARES

The shares in KA are freely negotiable and there are no restrictions on negotiability of the shares.

6.

GENERAL MEETINGS

The notice of calling the General Meeting is published on the Company's web pages: www.kongsbergautomotive.com no later than 21 days prior to the meeting. Furthermore, the

the shareholders to propose matters to be considered by the General Meeting.

The Articles of Association for the Company do not prescribe any exception from chapter 5 of the Act on Public Limited Liability Companies.

Nomination Committee will be made available on the Company's web pages where the shareholders are encouraged to propose candidates for directorships.

The remuneration to the Nomination Committee is determined by the General Meeting.

7.

THE NOMINATION COMMITTEE

The duties of the Nomination Committee are to propose candidates to the Board of Directors and to propose remuneration to be paid to the directors and members of the Board committees.

The members of the Nomination Committee for 2018/2019 are: Tor Himberg-Larsen (chairman), Heidi Finskas and Hans Trogen.

It follows from the Articles of Association for the Company § 5 that the Company shall have a Nomination Committee consisting of 3 members elected by the General Meeting for 3 years at a time, unless the General Meeting resolves otherwise. To ensure continuity, one member of the committee will normally be elected at each ordinary General Meeting. The members of the Nomination Committee are independent of the Board directors and the management and may not have other functions in the Company. The General Meeting has adopted an instruction for the Nomination Committee, which is available on the Company's web pages. The Committee's nominations and recommendations shall be enclosed with the summons for the General Meeting and also be available on the Company's web pages. The Nomination Committee stays in contact with major shareholders, Board directors and management.

The Nomination Committee's recommendation to the General Meeting includes reasons for its recommendation and relevant background information for the nominated candidates and current directors and furthermore an assessment of how the candidates meet the Company's needs for expertise, capacity and diversity.

Information about the Nomination Committee and the deadlines for submitting proposals to the

8.

BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The Board of Directors shall according to the Articles of Association of the Company consist of 3-9 members of whom up to 5 members shall be elected by the General Meeting. The Board of Directors elects its chairman according to § 6-1,2,2 of the public Limited Liability Companies Act. The Board consists at present of the following directors elected by the General Meeting: Firas Abi-Nassif (chair), Ellen M. Hanetho, Thomas Falck, Gunilla Nordstrom and Ernst F. Kellermann. The following directors are elected by and among the employees: Tonje Sivesindtjet (from January 1 2019), Bjørn Ivan Ødegård and Jon-Ivar Jørnby.

All directors of the Board elected by the General Meeting are elected for periods of up to 2 years and are eligible for reelection. All Board elections are based on a simple majority. The Board directors are independent of the executive management and material business contacts of the Company.

Participation in Board meetings and Board committees in 2018 has been:

	Board Meetings	Compensation Committee	Audit Committee
Firas Abi-Nassif ¹	1		
Bruce E. Taylor	15	3	
Ellen M. Hanetho	15		6
Thomas Falck	13	3	6
Gunilla Nordstrom	16	3	
Ernst Kellermann	15		6
Kari Brænden Aaslund	15		
Jon-Ivar Jørnby	16		
Bjørn Ivan Ødegård	15		

¹ Appointed December 11, 2018

Information about the shareholdings of the directors of the Board is included in the Annual Report and also available on the Company's web pages.

9.

THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors holds the ultimate responsibility for managing the Group and for monitoring the day-to-day management and the Group's business activities. The Board of Directors is also responsible for the establishing of control systems for the Group. The Board's responsibilities further include the development and adoption of the Company's strategies.

The Board of Directors has issued Rules of Procedure for the Board as well as instructions for the Chief Executive Officer of the Company with the aim of establishing clear internal allocation of responsibilities and duties. Said procedure and instructions are available on the Company's web pages. The Board schedules at least 6 Board meetings per year. Additional Board meetings are held when deemed necessary. The Board hires the CEO, defines the work instructions and decides on the CEO's remuneration.

The Board of Directors has appointed a Compensation Committee and an Audit Committee. The members of said committees are independent of the executive management. The authority of the committees is to make recommendations to the Board.

The Board of Directors evaluates its performance and expertise regularly by self-assessment. The assessment is executed by questionnaires which are completed by each director followed by a common review.

10.

RISK MANAGEMENT, INTERNAL CONTROL AND FINANCIAL REPORTING

10.1 Risk Management and Internal Control

Risk assessment is a management responsibility.

Its objective is to identify, evaluate and manage risks that could reduce the individual unit's ability to reach its goals.

Developments in the automotive industry represent a material risk factor for the Group's performance. Analyses are performed in order to estimate the impact of different development scenarios within the industry on the Group's future performance and financial strength. This provides important input to the Board's overall discussions of risk appetite and risk allocation.

Assessment of operational risk is linked to the unit's ability to reach goals and implement plans. The process covers risks deriving from losses and failing profitability associated with economic cycles, altered framework conditions, changed customer behavior, etc., and the risk of losses resulting from inadequate or failing internal processes, systems, human error or external events.

The assessment and handling of risk is integrated into the Group's value-based management system. The management system is intended to ensure that there is a correlation between objectives and actions at all levels of the Group, and the general principle of value creation for KA's stakeholders.

The Group has a separate, independent Internal Auditing unit that has set up an internal auditing program. The manager of Internal Audit reports to the Audit Committee and to the CFO. Audit reports are sent to Group management following each internal audit. The Group's Board of Directors, including the Audit Committee, are kept informed on current status and approve the auditing program.

The Group has implemented a Delegation of Authority (DOA) policy that defines the level of authority on company business decision-making and ensures effective entrepreneurial leadership. The DOA governs for example decisions on quotations to customers and investments into capital equipment.

10.2 Financial Reporting

The Kongsberg Automotive Group publishes four quarterly financial statements annually, in addition to the Annual Report. Internal reports are produced monthly and quarterly, in which the performance of each business area and product segment is analyzed

and evaluated against forecasts. KA's consolidated financial statements are prepared by the Group accounting team, which reports to the Group CFO.

Prior to discussions with the Board, the Audit Committee performs a preliminary review of the quarterly financial statements and Annual Report with particular emphasis on subjective valuations and estimates that have been made. The external auditor attends all Audit Committee meetings.

A number of risk assessment and control measures are established in connection with the publication of the financial statements. Internal meetings are held with the business areas and subsidiaries, as well as a meeting with the external auditor, to identify risk factors and measures associated with material accounting items or other circumstances. Similar meetings are also held quarterly with various professional environments within the Group, with particular focus on any market changes, specific circumstances relating to individual investments, transactions and operating conditions, etc.

The Group addresses frequently occurring items affecting the accounting record keeping, internal accounting controls and financial reporting within the consolidated Group through the KA Finance Manual. The document contains the most relevant accountancy- and reporting-related issues for all reporting units and set presidency for a distinctive reporting throughout the Group. The KA reporting process follows a standard schedule applicable to all reporting units. The Company uses Oracle Hyperion Financial Management as its global financial consolidation, reporting and analysis tool.

Key members of the Group accounting team receive a fixed annual compensation that is not affected by the Group's financial performance. The segregation of duties in the preparation of the financial statements is such that the Group accounting team shall not itself carry out asset valuations, but shall perform a control to ensure compliance with the Group companies' accounting processes.

11.

REMUNERATION TO THE BOARD OF DIRECTORS

The remuneration paid to each Board director is specified in the notes to the annual accounts. The remuneration is proposed by the Nomination Committee and approved by the General Meeting. The directors hold no other assignment in the Company than the directorships to the Board and memberships to committees to the Board.

The Board directors are not entitled to performance-related compensation. The Board directors are not granted any KOA share options. The Board directors did, however, resulting from a proposal by the Nomination Committee and resolution by the Annual General Meeting, receive 9,311 shares in the Company each as part of their compensation. The shares are restricted and cannot be sold before 2 June 2021. The value of the share grant to each Board member amounted to NOK 100,000. The Board directors have not received any compensation from the Company other than the share grant, the remuneration for the directorship, and remuneration for Board committees work as listed in note 24 [Check reference].

12.

REMUNERATION TO THE EXECUTIVE MANAGEMENT

The Board of Directors has established guidelines for the remuneration to the executive management. The remuneration for the management is further reviewed by the Board annually. The guidelines are available on the Company's web pages and are presented to the annual General Meeting for advisory vote. Information about the remuneration paid to the executive management of the Company is included in the notes to the annual accounts. Performance-related remunerations such as bonuses and share option programs are based on the Company's financial results and are subject to absolute limits.

13.

INFORMATION AND COMMUNICATION

The Board of Directors has established guidelines for the Company's reporting of financial and other information based on openness and taking into account the requirement for equal treatment of all participants in the securities market. A financial calendar for the Company is available on the Company's web pages.

All information distributed to the shareholders will be made available simultaneously on the Company's web pages.

14.

TAKEOVERS

The Board of Directors has established guiding principles for how it will act in the event of a takeover bid. These are in compliance with article 14 of the Code of Practice. The main elements of these principles are included in the Rules of Procedures for the Board of Directors and available on the Company's web pages.

There are no defense mechanisms in the Articles of Association for the Company or any underlying documents, nor are there implemented any measures to limit the opportunity to acquire shares in the Company.

If an offer is made for the Company's shares, the Company's Board of Directors shall issue a statement evaluating the offer and making a recommendation as to whether shareholders should or should not accept the offer. The Board should consider whether to arrange a valuation by an independent expert.

The Board of Directors shall not seek to hinder or obstruct takeover bids for the Company's activities or shares unless there are particular reasons for this.

15.

AUDITOR

The Auditor presents the main elements of plan for the auditing of the Company to the Audit Committee on an annual basis. The Auditor participates in the meetings with the Audit Committee and in the Board meeting that approves the financial statements and further, meets with the Board without the management of the Company present at least once a year. The Auditor reviews the internal controls of the Company and presents the result of the review to the Audit Committee annually together with identified weaknesses, if any, and proposals for improvements. The Company has established guidelines for the Auditor's and associated persons' non-auditing work. Compensation to the Auditor is disclosed in a note to the annual accounts hereto and is also reported and approved by the General Meeting.

► Declaration to the Annual Report 2018

Responsibility Statement

The Chief Executive Officer and the Board of Directors confirm, to the best of our knowledge, that the financial statements for the period January 1 to December 31, 2018 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the Company's and the Group's assets, liabilities, financial position and profit or loss of the entity and the Group taken as a whole. We also confirm that the Board of Directors report includes a true and fair review of the development and performance of the business and the position of the entity and the Group, together with a description of the principal risk and uncertainties facing the entity and the Group.

Kongsberg, February 27, 2019

The Board of Directors and President and CEO of Kongsberg Automotive ASA

Firass Abi-Nassif
Chairman
(Sign.)

Ellen M. Hanetho
Board member
(Sign.)

Thomas Falck
Board member
(Sign.)

Gunilla Nordstrom
Board member
(Sign.)

Ernst Kellermann
Board member (Sign.)

Jon-Ivar Jørnby
Employee elected (Sign.)

Tonje Sivesindtjet
Employee elected (Sign.)

Bjørn Ivan Ødegård
Employee elected (Sign.)

Henning E. Jensen
President and CEO
(Sign.)

► Auditor's Report



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To the General Meeting of Kongsberg Automotive ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Kongsberg Automotive ASA. The financial statements comprise:

- The financial statements of the parent company Kongsberg Automotive ASA (the Company), which comprise the statement of financial position as at 31 December 2018, and statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Kongsberg Automotive ASA and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2018, and statement of comprehensive income, statement of changes in equity, statement of cash flow 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 accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and 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 as required by laws and regulations, and we have fulfilled our other ethical responsibilities 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 of the current period. 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.

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The key audit matters identified in our audit are:

- Carrying value of goodwill
- Accounting of taxation

Carrying value of goodwill

Key audit matter	How the matter was addressed in the audit
<p>Refer to note 12 to the Group financial statements for description of management's impairment testing process and key assumptions. Management has identified its reportable segments, Driveline Systems, Interior Comfort Systems, Light Duty Cables, On-Highway, Couplings, Fluid Transfer Systems and Off-Highway as Cash Generating Units (CGUs) for testing for impairment.</p> <p>As disclosed in note 12 the carrying value of goodwill amounted to EUR 147.8 million at 31 December 2018.</p> <p>Management's annual impairment testing is based on the Group's strategic three-year plan, adjusted for relevant recent changes in internal short-term forecasts and market data. Management's 2018 year end testing did not identify any impairment charge. However, as disclosed in note 12, the recoverable values for Driveline Systems are sensitive to improvements of performance.</p> <p>Transparent disclosures and clarity about sensitivities to key assumptions used in the valuations are critical to inform readers how management has made their assessments, given the uncertainty associated with the valuation of the recoverable amounts.</p> <p>Due to the inherent uncertainty involved in the forecasting and discounting of future cash flows, which are the basis of the assessment of recoverability of the CGU's and the level of management judgement involved, this has been identified as a key audit matter.</p>	<p>We challenged management's assumptions used in its impairment model for assessing the recoverability of the carrying value of goodwill. We focused on the appropriateness of CGU identification, methodology applied to estimate recoverable values, discount rates and forecasted cash flows. Specifically:</p> <ul style="list-style-type: none"> • We tested the methodology applied to estimate recoverable values as compared to the requirements of IAS 36, Impairment of assets; • We tested the mathematical accuracy of management's impairment models; • We obtained an understanding of and assessed the basis for the key assumptions for the Group's three year strategic plan; • We challenged management's cash flow forecasting included in the three year plan and the growth rate beyond by considering evidence available to support these assumptions and by performing sensitivity analysis; • We assessed the discount rate applied by benchmarking against independent data. <p>We used Deloitte valuation specialists in our audit of the carrying value of goodwill.</p> <p>We considered the appropriateness of the related disclosures provided in note 12.</p>



Accounting of taxation

Key audit matter	How the matter was addressed in the audit
<p>The Group has operations in a number of geographical areas and as such is subject to multiple tax jurisdictions. This creates a range of tax risks during the normal course of business, including transaction related tax matters and transfer pricing arrangements.</p> <p>As of 31 December, 2018 the Group has recognized EUR 4 million in taxes payable.</p> <p>Given a number of judgements involved, the complexities of dealing with tax rules and regulations in numerous jurisdictions, this has been identified as a key audit matter.</p>	<p>We evaluated the process for identification of uncertain tax positions and management's assessment of the probable outcome.</p> <p>We involved our tax specialists in Norway and other jurisdictions where local tax knowledge was required in the tax audit to assist us with the evaluation and challenge of the assumptions and estimates in relation to the assessment of tax exposures and contingencies.</p> <p>Our assessment included the review of applicable third –party evidence and correspondence with tax authorities.</p> <p>We considered the adequacy of the tax disclosures provided in note 11.</p>

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the President & CEO for the Financial Statements

The Board of Directors and the President & CEO (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with simplified application of international accounting standards according to the Norwegian Accounting Act section 3-9, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, 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 and the Group'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 Group 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

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that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 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 laws, regulations, and auditing standards and practices generally accepted 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. We 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 or the Group'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 and the Group'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 and the Group 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 to 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 the statements 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 statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed 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 produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 27 February 2019

Deloitte AS

Espen Johansen

State Authorised Public Accountant (Norway)

► Alternative Performance Measures (APM)

This section describes the non-GAAP financial measures that are used in this report and in the quarterly presentation.

The following measures are not defined nor specified in the applicable financial reporting framework of the IFRS GAAP. They may be considered as non-GAAP financial measures that may include or exclude amounts that are calculated and presented according to the IFRS GAAP:

- Operating profit – EBIT / Adjusted EBIT
- EBITDA / Adjusted EBITDA
- Free Cash Flow
- NIBD
- Capital Employed
- ROCE

Operating profit – EBIT / Adjusted EBIT

EBIT, earnings before interest and tax, is defined as the earnings excluding the effects of how the operations were financed, taxed and excluding foreign exchange gains & losses. Adjusted EBIT is defined as EBIT excluding restructuring items, which are defined as any incurred costs or sales reduction of an unusual or non-recurring nature in connection with the considered restructuring of the activities of the Group.

EBIT is used as a measure of operational profitability. In order to abstract restructuring one timers, the Group also lists the adjusted EBIT, the EBIT excluding restructuring items.

2018

MEUR	Interior	Powertrain & Chassis	Specialty Products	Others	Total Group
Operating profit	8.3	7.9	59.4	(21.9)	53.7
Prior years restructuring projects ¹	0.1	4.0	0.5	0.0	4.5
2018 operational restructuring projects ²	4.1	1.1	6.7	0.0	11.9
Principal model implementation ³	0.0	0.0	0.0	4.6	4.6
Adjusted EBIT	12.5	13.0	66.6	(17.4)	74.7
<i>Adjusted EBIT Margin</i>	<i>4.4%</i>	<i>3.0%</i>	<i>16.6%</i>		<i>6.7%</i>

2017

MEUR	Interior	Powertrain & Chassis	Specialty Products	Others	Total Group
Operating profit	8.6	(11.5)	42.4	(15.7)	23.8
Prior years restructuring projects ¹	0.6	13.1	3.1	0.0	16.8
2018 operational restructuring projects ²	0.9	0.0	5.6	0.0	6.5
Principal model implementation ³	0.0	0.0	0.0	2.7	2.7
Adjusted EBIT	10.1	1.5	51.1	(12.9)	49.8
<i>Adjusted EBIT Margin</i>	<i>3.8%</i>	<i>0.4%</i>	<i>13.3%</i>		<i>4.7%</i>

¹ *Prior Years Projects (from a 2018 point of view)*

Cost relating to the sale of the North American Headrest-Armrest business in Q1 2017, the restructuring and production transfers of the Rollag, Heiligenhaus and Basildon plants and cost for business overhead restructuring measures.

² *2018 operational restructuring*

Cost relating to the transfer of Interior business to the new Brzesc plant in Poland, the restructuring and production transfers of the Easley and Burton plants and cost for business overhead restructuring measures partially accrued in 2017 after project announcements.

³ *Principal model implementation*

Relate to expense incurred in connection with the implementation of the Swiss Principal Model.

EBITDA / Adjusted EBITDA

Earnings before interest expenses and interest income, tax, depreciation, amortization and excluding foreign exchange gains and losses. Adjusted EBITDA is defined as EBITDA excluding restructuring items.

EBITDA is used as an additional measure of the Group's operational profitability, excluding the impact from depreciation and amortization.

2018

MEUR	Interior	Powertrain & Chassis	Specialty Products	Others	Total Group
Operating profit	8.3	7.9	59.4	(21.9)	53.7
Depreciation	10.2	12.9	7.3	0.5	30.9
Amortization	0.7	2.3	1.2	0.5	4.7
EBITDA	19.2	23.1	67.9	(21.0)	89.3
Restructuring items	4.2	5.1	7.2	4.6	21.0
Adjusted EBITDA	23.4	28.2	75.1	(16.4)	110.3
<i>Adjusted EBITDA Margin</i>	<i>8.2%</i>	<i>6.4%</i>	<i>18.8%</i>		<i>9.8%</i>

2017

MEUR	Interior	Powertrain & Chassis	Specialty Products	Others	Total Group
Operating profit	8.6	(11.5)	42.4	(15.7)	23.8
Depreciation	7.9	14.0	8.5	0.5	30.9
Amortization	2.4	4.6	7.0	0.4	14.5
EBITDA	18.9	7.0	57.9	(14.7)	69.2
Restructuring items	1.5	11.4	7.5	2.7	23.2
Adjusted EBITDA	20.4	18.4	65.5	(12.0)	92.4
<i>Adjusted EBITDA Margin</i>	<i>7.7%</i>	<i>4.5%</i>	<i>17.0%</i>		<i>8.7%</i>

Free Cash Flow

Free Cash Flow is measured based on cash flow from operations, investments and financing excluding debt repayments.

Free Cash Flow is used in order to measure the Group's ability to generate cash. It allows the Group to view how much cash it generates from its operations after subtracting the cash flow from investing and financing activities excluding debt repayments. The Group considers that this measurement illustrates the amount of cash the Group has at its disposal to pursue additional investments or to repay debt.

MEUR	2018	2017
Cash flow from operating activities	43.2	38.3
Cash flow from investing activities	(70.0)	(49.3)
Cash flow from financing activities	44.9	18.2
Net drawing / (repayment) of debt	(11.2)	(30.6)
Free Cash Flow	6.9	(23.4)

NIBD

Net Interesting Bearing Debt (NIBD), consists of interest-bearing liabilities less cash and cash equivalents.

The Group risk of default and financial strength is measured by the net interesting bearing debt. It shows the Group's financial position and leverage. As cash and cash equivalents can be used to repay debt, this measurement shows the net overall financial position of the Group.

MEUR	2018	2017
Interest-bearing loans and borrowings	269.4	257.8
Other short-term liabilities, interest-bearing	0.1	0.1
Bank overdraft	0.0	(0.0)
Cash and cash equivalents	(59.2)	(39.5)
Free Cash Flow	210.2	218.4

Capital Employed

Capital Employed (CE) is equal to operating assets less operating liabilities. Operating assets and liabilities are items which are involved in the process of producing and selling goods and services. Financial assets and obligations are excluded, as these assets are involved in raising cash for operations and disbursing excess cash from operations.

Capital Employed is measured in order to assess how much capital is needed for the operations/business to function and evaluate if the capital employed can be utilized more efficiently and/or if operations should be discontinued.

MEUR	2018	2017
Total assets	820.2	721.9
Deferred tax liabilities	(23.6)	(19.5)
Other long term liabilities	(21.9)	(19.5)
Current liabilities incl. other short-term interest-bearing liabilities	(251.8)	(234.5)
Capital Employed	522.9	448.5

ROCE

Return on Capital Employed (ROCE) is based on EBIT for the last twelve months divided by the average of capital employed at the beginning and end of the period.

Return on Capital Employed is used to measure the return on the capital employed without taking into consideration the way the operations and assets are financed during the period under review. The Group considers this ratio as appropriate to measure the return of the period.

Return on Capital Employed

MEUR		2018		2017
Capital Employed at beginning ^{1*}	01.01.2018	450.8	01.01.2017	447.0
Capital Employed at end ²	31.12.2018	522.9	31.12.2017	448.5
Adjusted EBIT last twelve months ³		74.7		49.8
ROCE ⁽³⁾ / ((1)+(2))*2		15.3%		11.1%

* Opening balance 2018: includes adjustments due to the initial adoption of IFRS 15 of MEUR 2.3 – see note 5.

► Consolidated Key Financial Data

		2018	2017	2016	2015	2014	
<i>Operations and profit</i>							
1	Operating revenues	MEUR	1,123.1	1,056.6	985.7	1,016.0	979.1
2	Depreciation and amortization	MEUR	35.6	45.4	45.1	66.1	42.1
3	Operating profit	MEUR	53.7	23.8	18.3	32.4	54.8
4	Profit before taxes	MEUR	38.5	6.4	19.3	3.7	18.9
5	Net profit / loss	MEUR	23.8	(8.0)	1.3	(8.3)	5.4
6	Cash flow from operating activities	MEUR	43.2	38.3	70.8	73.5	86.1
7	Investment in property, plant and equipment	MEUR	63.9	47.4	48.1	41.0	34.0
8	Development expenses, gross	MEUR	63.2	67.4	80.9	70.5	58.7
9	Development expenses, net	MEUR	46.8	55.0	64.3	55.2	49.9
<i>Profitability</i>							
10	EBITDA margin	%	8.0	6.5	6.4	9.7	9.9
11	Operating margin	%	4.8	2.3	1.9	3.2	5.6
12	Net profit margin	%	2.1	(0.8)	0.1	(0.8)	0.6
13	Return on total assets	%	7.0	3.4	2.7	4.7	8.0
14	Return on capital employed (ROCE)	%	11.1	5.3	4.0	7.0	11.8
15	Return on equity	%	10.7	(4.0)	0.6	(3.9)	2.7
<i>Capital as at 31.12.</i>							
16	Total assets	MEUR	820.2	721.9	691.6	684.1	689.2
17	Capital employed	MEUR	522.9	448.5	447.0	468.1	463.1
18	Total equity	MEUR	253.5	190.7	208.6	214.2	210.3
19	Equity ratio	%	30.9	26.4	30.2	31.3	30.5
20	Liquidity reserve	MEUR	109.1	105.4	140.8	125.2	134.8
21	Interest-bearing debt	MEUR	269.4	257.8	238.4	253.9	252.8
22	Interest coverage ratio		3.0	1.4	2.4	1.1	1.5
23	Current ratio (Banker's ratio)		1.7	1.5	1.6	1.8	1.6
<i>Personnel</i>							
24	Number of employees as at 31.12.		11,401	10,482	9,791	10,004	9,880

Definitions

5	Profit after tax	13	Operating profit / Average total assets
9	Gross expenses net of Payments from customers	14	Operating profit / Average capital employed
10	(Operating profit + depreciation and amortization) / Operating revenues	15	Net profit / Average equity
11	Operating profit / Operating revenues	17	Operating assets minus Operating liabilities
12	Net profit / Operating revenues	20	Free cash + Unutilized credit facilities and loan approvals
		22	Operating profit / Financial expenses
		23	Current assets / Current liabilities

An aerial photograph of a scenic mountain landscape. A winding asphalt road curves along the edge of a large, calm lake. The surrounding forest is dense and shows signs of autumn, with many trees in shades of orange and red. In the background, rugged mountains with patches of snow rise against a clear sky. A semi-transparent dark blue rectangle is overlaid on the right side of the image, containing white text.

Enhancing
the driving
experience



KONGSBERG
AUTOMOTIVE

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