# ANNUAL REPORT 2019

KONGSBERG
AUTOMOTIVE

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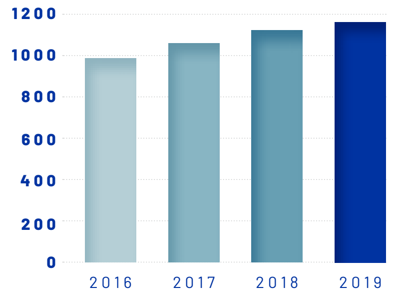
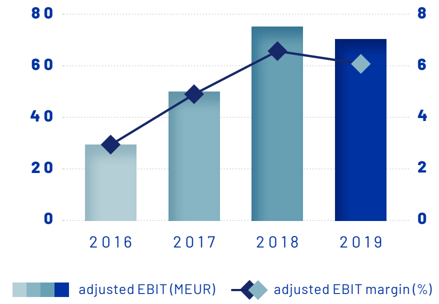
# KEY FIGURES

# KEY FIGURES
GROUP

## REVENUES
amounts in MEUR

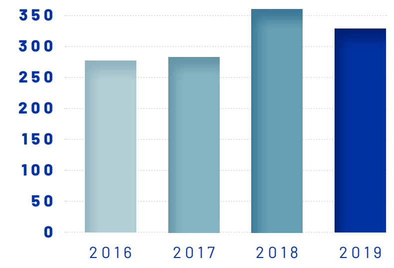



## ADJUSTED EBIT* AND MARGIN
amounts in MEUR and %




* Refer to the Alternative Performance Measures section

## BUSINESS WINS
amounts in MEUR annual sales



# MISSION & PURPOSE STATEMENT

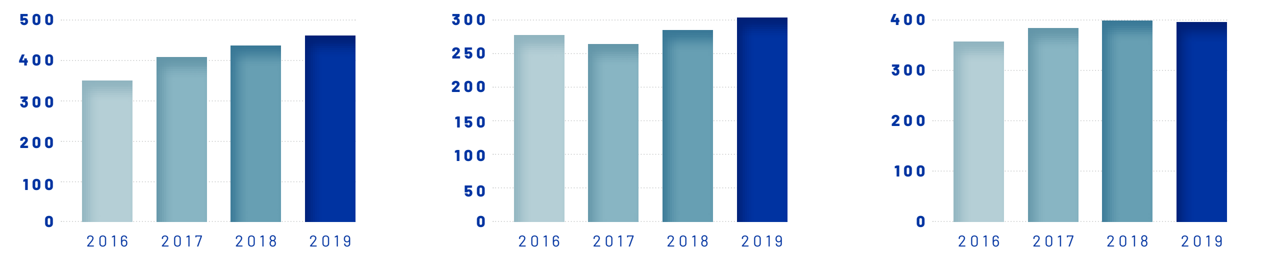
**TO BE THE GLOBAL PARTNER OF CHOICE FOR OUR CUSTOMERS, EMPLOYEES AND STAKEHOLDERS BY PROVIDING ADVANTAGEOUS SOLUTIONS THAT ENHANCE THE DRIVING EXPERIENCE.**

Kongsberg Automotive revived its Mission and Purpose statement in 2019 and it was successfully rolled out globally. It clearly expresses KA's ambitions towards its stakeholders and by what means those ambitions will be achieved.

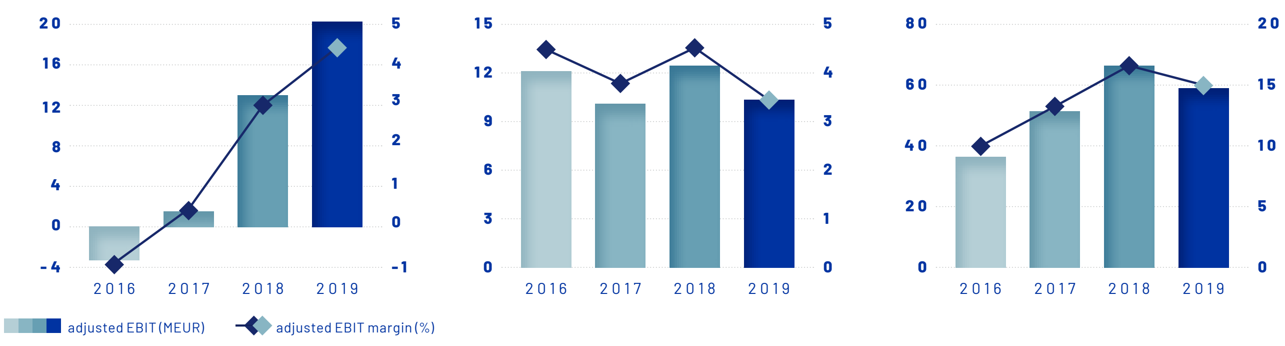
# KEY FIGURES BUSINESS SEGMENTS

POWERTRAIN & CHASSIS | INTERIOR | SPECIALTY PRODUCTS

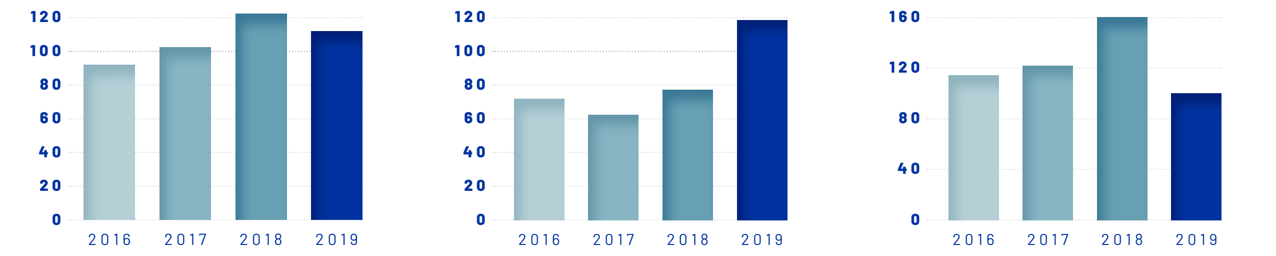
## REVENUES MEUR




## ADJUSTED EBIT* AND MARGIN MEUR and %




## BUSINESS WINS MEUR annual sales




* Refer to the Alternative Performance Measures section


# DEAR KONGSBERG AUTOMOTIVE **SHAREHOLDERS**

2019 was in many ways a turbulent year, which particularly from market and macro perspectives developed very differently from what we assumed at the beginning of the year. Although we and many market observers predicted overall growth in our end markets for 2019, we saw the opposite throughout the year.

In spite of the declining markets, Kongsberg Automotive grew in the three first quarters of the year, strongly outpacing the market. In Q4, however, as we saw sharper declines in our end-market demand, especially in November and December, we experienced a decline in revenues. Overall, for 2019, we grew our revenues by 3%. Our two main end-markets – passenger cars and commercial vehicles – declined by around 6% and 2% year-over-year, respectively. All in all, we believe we outperformed our end markets by around 6–7% for the full year on the top line.

Our 2019 new business wins amounted to more than EUR 330 million based on expected annualized revenues, slightly down from last year's EUR 364 million. This should ensure continued top line growth in the coming years in relative and absolute terms unless the market turns significantly negative. It is particularly encouraging that these 2019 business wins were more balanced among our three business segments than in previous years. Our change in strategy that we implemented some years back, where we focused more on program opportunities where we felt we had a competitive advantage, continued to succeed. From a lifetime revenue perspective, we booked slightly more than EUR 1.500 million of new business in 2019. The strong 2019 new business wins continue the building of a strong revenue foundation for coming years.

In 2019, we were strongly impacted by various macro factors that impacted our profitability. Among the most significant macro issues were:

1. the general decline in most of our end markets including the further slowdown in Chinese growth rates, the strongest single factor in overall global growth. We saw the strongest end market declines in some of our Specialty Products end markets. In combination, this led to less contribution margin and lower fixed cost absorption,
2. the trade conflict between the world's two largest economies leading to further increases in tariff levels,
3. very strong partly one-time non-recurring increases in labor costs in our Mexican facilities, and
4. continued strong increases in selected commodities and raw material prices partly driven by a shift in consumption leading to material shortages. This effect is compounded by a general unwillingness on the part of commodity producers to invest in additional capacity due to economic uncertainties. Towards the end of 2019 we saw some commodity prices starting to weaken.

From an operational profitability standpoint, 2019 was all in all a disappointing year. With 3% revenue growth, we declined 5% in adjusted EBIT. Significant operational improvements and some volume growth did not quite offset the significant negative mostly macro headwinds that we experienced in 2019. Also, unfortunately, we had higher growth rates in our lower-margin segments, which contributed to the reduced nominal adjusted EBIT. Our Specialty Products segment actually had a decline in year-over-year revenues as opposed to P&C and Interior. On the brighter side, our EBIT and net income increased by 16% and 21% respectively, driven primarily by the strong reduction in restructuring costs more than offsetting the negative development in adjusted EBIT.

We saw very limited portfolio change in 2019. The only activity was the completion of the divestiture of our small MRF activities to Inventus GmbH, which closed in Q1 of 2019.

In our plants, we had a challenging year with an unprecedented number (more than 60) of launches of new products. On one hand, I am very proud of our organization's ability to execute all but a few launches flawlessly. At the same time, we had a few difficult launches that did cost us profitability in 2019 – this is an area in which we need to improve.

Our cash flow was weak with a negative cash flow of EUR 44 million in 2019. Our 2019 cash flow plan called for a zero net cash flow for the year. We experienced significantly less cash from operations than expected as our revenues fell short of the plan due to the negative market development. At the same time, we had to make substantial investments in new equipment in order to fulfill our commitments to new customer programs. In addition, we did, as opposed to most automotive suppliers, grow in China which led to higher levels of receivables as credit periods in China are higher than our global average.

From a segment performance standpoint, Specialty Products performed well considering that this segment was most affected by the negative market developments. In the Interior segment, declining earnings in spite of solid revenue growth was very disappointing. This was only partly driven by an excessive, partly non-recurring, increase in Mexican labor costs. More importantly, Interior deteriorated its operational performance, particularly in our Polish manufacturing facilities, which we are working to fix. 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.

Given the changes in market dynamics, we are focusing on three main areas for 2020:

1. Improving cash flow performance with the goal of delivering positive cash flow for FY 2020.
2. Managing our operations well in what we predict will be a year of somewhat "bumpy" and downward end markets.
3. Driving one or more strategic decisions especially in the form of portfolio trimming, as we focus on our end-market activities of the future.

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. Our team is strengthened. 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 2020 and beyond.

Sincerely,

Henning E. Jensen
President & CEO Kongsberg Automotive

# KONGSBERG AUTOMOTIVE **AT A GLANCE**

**THE STORY OF KONGSBERG AUTOMOTIVE (KA)'S BUSINESS IS FUNDAMENTALLY A STORY OF ORDINARY PEOPLE CREATING AN EXTRAORDINARY COMPANY. KA CAN TRACE ITS ORIGINS TO DEFENSE CONTRACTOR KONGSBERG VÅPENFABRIKK. THE GROUP'S FIRST COMMERCIAL AUTO SECTOR ORDERS WERE BRAKES AND DRIVE SHAFTS FOR VOLVO IN THE LATE 1950S. 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.**

# A PLACE **IN HISTORY**

**1957**
**KONGSBERG VÅPENFABRIKK** STARTS PRODUCTION OF BRAKES FOR VOLVO TRUCKS

**1987**
**KONGSBERG AUTOMOTIVE** IS ESTABLISHED

**1995**
LISTED ON **OSLO STOCK EXCHANGE**

**2004**
ACQUISITION OF COUPLINGS PRODUCER **RAUFOSS UNITED**

**2005**
RELISTED ON **OSLO STOCK EXCHANGE**

**2008**
ACQUISITION OF **TELEFLEX GMS** (SYSTEMS FOR GEAR SHIFT, SEAT COMFORT, AND FLUID SYSTEMS)

**2017**
**OPERATIONAL HEADQUARTERS** MOVED TO ZURICH

# BUSINESS **HIGHLIGHTS**

## POWERTRAIN & CHASSIS

- New business wins include delivering gear control systems to a North American Tier 1 supplier worth EUR 124 million in lifetime revenues. The production takes place at the segment's largest plant in Mexico.
- P&C continues to gain market share in China, as the segment continues to win significant business among Chinese car makers. The modular shift-by-wire system is P&C's key product group to grow business in this country.

## INTERIOR

- Business wins in Interior include delivering seat support systems to a premium European OEM totaling EUR 135 million in lifetime revenues. The program is expected to start production in 2022 and will take place at the segment's main plant in Poland.
- The segment was also awarded significant business with a North American EV manufacturer to supply seat heat systems and electro-mechanical actuation cables.
- Interior finalized the transfer of the seat heat production from Pruszkow to Brzesc.
- Focusing on electronic and software engineering, a technology center was established in India.

## SPECIALTY PRODUCTS

- Couplings won new business to supply the Raufoss ABC™ Air Couplings System to a major global Tier 1 supplier worth EUR 47 million in lifetime revenues. The program is expected to go into production in 2020 and will last for four years. To increase production capacity, the business unit's main plant in Norway was successfully expanded in 2019.
- New business wins in Fluid Transfer Systems include delivering assembled products to a major European truck manufacturer worth EUR 61 million in lifetime revenues. This program is expected to start production in early 2020 at the business unit's plant in Spain.
- Off-Highway won a contract to supply pedals and throttle control systems to a North American golf cart producer worth EUR 23 million in lifetime revenues.

## FULL-YEAR PERFORMANCE

- Revenue growth above market average in a challenging environment
- Strong growth in EBIT of approximately 16% and net profit of approximately 21%
- High level of new business booked across all segments
- Continued market share gain in China within the passenger car market
- Volume increase of new programs in all regions
- Expansion of global manufacturing capacity and R&D network
- Continuous operational improvements in all business segments




# WORLDWIDE

**10,908**
EMPLOYEES IN
**19**
COUNTRIES WORLDWIDE

**KONGSBERG AUTOMOTIVE IS REPRESENTED IN MORE THAN 40 LOCATIONS COVERING THE WORLD'S KEY AUTOMOTIVE MARKETS. KA FOLLOW ITS CUSTOMERS TO WHERE THEY ARE LOCATED IN ORDER TO SERVE AND SUPPORT THEM IN THE BEST POSSIBLE WAY.**


## NORTH & SOUTH AMERICA

**4,045**
EMPLOYEES

4,045 employees work at KA's sites in North and South America. Mexico has the highest number of KA employees, with around 2,953 employees in four manufacturing sites.

## EUROPE

**5,522**
EMPLOYEES

Kongsberg Automotive's largest region, Europe, is served by 5,522 employees. KA's three main European manufacturing sites are in Brzesc & Pruszkow, Poland and Vráble, Slovakia, with 1,323 & 974, and 944 employees, respectively.

## ASIA

**1,341**
EMPLOYEES

In this increasingly important market, Kongsberg Automotive has five manufacturing sites and 1,341 employees. In China, KA has three manufacturing sites and 1,194 employees.

# CORE **VALUES**

**FOR MORE THAN 60 YEARS, KONGSBERG AUTOMOTIVE'S CULTURE HAS BEEN THE BASIS OF ITS ACHIEVEMENTS AND IT WILL CONTINUE TO CARRY THE GROUP INTO THE FUTURE. KA RENEWED ITS VALUES IN 2019, FURTHER DEVELOPING A UNIFYING CULTURE ACROSS COUNTRIES AND REGIONS.**

### INTEGRITY

Keeping our promises demonstrates our integrity. We seek to maintain a spirit of transparency and honesty in everything we do. This obligates us to guide each other, our customers, and other stakeholders in the best possible direction.

### TEAMWORK

Be supportive of each other's efforts. Be loyal to one another and to business decisions. Involve and include across functions and units. Care for each other, both professionally and personally.

### ACCOUNTABILITY

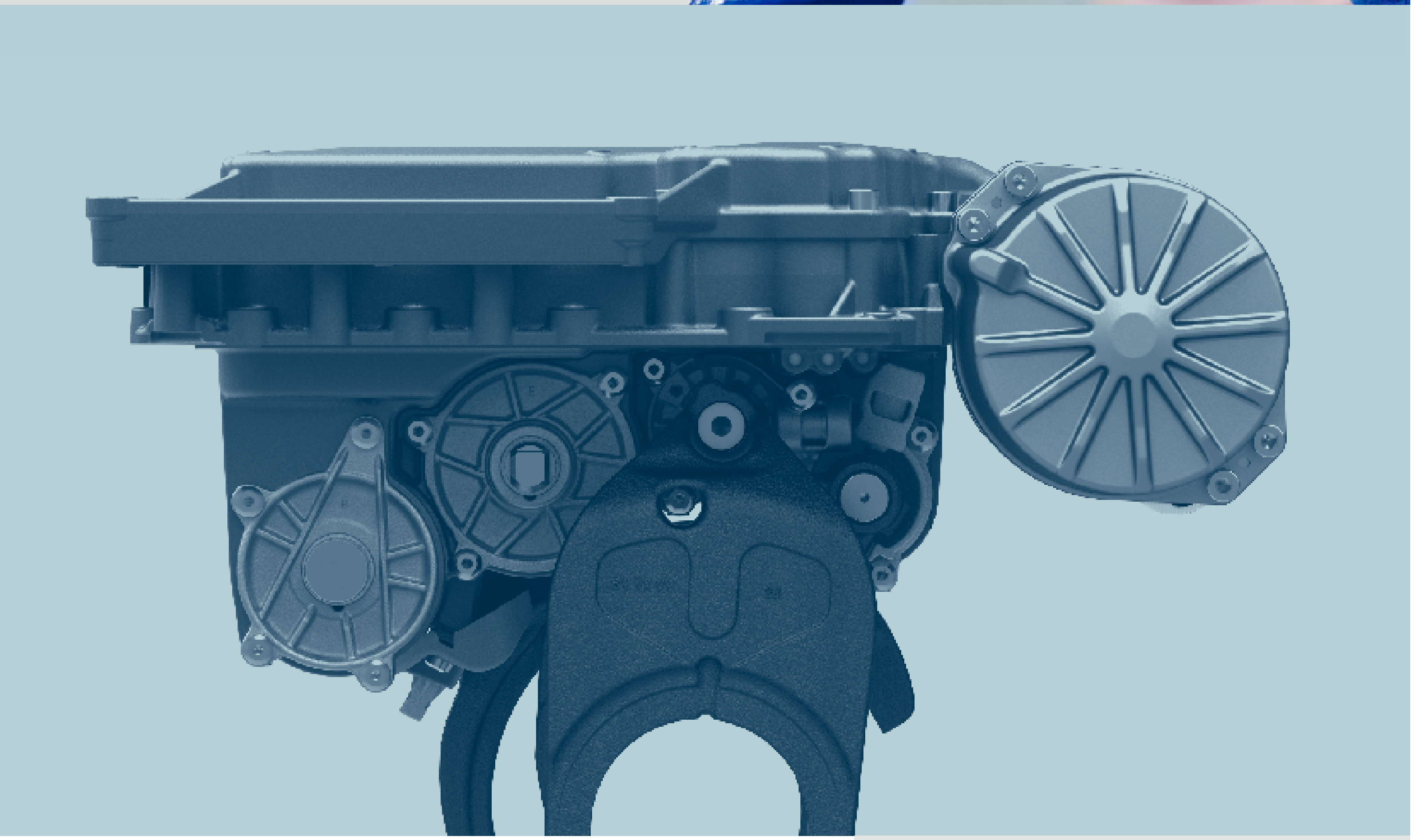
We accept responsibility for our actions and live by our Code of Conduct. We are transparent in our reporting and make decisions through experience and good judgment.

### CREATIVITY

Creativity is problem-solving, and we believe in solving the impossible. We never settle for the first, easiest, or quickest solution. We carefully analyze, research, and create custom solutions that make our products stand out.

# CUSTOMERS

**KONGSBERG AUTOMOTIVE IS PROUD TO SERVE LEADING OEMS AND TIER 1 SUPPLIERS IN AUTOMOTIVE, COMMERCIAL VEHICLE, AND OFF-HIGHWAY MARKETS GLOBALLY.**

- > GEAR SHIFTERS FOR AUTOMATIC AND MANUAL TRANSMISSIONS
- > SHIFT CABLES AND TOWERS
- > GEAR AND CLUTCH CONTROL SYSTEMS INCLUDING ACTUATORS
- > CHASSIS STABILIZERS

# POWERTRAIN & CHASSIS

**The P&C division of Kongsberg Automotive (KA) is a global leader in the design, manufacture and testing of custom powertrain and chassis solutions that enhance driver control. KA engineers create products for world-leading makers of passenger cars and commercial vehicles. Its engineering presence now extends from primary design centers in Europe to the Americas and Asia.**

### MEETING COMMITMENTS

As markets change, so does Kongsberg Automotive. Customers recognize KA's strengthened production capacity at newer plants, while KA is continuously expanding the commercial vehicle and passenger car business with strong new business wins.

These new business wins include gear and clutch control systems for manual and automatic transmissions (MT and AMT). KA's commercial vehicle business continues to grow globally as new business wins in both the American and Asian markets are secured. Passenger car business wins in critical new mobility sectors for shift-by-wire and actuation systems account for continued growth in Asia.

### ADDING VALUE

Kongsberg Automotive's technology centers and production plants around the world draw on KA's engineering talent and skilled workmanship to drive value.

More vertically integrated than ever, KA now shares the knowledge of production processes between its global plants. In 2019, in-house plastic injection expertise was further expanded as KA continues to drive down cost of production at each global site. This has made KA more profitable and more competitive in a growing market for mechatronic modules.

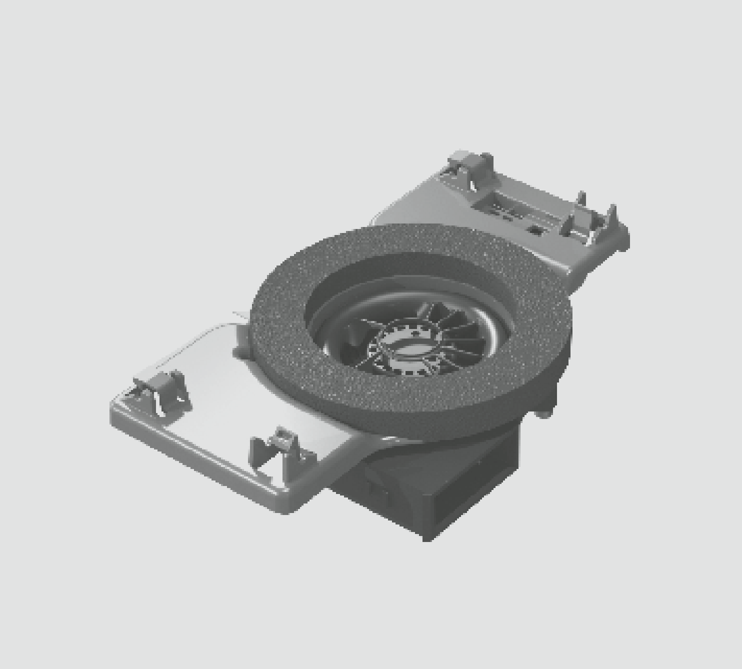
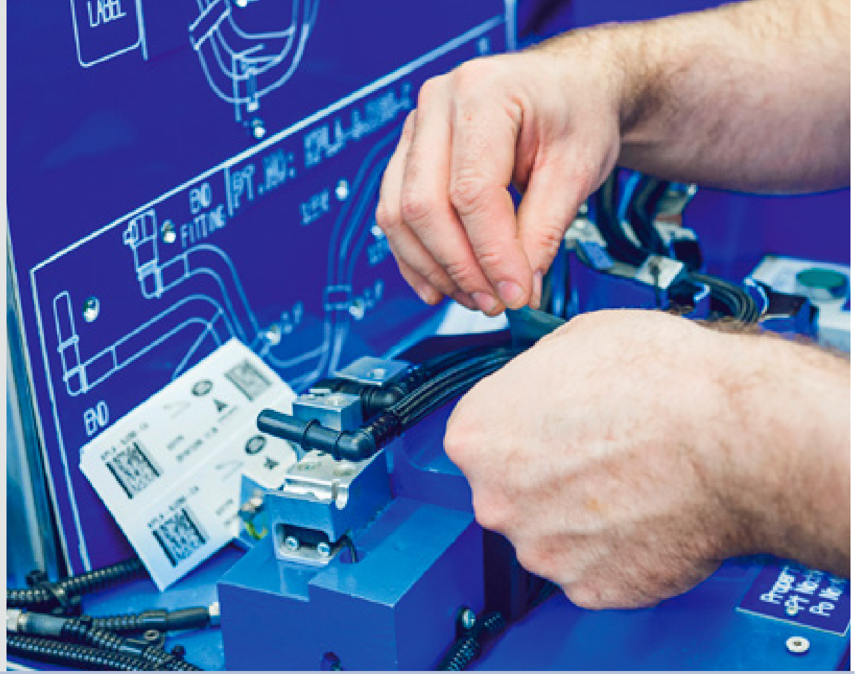
In-house expertise also helped create a steering assist product for commercial vehicle customers seeking a way to make steering adjustments while the vehicle is in cruise mode. This enables functions such as lane keeping, wind adjustment, and other early features of autonomous driving.

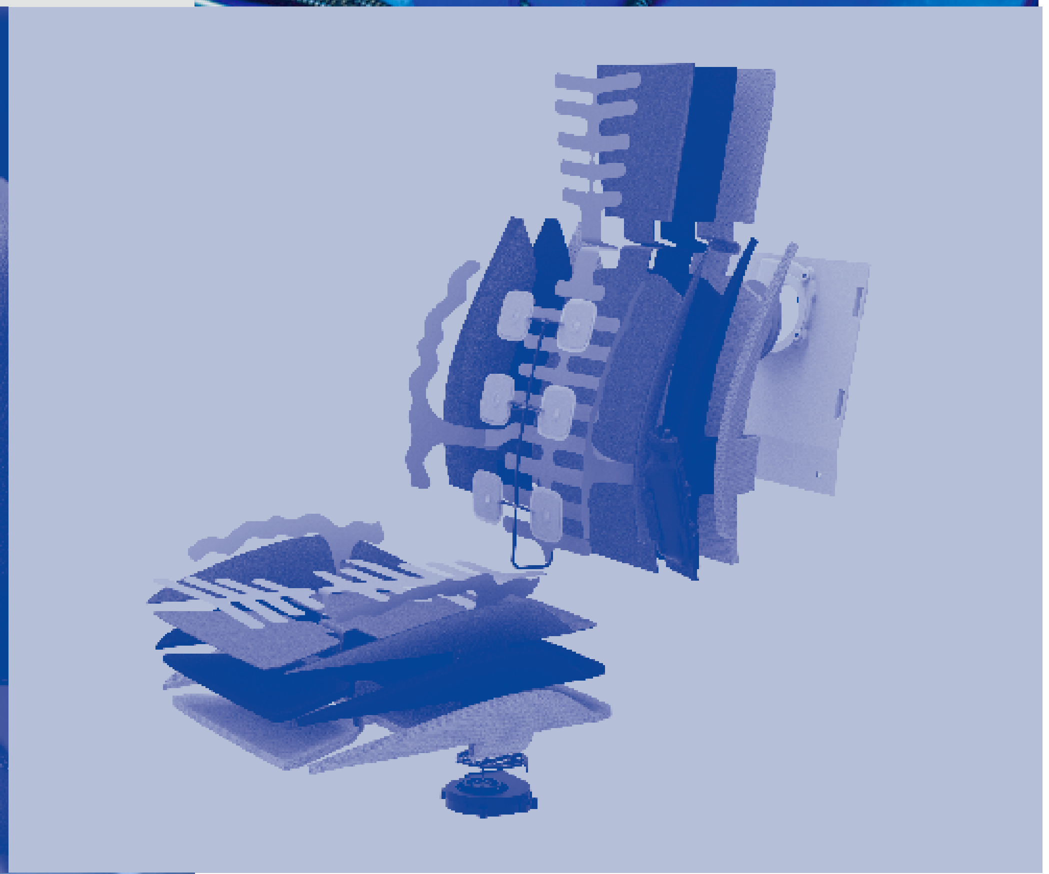
### PRODUCT PIPELINE

KA's technology 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: KA launched four new products in Europe and is registering intense customer interest in electric-axle products that allow large trucks to use significantly 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 original equipment manufacturers building the newest hybrid or electric vehicles.




# INTERIOR

**Kongsberg Automotive (KA) develops and supplies a world-class range of interior comfort systems and light-duty cables and actuators for the passenger car, commercial vehicle, and off-highway markets. The business segment's innovations offer car makers easy integration, customization, and real cost advantage. KA Interior is the only supplier in the world that develops and delivers a complete range of seat comfort products.**

### MEETING COMMITMENTS

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

KA has deployed several automation solutions in different product streams across all regions and piloted newer technologies in order to further enhance process efficiency.

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

The seat heat systems factory in Poland has been awarded new contracts with major original equipment manufacturers (OEMs), and is reinforcing its leadership position in the European market for seat heat solutions. The plant is strongly focused to set global manufacturing standards based on lean manufacturing principles in order to build a reliable and sustainable foundation for future success.

Interior continues to meet growth targets, acquiring a high volume of new business contracts, further securing future growth plans. Along with strong new business acquisitions in 2019, Interior continues to expand its customer base with new customers across all regions.

### ADDING VALUE

Kongsberg Automotive's quality, service, and delivery were recognized by OEMs such as a major EV producer, as KA's Wuxi plant in China was awarded a large contract to support the car maker's Asian volumes.

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

40 years of experience ensure that KA now delivers the widest offering of seat controls, cables, and best-in-class, high-load actuator assemblies to markets all over the world.

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

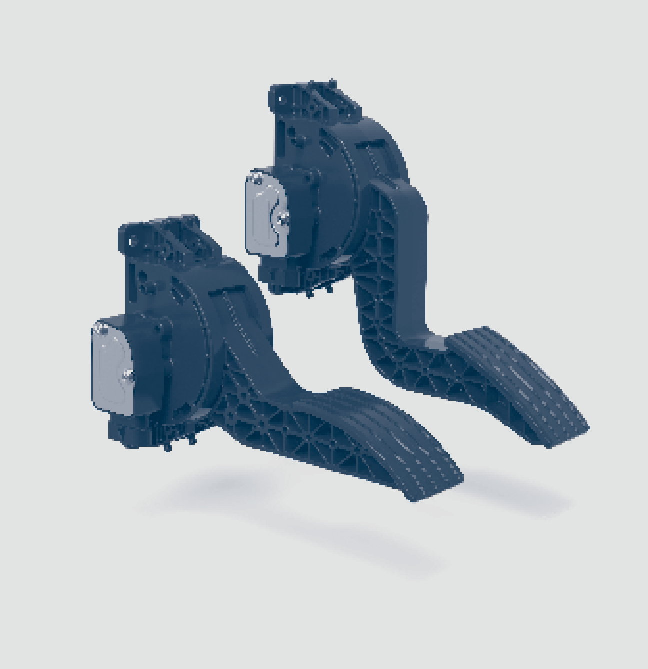
The past year's trend of moving seat ventilation systems away from active conditioning continues. Consequently, KA has seen further bookings of high-profile programs utilizing passive cooling systems.

### PRODUCT PIPELINE

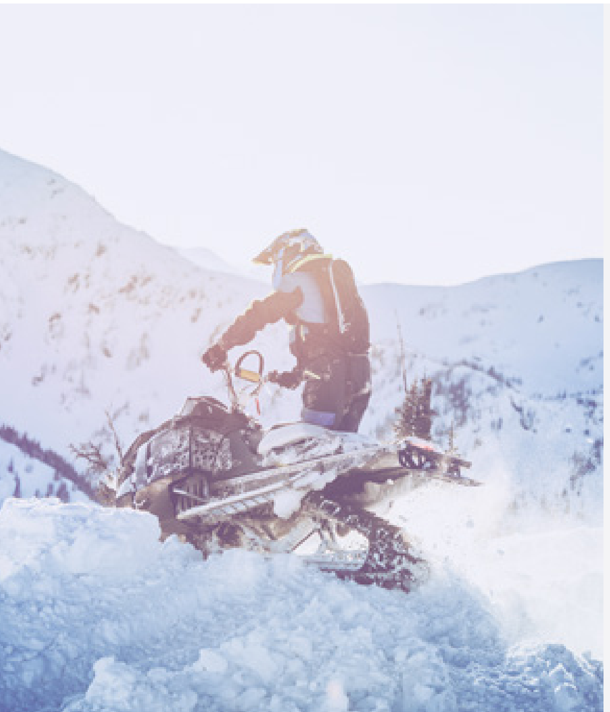
Product evolution continues at Kongsberg Automotive, and so do new program launches with major OEMs.

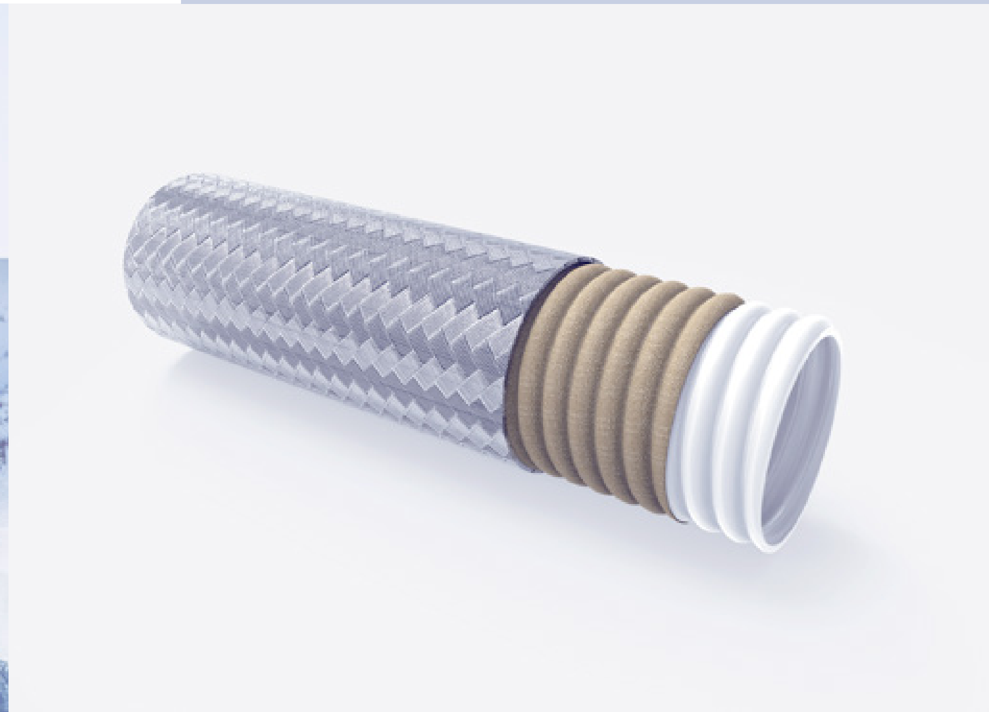
KA recently launched a new actuator that substitutes light-duty cables. Interior is also investigating steering wheel heat systems as a parallel offering to its core stitch-on heating technology.

> SEAT CLIMATE SYSTEMS
> SEAT SUPPORT SYSTEMS
> LIGHT-DUTY CABLES
> ELECTRO-MECHANICAL ACTUATORS
> PANEL HEAT SYSTEMS FOR ELECTRIC CARS



- 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





# SPECIALTY PRODUCTS

**Kongsberg Automotive (KA)'s Specialty Products division comprises three segments: Off-Highway, 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.**

## COUPLINGS

KA's Compressed Air Couplings business unit is a technology leader focused on supplying state-of-the-art products to the global commercial vehicle market.

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

Couplings is transforming from a single manufacturing location to having a global presence focused on serving worldwide customers. The start of operations in KA's new facility in Cluses (France) marks a major milestone that will enable KA to serve its South European customers more closely.

In 2019, KA increased its market share in China, Europe, and the Americas. 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: KA's engineering teams were driven by innovative projects and the new ABC XR™ product range, KA's next-generation air couplings.

## FLUID TRANSFER SYSTEMS

KA is an innovator and supplier of fluid transfer assemblies. Its high-performance product lines enabled FTS to secure long-term business contracts in 2019 with existing major original equipment manufacturers in the commercial vehicle segment for next-generation engine platforms.

In the passenger car market segment, both for hybrid and fully electric vehicles, FTS is well on track with its battery coolant lines converting from awarded business into serial production.

FTS developed and launched the patented manufacturing of the Ultiflex™ product line, which provides unique benefits to KA's customers that include best-in-class cleanliness and flexibility.

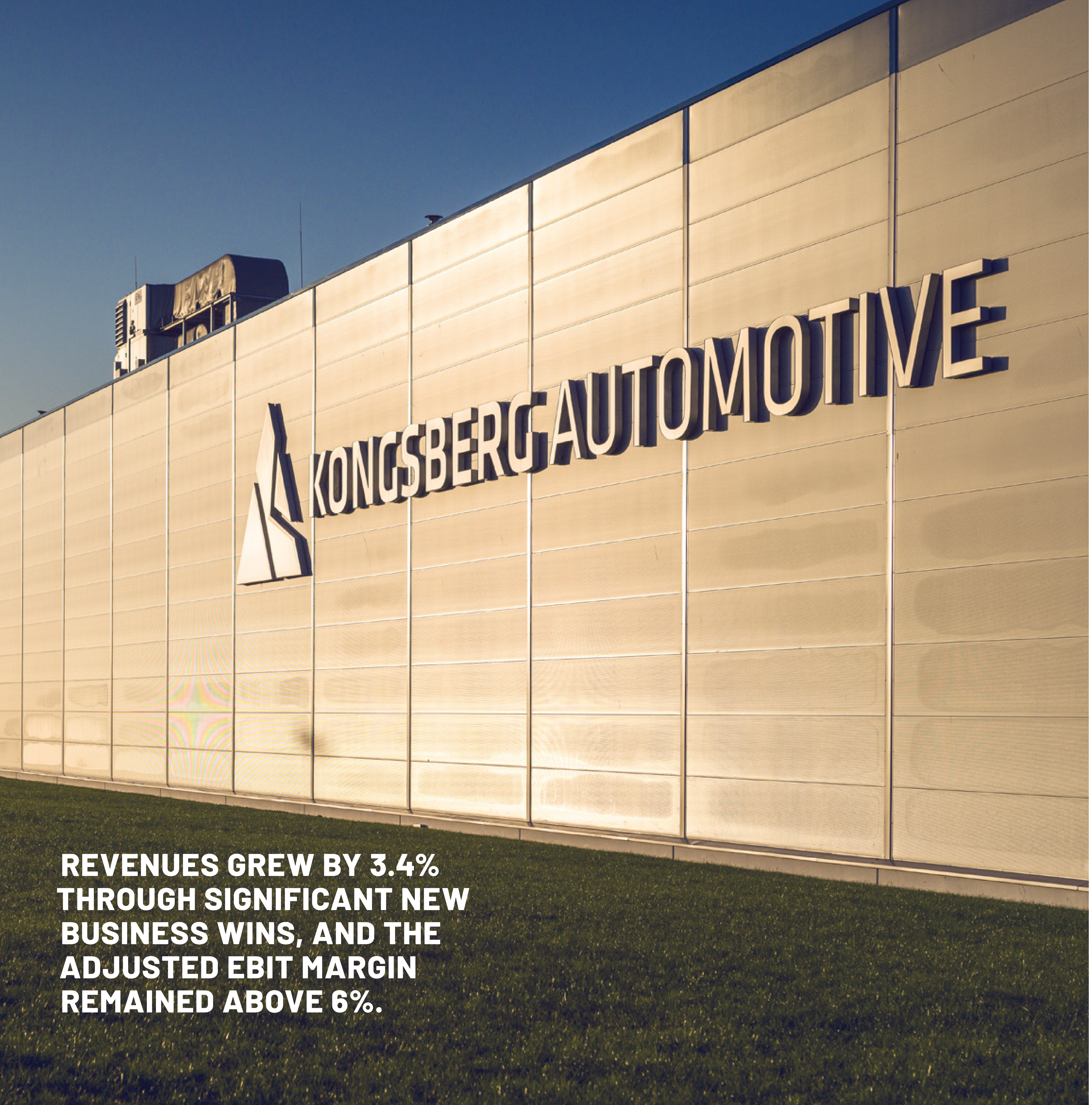
## OFF-HIGHWAY

KA's Off-Highway segment supplies engineered steering systems as well as both mechanical and electro-mechanical driver controls to the following markets: powersports, construction, agriculture, and outdoor power equipment.

Several new products were launched in 2019 to expand KA's product portfolio for both powersports and agriculture.

Kongsberg Automotive's product pipeline includes the next generation of Off-Highway products as well as a new version of electronic power steering and new electronic driver controls. Orders for these products were from both existing and new powersports customers and new construction customers in Asia.

# BOARD OF DIRECTORS' REPORT




**REVENUES GREW BY 3.4% THROUGH SIGNIFICANT NEW BUSINESS WINS, AND THE ADJUSTED EBIT MARGIN REMAINED ABOVE 6%.**

# BOARD OF DIRECTORS' REPORT

The challenging macro conditions of 2018 intensified in 2019. Kongsberg Automotive (KA)'s automotive supplier peers experienced a strong recovery in their share price in 2019 in hopes of trade tension relief and the stabilization of automotive production. KA, however, finished the year with a disappointing share price performance, despite its ability to maintain healthy fundamentals. Revenues grew by 3.4% through significant new business wins, and the adjusted EBIT margin remained above 6%. Notwithstanding the deteriorating market conditions throughout 2019, KA generated top line growth in the first three quarters of the year. In the fourth quarter of 2019, the new business wins did not manage to offset the decline in demand, leading to a fourth quarter year-on-year decline in revenues.

As most of KA's end markets are likely to continue to weaken in 2020, KA will focus on reversing its negative 2019 cash flow performance, continuing its operational improvements across all business units, and managing its product portfolio. The Board believes that KA's broad product portfolio's synergies across business units is insufficient. Therefore, it is currently not conducive for strong shareholder value creation. Consequently, KA will apply itself to highlight the value of its many hidden "gems" by seeking to optimize the product portfolio and thereby improve capital productivity.

The road ahead will not be short of challenges and surprises, especially in view of the heightened uncertainty in KA's end markets, but it is the Board's conviction that focusing on clear and ambitious end goals is the most dependable way to navigate the turbulence of our times and to regain the capital market's faith in KA.

# MARKETS

### LIGHT VEHICLE PRODUCTION

The global production of light vehicles totaled 88.7 million units in 2019, which corresponds to a decrease of 5.9% compared to 2018. The significant decline was primarily driven by global trade tensions and several other unfavorable macroeconomic developments across all regions.

Chinese production decreased by 8.6% to 24.6 million vehicles in 2019 as the trade war with the U.S. impacted output levels significantly throughout the year. Furthermore, the early implementation of new emission standards also contributed to the decline, as many local car makers were not prepared for the manufacturing of vehicles conforming to the new emission standards.

Production levels in Asia outside of China were also severely affected by unfavorable macro-related impacts, as output levels declined by 4%, or approximately 900,000 vehicles, to 21.5 million units. India was hit the hardest by the decline, as their output decreased by 11.5%, equaling approximately 520,000 cars. The main driver of this development were worsened credit conditions.

Production in Europe declined by 4.1%, or approximately 900,000 units, to 21.1 million vehicles in 2019, driven by trade tensions with the U.S., uncertainty around a potential Brexit and ongoing political discussions about emission standards. Germany, the United Kingdom, Italy, and France suffered the steepest decline, which was only partially offset by an increase in production in Portugal and Hungary.

In North America, light vehicles production reached 16.3 million vehicles in 2019, a decline of 4.2% compared to the previous year. The decline was largely driven by the ongoing trade war with China and a strike at a major American original equipment manufacturer during fall of 2019.

South American production levels developed negatively as well, declining by 3.0% in 2019, as output totaled 3.3 million vehicles. Production in Argentina decreased the most, as its output fell by 150,000 vehicles, or 30.8%.

Finally, production levels in the Middle East declined noticeably by 23.5% to 2.0 million vehicles. Iranian output was most affected in the region, decreasing by 40% or approximately 515,000 cars as the geopolitical situation in the country became more tense.

### TRUCK PRODUCTION

The global truck production decreased by 3.3% in 2019 to 3.24 million vehicles. After a stable development in the first half of the year, the moderate decline in 2019 was primarily driven by headwinds in Asia outside of China and Europe in the third and fourth quarter, resulting in a decline on a full-year basis.

Production in Asia outside of China declined noticeably in 2019, with a year-over-year decrease of 17.8%, primarily driven by India. The production output in the country declined by 30% or approximately 145,000 units as the economic slowdown has caused a significant downshift in demand. In China, the production stabilized around the same output levels as the previous year despite ongoing global trade tensions.

European production reached 565,000 units in 2019, a decrease of 2.1% compared to the previous year. A positive first half of the year, was offset by a decrease in production in the second half of 2019. This reduction was triggered by the global trade war, uncertainty around the potential Brexit and the overall declining business confidence.

North American production levels, on the other hand, remained stable as output in the region increased by 5.1% in 2019 to 637,000 units.

In 2019, the truck production in South America grew considerably by 10.8% to 106,000 units, as Brazil continues to be the key driver in this region.

# FINANCIAL PERFORMANCE

### GROUP

Group revenues increased to EUR 1,160.9 million, including positive currency-translation effects of EUR 14.6 million. This is a growth of 2% year-over-year at constant currencies, despite declines in the main end markets. Revenues in the passenger car market grew by 3% on a constant currency basis, supported by strong growth in China and in KA's Interior business. On constant currencies, revenues generated in the truck market also increased in the 2019 fiscal year. The Group achieved a year-over-year growth of 4%, despite a reduction of global production volumes by 3%. Revenues generated in other end markets declined by 3% on a constant currency basis.

Adjusted EBIT amounted to EUR 70.9 million, which corresponds to a decrease of EUR 3.8 million compared to 2018. The positive impact from higher volumes and operational improvements was outweighed by a margin decline due to changes in the growth mix and a stronger growth in lower margin segments, an increase in Mexican pay scales, higher raw material prices and tariffs, and a fixed cost absorption effect due to lower revenues than originally planned.

EBIT improved by EUR 8.7 million to EUR 62.4 million, as the costs for restructuring items were significantly lower than last year.

### SEGMENTS

Interior segment revenues amounted to EUR 304.0 million, compared to EUR 285.6 million in 2018, an increase of EUR 18.3 million (6.4%), including favorable currency-translation effects of EUR 3.7 million. The main driver of the increase was the ramp-up of new programs in global Interior Comfort Systems products in Europe and the United States. Adjusted EBIT amounted to EUR 10.3 million, compared to EUR 12.5 million in 2018, a decrease of EUR 2.2 million (18.1%). This was mainly driven by performance levels that remained below plan and a significant exposure to unfavorable macro effects in KA's Light Duty Cables business.

Powertrain & Chassis revenues amounted to EUR 461.1 million, compared to EUR 437.1 million in 2018, an increase of EUR 24.0 million (5.5%), including positive currency-translation effects of EUR 4.7 million. This growth can mainly be attributed to increased sales of gear shift systems in the passenger car business in China and to the increase in the truck business in North America. Adjusted EBIT increased by EUR 6.0 million to EUR 19.0 million. Operational improvements and higher volumes are responsible for the growth in adjusted EBIT, even though it was partially offset by initial product costs, increased raw material prices, and higher tariff costs.

Specialty Products revenues amounted to EUR 395.7 million in 2019 versus EUR 400.2 million in 2018, a decrease of EUR 4.5 million (1.1%), including positive currency-translation effects of EUR 6.2 million. The Couplings and Fluid Transfer Systems businesses were the main drivers for the overall revenue development in this segment, reporting lower revenues in Europe. However, this decrease was partially offset by the increased Off-Highway business revenues in North America. Adjusted EBIT for the Specialty Products business segment was EUR 58.8 million compared to EUR 66.6 million in 2018, a decrease by EUR 7.8 million (11.6%). This was driven by the revenue decline, unfavorable product mix effects, and increased raw material costs.

### NET FINANCIAL ITEMS

Net financial items amounted to negative EUR 18.9 million, increasing from negative EUR 15.2 million in 2018. Interest expenses related to external financing (issuance of bonds in July 2018 and repayment of bank loans) increased by EUR 3.1 million to EUR 15.9 million. In addition, interest expenses of EUR 5.3 million were reported in relation to lease liabilities (first adoption of IFRS 16 in 2019).

### NET PROFIT

Total net profit for the year amounted to EUR 28.8 million compared to EUR 23.8 million in 2018, an increase of EUR 5.0 million. The total income tax expense of EUR 14.8 million (versus EUR 14.7 million in 2018) corresponds to an effective tax rate of 34% (versus 38% in 2018). Overall increased tax efficiency was partially offset by tax costs related to prior years.

**CAPITAL**

The Group's interest-bearing debt netted by the capitalized bond financing fees of EUR 5.8 million amounted to EUR 386.5 million as of December 31, 2019.

As of December 31, 2019, the shareholders' equity totaled EUR 282.9 million, an increase of EUR 29.4 million compared to EUR 253.5 million at the end of 2018. The main contributor to this increase was the net profit in 2019. However, the equity ratio was 30.6% at the end of the year compared to 30.9% in 2018. This decrease is due to the first recognition of Right-of-use assets and lease liabilities of EUR 106.0 million in the balance sheet. Excluding the IFRS 16 impact, the equity ratio increases to 34.6% in 2019.

**CASH FLOW**

In 2019, the Group generated a positive cash flow from operating activities of EUR 51.4 million, compared to positive EUR 43.2 million in 2018. Positive operating results were partially offset by an increase in working capital supporting the revenue growth. The Group invested EUR 65.0 million in property, plant, equipment, and intangible assets, a decrease of EUR 3.2 million from EUR 68.2 million in 2018. The cash flow from financing activities amounted to EUR (22.9) million comprising a net drawing of EUR 10.3 million, repayment of lease liabilities of EUR (11.9) million as well as interest payments of EUR (21.3) million (of which EUR 5.3 million is related to IFRS 16). The net change in cash during 2019 was EUR (34.0) million.

**LIQUIDITY**

The Group's total liquidity reserve in cash and Revolving Credit Facilities (RCF) amounted to EUR 64.4 million at the end of the year, compared to EUR 109.1 million in 2018.

**BUSINESS WINS**

New business wins for the year amounted to EUR 330.0 million in annual value versus EUR 363.5 million in 2018. This corresponds to an 9.2% decrease versus last year. The new business wins in 2019 generated new business of EUR 1.527 million in lifetime revenues compared to EUR 1.681 million in 2018.

**KONGSBERG AUTOMOTIVE ASA – THE PARENT COMPANY**

In 2019, the parent company generated total operating (inter-company) revenues of EUR 10.5 million compared to EUR 10.1 million in 2018, while making a corresponding operating profit of EUR 4.3 million (EUR 0.8 million in 2018). The parent company had net positive financial items of EUR 14.2 million in 2019 compared to EUR 21.9 million in 2018. The decrease is due to lower unrealized currency gains and higher interest costs related to inter-company financing. The net profit for the year amounted to EUR 12.7 million (EUR 18.6 million in 2018). As of December 31, 2019, the parent company's equity totaled EUR 366.1 million (EUR 349.0 million in 2018).

In accordance with the Dividends Policy, the Board of Directors will propose to the 2020 Annual General Meeting that no dividend be paid for 2019. The Board of Directors proposes that Group's net result of EUR 28.8 million and the parent's net result of EUR 12.7 million be transferred to retained earnings.



# OPERATIONS

Following the completion of various plant closures and production transfers in 2018, the Kongsberg Automotive (KA) Group continued to focus on further improving and expanding its global manufacturing capacities and operational performance in the 2019 fiscal year, including the expansion of its Couplings plant in Raufoss (Norway) and the opening of two engineering and technology centers in Wuxi (China) and Pune (India).

The manufacturing initiatives to further improve the operational efficiency in all of KA's business segments are focused on operational excellence, lean manufacturing principles, and the implementation of continuous improvement programs along the entire value chain. A further area of focus is the ongoing optimization and localization of KA's supply chain. All of these activities, in combination with the successful plant closures and production transfers, will continue to deliver significant cost savings and further improve KA's cost base.

**INTERIOR**

As highlighted in the 2018 annual report, the Interior segment continued its strong focus on innovation and operational efficiency. The new programs were deployed successfully in 2019 and will continue to be a high priority for operations in 2020 in order to manage the significant growth in Europe, the Americas, and Asia. With additional investments in new and innovative manufacturing technologies, the Interior segment will continue to optimize its manufacturing processes and further improve its competitiveness.

**POWERTRAIN & CHASSIS**

The Powertrain & Chassis segment serves the passenger car and commercial vehicles businesses.

Powertrain & Chassis continued to implement its plans to improve its manufacturing footprint and operational performance, associated with the successful transfer of businesses from KA's UK and Norway plants to Poland and Slovakia. The ongoing improvement of the operational productivity and the successful launch of new products continue to be main focal points within the Powertrain & Chassis segment.

**SPECIALTY PRODUCTS**

The Specialty Products segment consists of Off–Highway, Couplings, and Fluid Transfer Systems. These businesses develop and deliver specialized niche products with a strong entrepreneurial focus on innovation and customer benefits. The Specialty Products segment leadership team expanded production capability and capacity to support the growth in all regions and further strengthen its competitiveness.

# ENGINEERING AND DEVELOPMENT

**The Group's net overall spending on engineering and development totaled 4.6% of sales in 2019. Kongsberg Automotive's (KA) global engineering network is based on 549 resourceful engineers. KA operates seven global technology centers located in Canada, China, Germany, India, Norway, Sweden, and the U.S., which provide strong local engineering support to customers. This strategy enables the Group to deploy resources near key customers, while benefitting from economies of scale in competency at these end-market centers.**

### INTERIOR COMFORT SYSTEMS AND LIGHT-DUTY CABLES

In 2019, KA Interior expanded its electronic and software engineering presence by establishing a technology center in India. The new technology center will enable Interior to accelerate electronics engineering and product innovation, and to offer more products with enhanced functionalities to customers in the future.

Customer Focus Teams comprised of Sales, Engineering, and Program Management expanded relationships based on trust with key premium-market customers. This led to pre-development projects for seat comfort, which converted to awarded business in premium and electrical vehicles.

Interior Comfort Systems has developed a new standalone product control interface for KA products in seats. This can be utilized during early development with customers and sharing new potential comfort solutions, allowing for earlier feedback in the product development cycle as a stand-alone demonstration seat or in an actual vehicle environment.

Light-Duty Cables understands the global shift to more functional features in vehicles. KA's focus on innovation and product development has allowed KA to secure multiple electro-mechanical actuator programs in 2019, providing the function and features at the customers' fingertips.

### POWERTRAIN & CHASSIS

In 2019, Powertrain & Chassis engineering developed more shift-by-wire products and applications. Rotary shifters expand the product portfolio, complementing existing lever-type SBW products. The newly developed P-lock (parking lock) actuator may also be used as a shift actuator for various types of automatic gearboxes. All of these new products were developed to fulfill ISO 26262 functional safety requirements. These products can be applied to various e-mobility applications including battery electric vehicles (BEVs).

Actuators for gear and clutch actuation have been further developed for Automated Manual Transmission applications in commercial vehicles. Main design criteria involved extreme performance requirements with quick and precise actuation, while being reliable and durable. KA's capabilities were also actively promoted at the VDI Bonn transmission conference in Germany during the summer.

Manual Transmission Systems for gear shift and clutch actuation as well as cables continue to be important for both passenger cars and commercial vehicles.

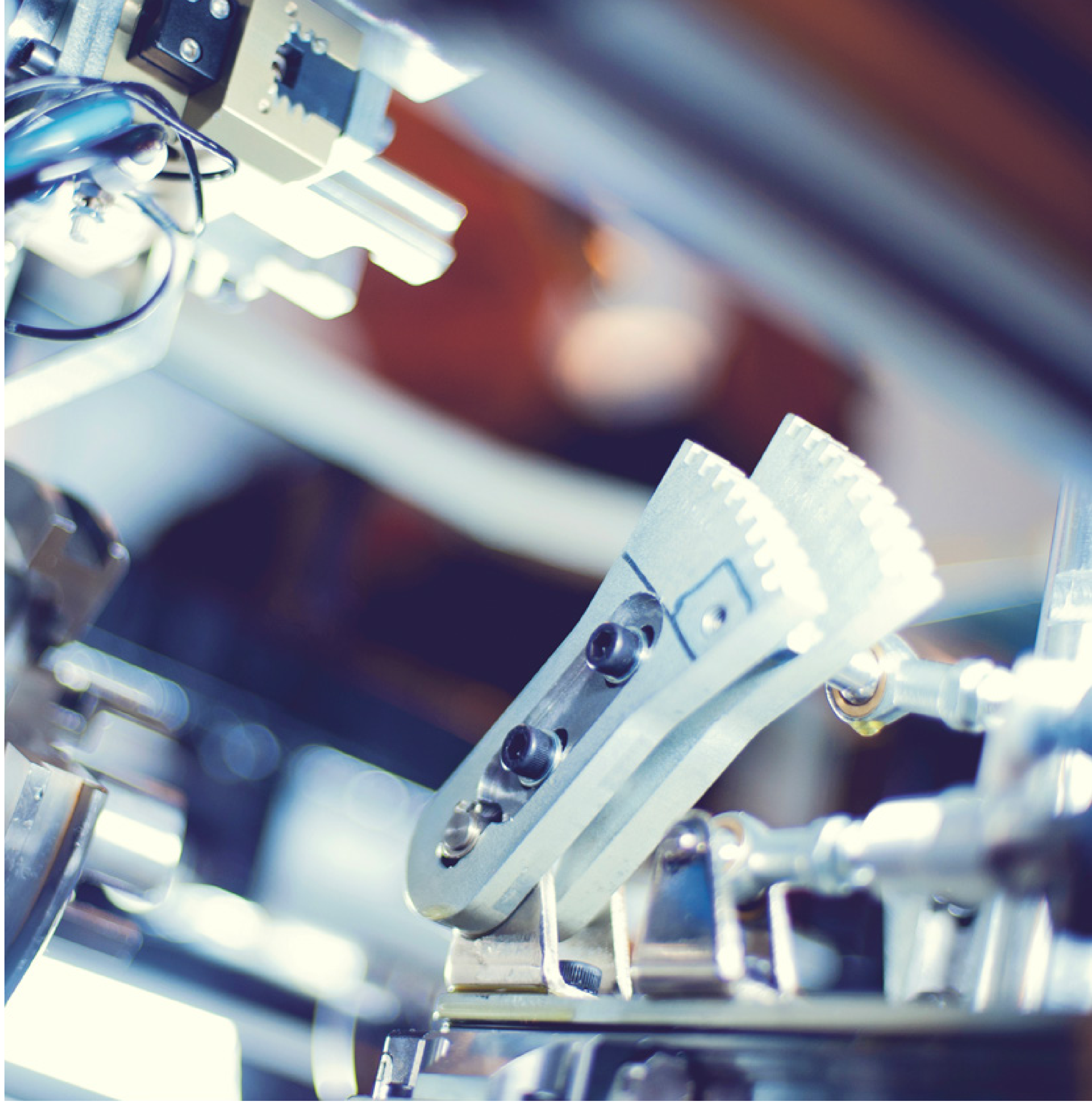
Powertrain & Chassis engineers develop products in KA's design centers for global markets with local application support as required by original equipment manufacturers in each region.

### OFF-HIGHWAY

In 2019, KA continued to strengthen electronic capabilities in its engineering departments with investments in new development tools, new validation equipment, and additional personnel.

KA continues to expand its Electronic Power Steering offerings with additional performance packages and new vehicle applications.

KA launched several new pedal packages, such as a full composite throttle pedal, a new electronic bi-directional pedal, and new variants to KA's current MT platform.



### COUPLINGS AND FLUID TRANSFER SYSTEMS

Engineering and development activities for Couplings in 2019 focused on innovation projects and on the extension of the product portfolio for new applications and markets.

The new ABC XR™ Coupling was successfully launched, expanding KA's ABC™ product family. This indicates that the market share of KA's ABC™ System still has growth potential with both existing and new key clients and markets due to its superior performance, modularity, and assembly benefits. R&D capacity was expanded in the Americas to support business growth and product launches for 2020.

FTS developments in its high-temperature, light-weight hose range paid off, gaining a new business contract in 2019 with a major commercial vehicle OEM. Developments for battery coolant lines on hybrid and electric vehicles programs are well on track. Furthermore, FTS developed and launched several new high-performance hose products for the industrial market. These products have numerous advantages over existing hoses, including low-permeation, improved flexibility, light weight, and pharma-standard.

# 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 wellbeing 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.

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

### OPERATIONAL RISK

Kongsberg Automotive supplies products that are critical for the safety of drivers and passengers. 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.

Normally, Kongsberg Automotive is 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 unforeseeable problems, changes in circumstances that may lead to cancellations, and other risk factors beyond the control of the Group.

### RISK MANAGEMENT

Responsibility for the Group's financial risk management is mostly centralized, and the risk exposure is continuously monitored. The Group has identified a specific risk catalog in line with ISO 31000 and classified all risks under various criteria. The Group constantly evaluates its financial, infrastructure, marketplace, and reputational risks and has developed risk-mitigating procedures and strategies to minimize all risks classified as "high".

For more information regarding risk management, see note 22.



# FINANCIAL **RISK**

**Due to the group's capital structure and the nature of its operations, the Group is exposed to the following financial risks.**

### 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 risk in transaction and translation exposures. Transaction exposures include commercial transactions and financing transactions both internally and externally. Translation exposures relate to net investments in foreign entities which are converted to Euros in the consolidated financial statements. This concerns European operations in non-Euro-area 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 exchange rate 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. The raw material sourcing cost is also exposed to customs and duties and politically driven changes of those.

### INTEREST RISK

Kongsberg Automotive's long-term debt financing bond was issued in July 2018 with a seven-year tenure at fixed interest cost, which makes the Group's long-term financing interest cost independent from market-driven changes in interest rates. Changes in interest rates may have an impact on additional interest-bearing financing sources of the Group.

### 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 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 shareholders' 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 Group treasury department. The development of net interest-bearing debt and the liquidity reserve is closely monitored.

### 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 and Poor's.

### PENSION LIABILITY RISKS

The evaluation of the Group's pension liabilities is subject to changes in actuarial 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, and government and supranational policies, which may change in significant ways. There can be no assurance that laws, tax regulations, and policies or their practical application by authorities will not be altered in ways that will require modification of business models and objectives or affect returns on investments. For regulatory and tax risks, the Group consults professional advisors and implements recommended actions.

## OTHER RISKS

**STRATEGIC RISKS**
Kongsberg Automotive, as a supplier of advanced technology into the automotive and industrial markets, is exposed to competitive efforts of both established and new market players attempting to gain market share at KA's expense. KA actively mitigates this risk through its new product development initiatives and by fostering its customer relationships to remain a supplier of choice to its customers.

KA is also exposed to potential strategic M&A activities by its suppliers, customers, or competitors, which may negatively impact its market position. KA constantly observes and monitors its business environment for possible and manifest M&A events in its market environment and has developed response strategies to different scenarios.

**RISKS RELATED TO PRODUCT DEVELOPMENT**
Product development and product improvement activities are associated with a range of risks. These risks include delays in time-to-market, deviations from product specification and quality requirements, deviations from development budgets, and potential infringements of third-party intellectual property rights. KA manages these risks with dedicated teams of highly qualified engineers, technicians, IP counsels, and other product development staff, as well as well-equipped modern development facilities and test laboratories and dedicated controls.

**RISKS ASSOCIATED WITH PURCHASING**
Risks in the procurement process include the risk of supplier insolvencies, late deliveries, quality defects, and new non-tariff trade-barriers. To mitigate these risks, KA selects its suppliers carefully to meet financial solvency and commercial and technical capability requirements and measures supplier performance KPIs constantly.

**PRODUCTION-RELATED RISKS**
In manufacturing processes, bottlenecks and delays can occur as a result of insufficient production resources. This can relate to production material, production utilities, production manpower, or production equipment. KA manages these risks by means of a comprehensive comprehensive and risk-avoiding production material resources replenishment (MRP) planning process, by hiring and training sufficient and skilled production staff, and by maintaining its production equipment in good order.

**PROJECT MANAGEMENT-RELATED RISKS**
The launch of new products requires comprehensive and long-term planning of customer project management. Project management holds an important coordinating role at the intersection of different business functions: sales, product development, purchasing, production equipment suppliers, plant operations, quality, and finances. There are risks related to poor communication, selecting wrong manufacturing equipment, missing project timelines and cost budgets. Historically, on some projects some of these risks did occur. To reduce these risks going forward, KA relies on effective project management and intensive management supervision.

**LEGAL PROCEEDINGS**
Kongsberg Automotive is subject to a few legal proceedings and legal compliance risks in the U.S. 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 UK-based customers from plants based in the EU. Its UK-based Normanton plant in return sources its products from EU-based third-party suppliers. Inversely, KA's Normanton plant supplies products to EU-based customers. Additionally, KA's EU-based plants source products from UK-based third-party suppliers. The total costs for logistics and import and export associated with these transactions and the timelines of the supply chain may be adversely effected by Brexit. Based on the orderly Brexit process the European Union and the British government agreed upon, Kongsberg Automotive expects no major adverse effects on its business in 2020.

**CYBERCRIME RISK**
The Group uses various digital technologies for communication and process management. Like other multinational companies, KA is facing active cyber threats which pose risks to the security of its processes, systems and networks as well as the confidentiality, availability, and integrity of data. There is a risk that confidential information may be stolen or that the integrity of KA's portfolio may be compromised, for example through attacks into KA's networks, social engineering, data manipulation in critical applications, and loss of critical resources, resulting in financial damages. KA's cyber security measures implemented cover the whole Group's Information Systems and Technologies (IS&T), ranging from managerial systems and applications to KA's operational environment, including manufacturing and research and development (R&D). In addition, KA mitigates these risks by employing several measures, including employee training, comprehensive monitoring of its networks and systems, external services to examine and benchmark its cyber security standard, and maintenance of backup and protective systems such as firewalls and virus scanners.

# EMPLOYEES


**By the end of 2019, the Group employed 10,908 people in full-time equivalents (FTEs), which reflects a decrease of 493 FTEs from the end of 2018.**

Mexico boasts the largest number of employees with 2,953 FTEs employed at four locations (Ramos Arizpe, 139; Reynosa, 900; Matamoros, 766; and Nuevo Laredo, 1,148).

In order to secure a diverse future for the organization, succession planning is reviewed annually to ensure an equitable gender and ethnic balance within the Group. Women currently make up 48% of the total workforce and 15% of the executive management (Global Leadership Team). The organization's 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 five (62.5%) men, with 40% (2/5) of the organization'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 organization. This commitment is defined in the Group's Diversity Policy and reflected in its focus on diversity in recruitment processes.

In 2019, Kongsberg Automotive invested in the best-in-class platform, SAP-SuccessFactors, as the organization's global cloud-based People Management Solution. This platform provides easy access to employee master data, personalized e-learning content, improved talent management, and allows better alignment of learning outcomes with performance goals. It is an important step in our digital HR transformation strategy to implement a modern HR tool tailored to the need of all stakeholders.

**10,908**
FULL-TIME EQUIVALENTS

# A QUALITY EMPLOYER

**Kongsberg Automotive (KA) aims to be an employer of choice in the 19 countries where it operates. Employee 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 organization's formula for success.**

### KA DIALOG

Employee engagement is ensured by a regular organization-wide survey of workforce perceptions that help generate yearly appraisals of management.

These KA Dialog 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, site improvements, and management's own ability to communicate.

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

### STAYING WITH KA

While communication is important, employee surveys reveal the multitude of reasons why voluntary staff turnover at KA is relatively low.

Employee interviews also reveal the variety of reasons why employees regard KA as a valued employer. The reasons cited for staying with KA were many and included the following considerations: positive pressure to produce, satisfactory salary, on-the-job safety, atmosphere, diversity of the workforce, a passion for cars, professional development, and the opportunity to make an impact.

### 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 organization's Intranet.

While management and plant staff can be proud of the impact they have on the quality of work, many also enjoy having a positive impact on the quality of life. Together, KA management and employees regularly involve themselves in causes that are dear to them, via fundraising and gift-giving campaigns that draw on the charitable nature of KA's employees.

Examples include the "Media Food Drive" in Shawinigan, where they donate money and food to people in need. There are also multiple funding drives at several plants in support of breast cancer research.

KA cares 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 organization also recognizes its outstanding employees. One example of this are the perfect-attendance ceremonies at KA's Nuevo Laredo plant, where employees are honored for flawless attendance with special recognition, gifts, and plant-wide celebrations.

# **HEALTH, SAFETY,** AND ENVIRONMENT

**Kongsberg Automotive (KA) gives the highest priority to the health, safety, and wellbeing of its employees. In addition, the Group seeks to minimize environmental impact in the manufacture of its products. The Health & Safety Policy and the Environmental Policy are well established; these policies 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 Health, Safety, and Environmental standards in the form of legislation, regulations, and specific requirements. KA's businesses comply with these, as well as with internal requirements. The Group sets expectations for all units and requires improved performance and regular assessment of progress. In the Health & Safety area, all manufacturing facilities aligned their safety management systems to the new ISO 45001 standard in 2019. The first successful external ISO 45001 audit was passed in Brzesc in October. During 2020, all manufacturing sites will be externally certified to this safety standard. 2019 saw the successful external certification of all KA manufacturing locations to the ISO 14001 Environmental Management Systems standard; this standard ensures that units consider the environmental impact of their work and set appropriate targets for improved performance. As a supplier, Kongsberg Automotive also meets the HSE expectations of its customers.

Objectives and plans for continuous improvement of HSE performance were set and communicated in early 2019. Key performance indicators were reviewed regularly by the top levels of the organization; adjustments were made immediately as the need arose. As a result, the Group continues to report good performance with respect to HSE.

Employees' absences due to illnesses are tracked by the organization. Manufacturing unplanned absence in 2019 was approximately 4.6% on average. This is in line with industry averages.

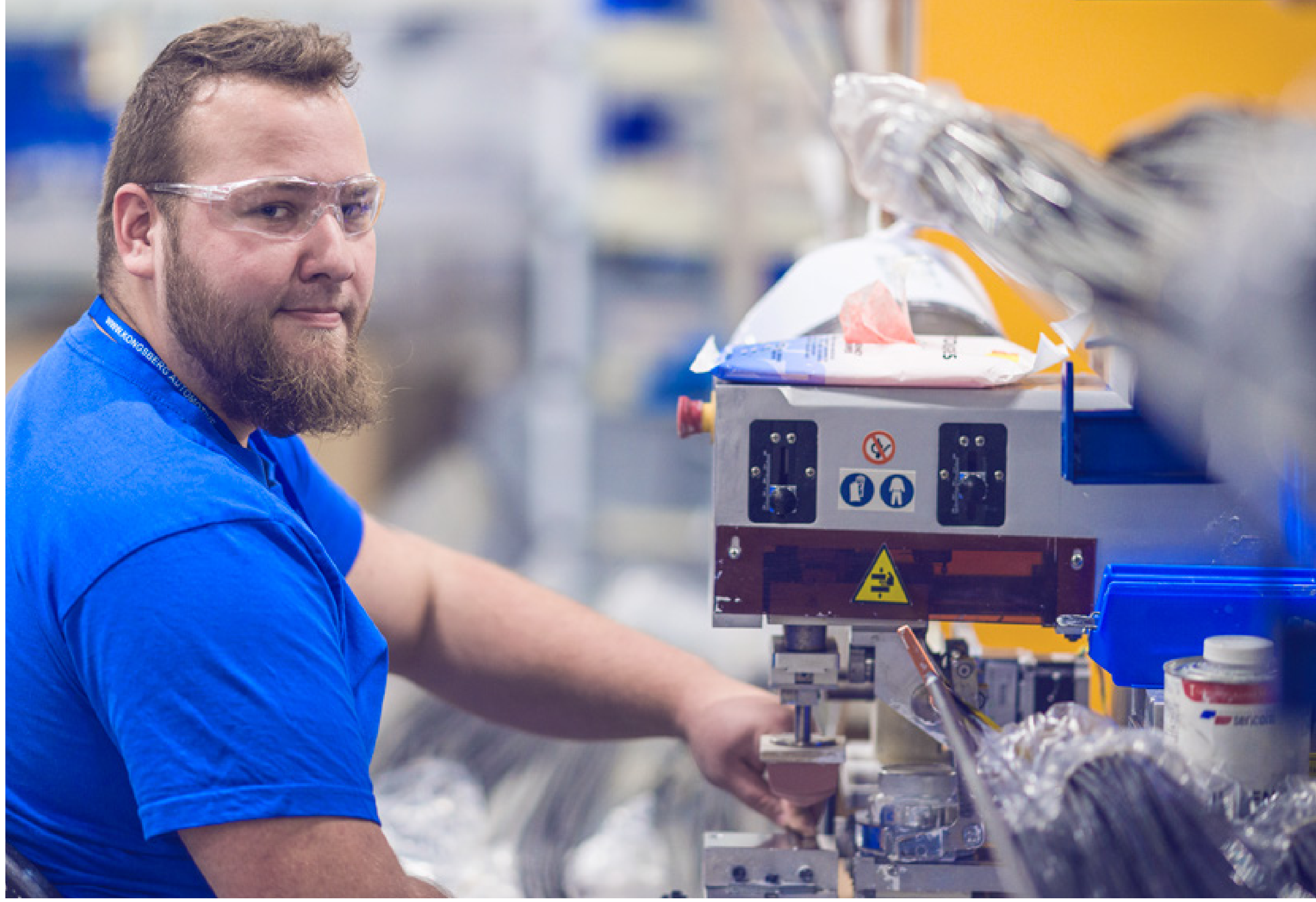
### SAFETY RECORD IMPROVES

Health and safety activities continued the focus on eliminating unsafe conditions at the manufacturing plants. In 2019, the group reported 24 injuries, an impressive improvement of 20% over last year's reported 30 injuries; 15 manufacturing locations reported zero accidents in 2019. This is an improvement from nine locations in 2018. The group averaged one accident for every million person hours worked in 2019. Results achieved indicate an improving performance level for the year and a reduction in number of injuries by 52% over the last four years. In 2019 the group achieved a record four calendar months with zero accidents. These results support the focus that Kongsberg Automotive has placed on necessary resources, employee engagement, training & awareness, improved work processes, and ergonomics analysis.

Additionally, all manufacturing locations were involved in a "Zero Accidents" campaign and were required to hold Safety Days and Health Activity Days including all employees, which has had a positive impact on HSE awareness and employee engagement.

### ENVIRONMENTAL REPORTING

All manufacturing units collected energy consumption data for electricity and the burning of fossil fuels used for production. Their target for 2019 was to decrease yearly energy consumption by 1% relative to total product sales ("Energy Intensity"). The Group reported positive performance in 2019. The Energy Intensity improved by 2.8% to 102 kilowatt hours used in production for every 1000 Euro of total product sales in 2019 compared to 105 kilowatt hours used in in 2018. 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 and two locations now using roof-mounted solar panel installations.



ZERO ACCIDENTS

**20% REDUCTION**
IN INJURIES FROM 2018
KA'S BEST EVER PERFORMANCE

While Energy Intensity was the primary key performance indicator, manufacturing units strove to reduce overall energy consumption, but the two new plants in Poland and Mexico coming up to full production capacity during 2019 resulted in the absolute energy use increasing by 2% to 125 million kilowatt hours from approximately 120 million kilowatt hours in 2018.

Pollution control is important to Kongsberg Automotive and the communities where it operates. In 2019, the Group's aim was a reduction of 1% of the yearly amount of waste sent to landfills or requiring special treatment as compared to annual sales; this is the "Waste Index". All units sought opportunities to reuse and recycle. Notably, eleven manufacturing locations were landfill-free in 2019. However, Kongsberg Automotive's Waste Index remained constant in 2019 from 2018 at 1.58kg/1000€. The Group's absolute amount of waste increased by 6% to 1.9 million kilograms in 2019 from 1.8 million kilograms in 2018.

Even though its business is not water intensive, KA understands its responsibility to use natural resources efficiently. KA therefore measures water usage at each plant and set an annual target for each to reduce its usage by 1% from the previous year. Manufacturing facilities worked to reduce water use and realize conservation opportunities, but changes in structure also resulted in a 1% increase in overall water usage.

The Group reports no fires resulting in significant property damage or causing interruption to daily business for the year. Additionally, no unauthorized releases to the environment requiring disclosure to legal authorities occurred.

# CORPORATE **RESPONSIBILITY**

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

Aligning CR with Kongsberg Automotive (KA)'s core activities helps KA achieve its strategic objectives and demonstrates its commitment to compliance with local rules and norms, with its own Code of Conduct, and Corporate Responsibility Policy. In 2019, 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.

### EXPECTED EMPLOYEE CONDUCT

Acting responsibly starts with the Group's Code of Conduct. Its guidelines help ensure that all employees act in compliance with the law and internationally recognized standards for ethics expected of a top-tier automotive supplier. The Code of Conduct is available in 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. KA promotes the Compliance Reporting Procedure throughout the organization and on its public website. The process allows concerns to be reported in a confidential and anonymous manner, without fear of retaliation.

KA 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 training, workshops, and an e-learning program.

### LABOR RIGHTS AND ASSESSMENT OF SUPPLIERS

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 evaluating 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 exploitative labor. The group promotes the International Labour Organisation's fundamental principles including the right to freedom of association and the elimination of child labor, forced labor, 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 labor 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, KA'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 KA's 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.

### CULTURE

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.

KA also encourages its employees to be involved in their communities and to support issues such as education, health, social responsibility, and advocacy for children.

The Group's product offering supports the sustainability and CR requirements of its customers. KA will inform stakeholders of its efforts towards these goals and ensure their involvement in meeting the organization'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.

### ANTI-DISCRIMINATION

Kongsberg Automotive is committed to equal opportunity and fair treatment. This is reflected in the Group's Code of Conduct of 2018 which all directors, managers, and employees have committed to by their signatures. It follows from the code that discrimination on the basis of an individual's race, color, religion, sex, age, national origin, ethnicity, disability, and sexual orientation is prohibited within KA. This commitment is reflected in KA's employment practices and decisions regarding recruitment, hiring, training, promotion, compensation, and benefits, and must be based solely on the individual's qualifications and work performance.

### CLIMATE CHANGE

The Group's vision is to make a meaningful contribution to society's efforts to tackle climate change and support KA's customers' strategic goals to offer more sustainable products. Kongsberg Automotive works to reduce the carbon emissions created by its business operations and its products, helping customers meet their ambitions of making lower emission producing end products. KA also uses its influence to create positive change in its supply chains and change work practices around the world to be more sustainable.

Through the Carbon Disclosure Project (CDP), the Group annually reports on climate change risks and the management of, and efforts to reduce, the carbon emissions created by its manufacturing activities. KA's latest CDP Climate Change report is available on its website and via the QR code.

### CLIMATE CHANGE GOVERNANCE

The Board of Directors and Global Leadership Team (GLT) are responsible for the organization's strategic direction regarding climate change. They regularly review material climate change issues that are raised through either KA's business segments (operational issues) or its corporate climate change experts (strategic issues).

The Group's plants, with the support of Corporate functions, are responsible for the day-to-day management of risks and opportunities related to climate change at their sites. Organization-wide initiatives are set by corporate teams. A Delegation of Authority process is in place, through which significant climate change risks and decisions on mitigation actions are raised to the governance bodies for discussion.

### CLIMATE CHANGE RISKS & OPPORTUNITIES

KA's key climate change-related risks and opportunities can be summarized as follows:

**> CHANGING MARKET**

KA's customers have a focus on lowering the emissions generated by their products. They require lighter and more efficient products from their supply chain. For any products designed a number of years ago, there is a risk that the market may become restricted for them.

**> DISRUPTION TO SUPPLY CHAINS BY EXTREME WEATHER**

As extreme weather events become more severe and/or more frequent globally, there is a risk that supply chains are disrupted, which impacts production. KA monitors its supply chains for the probability of disruption by extreme weather events. Where a high risk of disruption is identified, KA works on mitigation actions with its suppliers.

**> INCREASED COSTS OF ENERGY AND SUPPLIES**

Volatility in energy and commodity prices may lead to higher prices and reduced profitability.

**> COST OF CARBON**

There is a risk that governments, in response to the need to act decisively to meet their Paris Agreement commitments, introduce a cost to carbon through legislation in order to incentivize businesses to achieve aggressive carbon emission reductions.

**> IMPACT OF GREATER CHANGES IN TEMPERATURES AND WEATHER ON MANUFACTURING FACILITIES**

There is a risk that higher or lower seasonal temperatures than usual, more frequent hurricanes, higher levels of snowfall, etc. could impact manufacturing facilities leading to CAPEX expenditure to ensure safe and efficient work environments.

### CLIMATE CHANGE OPPORTUNITIES

**> DEVELOPMENT OF NEW PRODUCTS OR SERVICES IN RESPONSE TO CHANGES IN CUSTOMER REQUIREMENTS**

KA's automotive customers have a focus on reducing the emissions generated by their products. This leads them to require lighter and more efficient components for their products from their supply chain that help achieve higher fuel efficiencies, reduce end-product weight, and use less energy.

**> RESOURCE EFFICIENCY**

Reducing energy usage and waste in manufacturing facilities leads to more efficient processes and equipment being installed, resulting in reduced OPEX spend.

**> RECYCLING**

The move to circular economies and a focus on reducing, reusing, and recycling materials to eliminate waste to landfill presents an opportunity to design products that require less raw material inputs.

**> USE OF LOWER-EMISSION SOURCES OF ENERGY**

Increasing the amount of renewable energy used presents an opportunity to KA. 34% of purchased electricity is generated from renewable sources. Five of KA's manufacturing facilities – four in Scandinavia and the Brazilian facility – purchase 100% renewable electricity. Two facilities have installed solar panels that provide some of the energy they use.

### 2019 CARBON EMISSIONS PERFORMANCE

In 2019, the Groups $CO_2$ emissions were approximately 46,260 tonnes of $CO_2$, a 9% increase from the 42,500 tonnes of $CO_2$ emitted in 2018. This increase was primarily driven by a rise in absolute energy usage due to increases in production as KA's two new plants in Poland and Mexico came up to full capacity. Group $CO_2$ emissions intensity remained constant in 2019 from 2018 at approximately 37 tonnes of $CO_2$ per million Euro of total product sales.

**CORPORATE RESPONSIBILITY** IS AT THE HEART OF WHAT WE DO

# OUTLOOK

As is the case for most businesses, Kongsberg Automotive's outlook is greatly dependent on the performance of our end markets. We are expecting decreases in the production rates in our two most important end markets; passenger cars (light vehicles) and commercial vehicles (trucks and buses). We also expect the agricultural machine and construction equipment markets to decline somewhat in 2020. In our other end markets, most notably the powersports market, the industrial markets, and the aftermarket, we expect moderate growth.

The uncertainties in most of our end markets seem to continue from 2019. As such, we believe that the outlook by the commonly known market forecasters, IHS for light vehicles and LMC for commercial vehicles, is somewhat too optimistic. In other periods with reductions in production output, we have often seen that the market forecasters have been too optimistic. The opposite has often been the case when the market has high growth rates.

For reference, below are the latest outlooks from the market forecasters:

**LIGHT VEHICLE PRODUCTION**
**(IHS FORECAST FROM JANUARY 20, 2020)**

IHS expects the global production of light vehicles to decrease by 0.5% to 88.3 million units in 2020. Europe and Asia are forecasted to decline, as production is expected to decrease by 1.8% and 0.9% in these regions, respectively. France alone is expected to produce approx. 415,000 fewer cars than in the previous year, representing the steepest expected rate of decline in Europe. In Asia, China and India are expected to decline by 0.8% and 4.1%, respectively. The moderate forecasted production increase in the Americas of 1.8% only partially offsets the production decline elsewhere. In the Americas, the U.S. and Brazil are the primary drivers behind this increase with respective growth rates of 4.2% and 3.8%.

**COMMERCIAL VEHICLE PRODUCTION**
**(LMC FORECAST FROM JANUARY 4, 2020)**

In 2020, the global production of commercial vehicles is expected to decrease by 8.5% to 2.95 million trucks as global demand is expected to continue falling. In China, production is forecasted to total 158,000 fewer trucks than in the preceding year, which equates to a double-digit decline of 12.3%. North American production is also expected to decline significantly, mainly driven by regulation changes and a general reduction in demand following several very high-volume years. The output in this region is forecasted to decrease by nearly 25% compared to 2019 levels, or 156,000 trucks. Although relatively small markets, Asia (excluding China) and South America, however, are expected to experience solid growth of their production levels with projected growth rates of 3.9% and 20.4%, respectively. Production in Europe is expected to remain stable at 2019 levels.

**RESULTING REVENUE OUTLOOK**
**FOR KONGSBERG AUTOMOTIVE**

For 2020, we forecast declines in most of our end markets, and consequently we expect our revenues to come in at levels similar to those of 2019 as we see us performing slightly better than our end markets. The reason that we believe we will deliver higher revenue growth than the markets we serve is our strong order book as a result of our successful new business wins in the last years. We have based this revenue outlook on the combination of our order book and the market outlook and assumed no major changes to exchange rates.

Early in Q1 2020, the Corona virus epidemic started spreading quickly, primarily in China. This has impacted and will continue to impact KA's business negatively. Due to the global supply chains in the industries we serve, we expect this to not only affect our Chinese business negatively; we also expect negative effects of the Corona virus epidemic outside of China. At this stage, we are not able to properly estimate or quantify the financial or operational impact the Corona virus might have on our business for the full year 2020.

# BOARD OF DIRECTORS

**KONGSBERG AUTOMOTIVE'S BOARD HAS EIGHT DIRECTORS. FIVE ARE ELECTED BY SHAREHOLDERS AND THREE BY EMPLOYEES.**

**Firas Abi-Nassif**
Chairman

**Emese Weissenbacher**
Board member

**Ellen M. Hanetho**
Board member

**Gerard Cordonnier**
Board member

**Peter Schmitt**
Board member

**Tonje Sivesindtajet**
Employee elected

**Jon-Ivar Jørnby**
Employee elected

**Bjørn Ivan Ødegård**
Employee elected

**Henning E. Jensen**
President and CEO

Kongsberg, February 26, 2020
The Board of Directors and President and CEO of Kongsberg Automotive ASA

# FINANCIAL STATEMENTS OF THE GROUP

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| MEUR | NOTE | 2019 | 2018 |
|---|---|---|---|
| **Operating revenues** | 7 | **1,160.9** | **1,123.1** |
| *Operating expenses* | | | |
| Raw material expenses | | (513.0) | (508.3) |
| Change in inventories | | (17.6) | 15.8 |
| Salaries and social expenses | 8 | (323.8) | (313.6) |
| Other operating expenses | 9 | (196.1) | (227.7) |
| Depreciation and impairment | 13, 14 | (42.9) | (30.9) |
| Amortization and impairment | 12 | (5.1) | (4.7) |
| **Total operating expenses** | | **(1,098.4)** | **(1,069.4)** |
| **Operating profit** | | **62.4** | **53.7** |
| *Financial items* | | | |
| Financial income | 10 | 3.8 | 1.3 |
| Financial expenses | 10 | (22.7) | (16.5) |
| **Net financial items** | | **(18.9)** | **(15.2)** |
| **Profit before taxes** | | **43.5** | **38.5** |
| Income taxes | 11 | (14.8) | (14.7) |
| **Net profit / (loss)** | | **28.8** | **23.8** |
| *Other comprehensive income* | | | |
| *Items that may be reclassified to profit or loss in subsequent periods:* | | | |
| Translation differences on foreign operations | | (0.8) | 7.5 |
| Tax on translation differences | | (0.6) | (3.1) |
| *Items that will not be reclassified to profit or loss in subsequent periods:* | | | |
| Translation differences on non-foreign operations | | 3.7 | (7.2) |
| Remeasurement of net PBO | 19 | (3.3) | (0.2) |
| Tax on net PBO remeasurement | | 0.2 | 0.1 |
| **Other comprehensive income** | | **(0.8)** | **(3.0)** |
| **Total comprehensive income for the year** | | **28.0** | **20.8** |
| *Net profit / (loss) attributable to* | | | |
| Equity holders (parent company) | | 28.6 | 23.7 |
| Non-controlling interests | | 0.2 | 0.1 |
| **Total** | | **28.8** | **23.8** |
| *Total comprehensive income attributable to* | | | |
| Equity holders (parent company) | | 27.8 | 20.7 |
| Non-controlling interests | | 0.2 | 0.0 |
| **Total** | | **28.0** | **20.8** |
| *Earnings per share:* | | | |
| Basic earnings per share, Euros | 18 | 0.06 | 0.06 |
| Diluted earnings per share, Euros | 18 | 0.06 | 0.06 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| MEUR | NOTE | 2019 | 2018 |
|---|---|---|---|
| *Operating activities* | | | |
| Profit before taxes | | 43.5 | 38.5 |
| Depreciation | 13, 14 | 42.9 | 30.9 |
| Amortization | 12 | 5.1 | 4.7 |
| Interest income | 10 | (0.6) | (0.6) |
| Interest and other financial items | 10 | 22.5 | 6.0 |
| Taxes paid | | (14.4) | (8.9) |
| (Gain) / loss on sale of non-current assets | | (0.3) | 2.0 |
| Changes in trade receivables | 16 | (6.0) | (30.7) |
| Changes in inventory | 15 | 17.6 | (15.8) |
| Changes in trade payables | 23 | (29.1) | 29.0 |
| Currency differences | 10 | (3.0) | 3.0 |
| Changes in other items [1] | | (26.9) | (15.0) |
| **Cash flow from operating activities** | | **51.4** | **43.2** |
| *Investing activities* | | | |
| Capital expenditures, including intangible assets | 12, 13 | (65.0) | (68.2) |
| Proceeds from sale of fixed assets | | 1.2 | 3.2 |
| Interest received | 10 | 0.6 | 0.6 |
| Net payments for other long-term investments | | (0.0) | (5.5) |
| **Cash flow used by investing activities** | | **(63.3)** | **(70.0)** |
| *Financing activities* | | | |
| Proceeds from increases in equity | | (0.0) | 41.2 |
| Proceeds from sale / (purchase) of treasury shares | | 0.0 | 0.0 |
| Net drawing of debt | 20 | 10.3 | 11.2 |
| Interest paid and other financial items | | (21.3) | (6.5) |
| Repayment of lease liabilities and other | | (11.9) | (1.1) |
| **Cash flow used by / from financing activities** | | **(22.9)** | **44.9** |
| **Currency effects on cash** | | **0.7** | **1.6** |
| Net change in cash | | (34.0) | 19.8 |
| Net cash as at January 1 | | 59.2 | 39.5 |
| **Net cash as at December 31** | | **25.2** | **59.2** |
| Of this, restricted cash | | 0.8 | 0.1 |

[1] Comprises changes in other receivables and other assets, other short-term liabilities, provisions, and pensions.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| MEUR | NOTE | 2019 | 2018 |
|---|---|---|---|
| ASSETS | | | |
| *Non-current assets* | | | |
| Deferred tax assets | 11 | 19.9 | 20.1 |
| Intangible assets including goodwill | 12 | 160.3 | 162.2 |
| Property, plant and equipment | 13 | 232.1 | 196.3 |
| Right-of-use assets | 14 | 103.8 | 0.0 |
| Other non-current assets | 16 | 15.3 | 10.1 |
| **Total non-current assets** | | **531.5** | **388.6** |
| *Current assets* | | | |
| Inventories | 15 | 102.9 | 120.4 |
| Trade and other receivables | 16 | 239.0 | 231.2 |
| Cash and cash equivalents | 20 | 25.2 | 59.2 |
| Other current assets | 16 | 28.3 | 20.7 |
| **Total current assets** | | **395.4** | **431.6** |
| **Total assets** | | **927.0** | **820.2** |
| EQUITY AND LIABILITIES | | | |
| *Equity* | | | |
| Share capital | 17 | 22.8 | 22.6 |
| Treasury shares | 17 | 0.0 | 0.0 |
| Share premium | | 207.6 | 205.8 |
| Other reserves | | 42.5 | 43.9 |
| Retained earnings | | 6.3 | (22.4) |
| **Attributable to equity holders** | | **279.2** | **249.9** |
| Non-controlling interests | | 3.8 | 3.6 |
| **Total equity** | | **282.9** | **253.5** |
| *Non-current liabilities* | | | |
| Deferred tax liabilities | 11 | 21.8 | 23.6 |
| Retirement benefit obligations | 19 | 20.1 | 16.8 |
| Interest-bearing liabilities | 20 | 270.5 | 269.4 |
| Non-current lease liabilities | 14 | 92.2 | 0.0 |
| Other non-current interest-free liabilities | 21 | 1.5 | 5.1 |
| **Total non-current liabilities** | | **406.1** | **314.9** |
| *Current liabilities* | | | |
| Other current interest-bearing liabilities | 24 | 10.0 | 0.1 |
| Current lease liabilities | 14 | 13.8 | 0.0 |
| Current income tax liabilities | 11 | 7.0 | 4.0 |
| Trade and other payables | 23 | 207.0 | 247.7 |
| **Total current liabilities** | | **237.9** | **251.8** |
| **Total liabilities** | | **644.0** | **566.7** |
| **Total equity and liabilities** | | **927.0** | **820.2** |

# 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 01.01.2018** | **20.8** | **(0.1)** | **171.4** | **42.1** | **(46.9)** | **187.1** | **3.6** | **190.7** |
| Prior-year adjustment* | | | | | 0.7 | 0.7 | 0.0 | 0.7 |
| 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 |
| | | | | | | | | |
| *Total comprehensive income for the year:* | | | | | | | | |
| Profit for the year | | | | | 23.7 | 23.7 | 0.1 | 23.8 |
| *Other comprehensive income:* | | | | | | | | |
| 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** |
| | | | | | | | | |
| Equity increase | 0.0 | | 0.0 | | | 0.0 | | 0.0 |
| Sale of treasury shares | | 0.0 | | 0.0 | | 0.0 | | 0.0 |
| Share-based compensation | | | | 1.4 | | 1.4 | | 1.4 |
| | | | | | | | | |
| *Total comprehensive income for the year:* | | | | | | | | |
| Profit for the year | | | | | 28.6 | 28.6 | 0.2 | 28.8 |
| | | | | | | | | |
| *Other comprehensive income:* | | | | | | | | |
| Translation differences | 0.2 | | 1.8 | 0.9 | | 2.8 | 0.0 | 2.9 |
| Tax on translation differences | | | | (0.6) | | (0.6) | | (0.6) |
| Remeasurement of net defined pension liability | | | | (3.3) | | (3.3) | | (3.3) |
| Tax on remeasurement of net pension liability | | | | 0.2 | | 0.2 | | 0.2 |
| **Total comprehensive income for the year** | **0.2** | **0.0** | **1.8** | **(2.8)** | **28.6** | **27.8** | **0.2** | **28.0** |
| **Equity as at 31.12.2019** | **22.8** | **(0.0)** | **207.6** | **42.5** | **6.2** | **279.2** | **3.8** | **282.9** |

* 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 OCI
> Retained earnings: accumulated retained profits and losses
> Non-controlling interests: NCI share in Group's equity



# 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-3611 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 26, 2020.

## **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 transactions within the scope of IFRS 16, 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 Company, using consistent accounting principles.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control directly or indirectly 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 Parent Company's direct or indirect ownership interests in subsidiaries that do not result in losing control of the subsidiaries are accounted for as equity transactions. The carrying amounts of the controlling interests and 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 interest are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Parent Company.

If the Parent Company loses its direct or indirect control of a subsidiary, the Group should recognize a gain or loss on the loss of control in profit or loss and is calculated as the difference between (i) 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 component of the other comprehensive income (OCI) that are attributable to the subsidiary are to be reclassified on the loss of control from the equity to the income statement or directly to retained earnings.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Business combinations**
Business combinations 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 as noted below:

> Deferred tax assets or liabilities arising from assets acquired and liabilities assumed shall be recognized or measured in accordance with IAS 12,
> Liabilities related to the acquiree's employee benefit arrangements shall be recognized and measured in accordance with IAS 19,
> Right-of-use assets and lease liabilities shall be recognized and measured in accordance with IFRS 16,
> A liability or an equity instrument related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer shall be measured in accordance with IFRS 2, and
> Assets classified as held for sale and discounted 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.

As of December 31, 2019, there is a non-controlling interest recognized only in one subsidiary. 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 business acquisitions is carried at cost established at the acquisition date, less accumulated impairment losses (if any).

For purposes of impairment testing, goodwill is monitored by the Management at the level of each of the Group's cash-generating units (CGUs) which are part of the respective operating segments identified in note 7.

A cash-generating unit to which 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 using exchange rates at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the year-end exchange rates. Non-monetary items carried at fair value that are denominated in foreign currencies are translated using the exchange rates 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 presentation purposes, the assets and liabilities of the Group's foreign operations are translated into Euro using the exchange rates 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 Parent Company are reclassified to income statement.

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 using the exchange rate 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 in other comprehensive income and reclassified from equity to profit or loss on the repayment day 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 the development of specific projects is recognized only when all of the following criteria can be demonstrated:

> the technical feasibility of completing the intangible asset so that it will be available for use or for sale,
> the entity's intention to exercise the right to use or to sell the asset,
> the entity's ability to use or sell the intangible asset,
> the entity's asset will generate probable future economic benefits,
> the availability of adequate resources to complete the development and to use or sell the asset,
> the entity's ability to reliably measure the expenditure incurred during its development.

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 shall 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)**
The Group tests whether the tangible and intangible assets have suffered any impairment on an annual basis. If any indication exists, due to changed circumstances, that the carrying amount is not fully recoverable, the assets must be tested for impairment. The recoverable amount of the asset is determined in order to assess 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.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market 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 income statement.

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

Historical costs include expenditures that are directly attributable to the acquisition of the asset and to make 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 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% |

**Leases**

The Group recorded its leases under IAS 17 until 31.12.2018. As there were no finance leases during 2018, all leases were considered operating leases and the payments were recognized as an expense on a straight-line basis over the lease term.

The Group leases various manufacturing facilities, offices, warehouses, equipment, and vehicles. Rental contracts are typically made for fixed periods of 6 months to 10 years but may have extension or termination options.

Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.
The lease payments should be discounted using:

- the interest rate implicit in the lease; or
- if the interest rate implicit in the lease cannot be readily determined, the lessee's incremental borrowing rate.

The interest rate implicit in the lease is likely to be like the lessee's incremental borrowing rate in many cases. This is because both rates, as they are defined in IFRS 16, take into account the credit standing of the lessee, the length of the lease, the nature and quality of the collateral provided and the economic environment in which the transaction occurs.

Management has assessed that the fixed coupon of the bond issued in July 2018, properly reflects the incremental borrowing rate on a Group level.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. For the classification in the statement of cash flow the interest payments on the lease liabilities follow the same principles as other interests.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The Group assesses its right-of-use assets for impairment after any significant changes in operations as well as on an annual basis. There was one such impairment triggering event in 2019 due to the restructuring initiated in 2017.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The Group uses tooling machines which are owned by specific customers to produce parts for the customer. Under the new standard, these contracts do not constitute a lease as the Group has no authority to direct the use of the machinery.

*Taxes on leases*

In most of the jurisdictions KA operates, tax deductions are received for lease payments as they are paid, thus the tax base of the right of use asset as well as the lease liability is zero at the inception of the lease. Subsequently, as the straight-line depreciation of the assets initially exceeds the rate at which the debts reduces, a net liability arises resulting in a deductible temporary difference on which a deferred tax asset is recognized if recoverable.

**Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost of inventories are determined on a first-in, first-out (FIFO) basis. Cost of raw materials comprise purchase price, inbound freight, and import duties. Cost of finished and semi-finished goods include variable production costs 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. Value adjustments are made for obsolete materials and excess stock.

**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 income statement.





**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 that aims to collect the contractual cash flows. Consequently, these assets are subsequently measured at amortized cost using the effective interest method, less any potential 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*

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost. For trade receivables the Group applies the simplified approach which requires expected lifetime losses to be recognized from initial recognition of the receivables. See note 16 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 recognizes 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 currency rate risk. See note 22.

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.

**Taxes payable and deferred taxes**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income 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 current tax 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 in 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 the company's subsidiaries operate.

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 income statement. Past service cost is recognized in profit or loss when the amendment of a plan occurred. 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 on benefit obligations and/or plan assets,
- remeasurement, and
- administration costs.

The Group presents the first two components of defined benefit cost in the income statement 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.

## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Pension plans in the Group*
The 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.

Defined benefit pension plans also exist in two subsidiaries in Germany (closed pension plans for both German subsidiaries), one subsidiary in France, and one subsidiary in Switzerland. The subsidiaries in Sweden, the UK, and the U.S. 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 accounted for as a defined benefit pension plan.

In the case of defined contribution plans, the contributions are recognized as expense in the period in which they occurred.

**Short-term and other long-term employee benefits**
A liability is recognized for benefits employees are entitled to 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 settled before twelve months after the end of the reporting period in exchange for the related service rendered during the financial reporting period.

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.

**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 17.

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 vests annually the following three years each. There is no obligation for the Parent Company to settle in cash.

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 re-estimated on a regular basis. The fair value of the SO as of grant date was determined based on a Monte-Carlo-Simulation. The fair value of RSU was the share price at the grant date. 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. Moreover, it is probable that the Group will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

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 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.



## NOTE 3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Revenue recognition**
The Group is in the business of providing products to the global vehicle industry. In doing so the Group provides services 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 the 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 sales 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 the 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.

*Engineering*
Before manufacturing and sale of automotive parts start, the Group normally undertakes application engineering to tailor the design of a part to customer needs. Where the ownership resulting from the engineering is transferred to the customer, the Group recognizes any consideration received from the customer as revenue. The Group has determined that the performance obligation from the engineering 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 received from the customer may be agreed as installments following the progress of the engineering, as a lump sum payment 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 is deferred and recognized as contract liability. Any consideration to be received through the allocation to the piece price is recognized as revenue and accrued as receivable upon transfer of engineering to the customer, if the consideration for the engineering is a guaranteed amount.

*Tooling*
After the engineering phase, and before manufacturing and sale of automotive parts start, the Group manufactures, or has manufactured, the tooling for use in the subsequent production of automotive parts. Where the ownership of tooling is transferred to the customer, the Group recognizes any consideration received from the customer as revenue. The Group has determined that the tooling 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 manufacturing progress of the tooling, as a lump sum payment upon final approval of the tooling 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 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.

*Product sales*
The sale of manufactured automotive products is satisfied upon transfer of control of the automotive products 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 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.

*Incremental contract costs*
Incremental costs are costs that would not have been incurred had that individual contract not been obtained, e.g. nomination fees. These costs are recognized as an asset if they are expected to be recovered from the customer through the awarded contract.

An asset recognized as part of the capitalization of contract costs is amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. The recognized amortization for the period shall presented as a reduction of the external sales and booked on the appropriate income statement account.

## 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 deemed 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.

**Critical judgments in applying accounting policies**

The following are the critical judgments that the Group has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

*Lease extension and termination options*

The Group has a number of leases with options to terminate early or extend the term of the lease. When determining the lease liability of the Group, the following principles were applied to options. No leases will be terminated early as the leases are necessary for regular operations of the Group unless there are clear indications otherwise. All extension options on buildings and equipment used in production, sales and engineering have been included in the lease liability as these are core operations which require significant investment to move and are therefore reasonably certain to be kept in use for as long as possible under current conditions. Leases used in administrative and supporting functions were determined to be more flexible therefore management determined these did not meet the reasonably certain criteria and were not included in the lease liability.

*Incremental borrowing rate used to discount the lease payments*

More than 95% of leases relate to buildings. As any lease of building by any subsidiary (lessee) requires the guarantee from the group, the credit standing of any lessee is not exceeding the Group's credit standing.

In addition, considering the average of the remaining lease term of all leases, the fixed coupon of the bond issued in 2018 was assessed to properly reflect the incremental borrowing rate at the group level at the date of initial application of the IFRS 16 standard.

A sensitivity analysis was done on the lease portfolio to and it was found that an increase in the IBR of 0.5% would result in a decrease in the Group's lease liability of approximately MEUR 3.0 with a decrease of 0.5% having an approximately MEUR 3.0 increase in the lease liability.

**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. Specialty Products segment: Fluid Transfer System, 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, 2019 was MEUR 149.1 (2018: MEUR 147.8). No impairment losses were recognized in 2019 or 2018. Details of the impairment test 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, 2019 was MEUR 8.3 (2018: MEUR 9.8). Refer to notes 3 and 12 for further information.

*Deferred tax asset*

Deferred income tax assets are recognized at MEUR 6.3 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. Refer to note 11 for further information.

*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, 2019. The Group has not chosen to adopt early 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**

The adoption of the following standards and interpretations has not had any material impact on the disclosures or on the amounts reported in these financial statements:

- 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
- IFRIC 23 Uncertainty over Income Tax Treatments – The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Group has assessed that its accounting tax position is consistent with the tax treatment used or planned to be used in its income tax fillings.

The Group has assessed that the adoption of IFRS 16 Leases has had a material impact on the amounts reported in the financial statements. Its impact has been presented below.

**Impact of initial application of IFRS 16 Leases**

In the current year, the Group has applied IFRS 16 Leases which is effective for any annual period that begins on or after January 1, 2019. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees.

In the context of the transition to IFRS 16, the right-of-use assets of MEUR 106.3 were recognized as property, plant and equipment as at January 1, 2019. Accordingly, lease liabilities of MEUR 106.6 were recognized under other long- and short-term liabilities as at January 1, 2019. The Group transitioned to IFRS 16 in accordance with the modified retrospective approach therefore the prior year figures have not been adjusted.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application,
- not to reassess whether a contract existing at the date of initial application contains a lease, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

In addition, as allowed by the standards, optional exemptions, the Group has elected to not apply the new guidance to leases of low-value assets. Lease payments under these contracts are generally recognized on a straight-line basis of the lease term as other operating expenses.

The weighted average incremental borrowing rate for the lease liabilities initially recognized as at January 1, 2019 was 5.0%.

**Reconciliation of Lease Liabilities as at 01.01.2019**

| | |
|---|---|
| Minimum lease payments under operating leases at 31.12.2018 | 119.7 |
| *Recognition exemption* | |
| for leases ending with 12 months | (0.4) |
| for leases of low value assets | (2.0) |
| Adjustments as a result of a different treatment of extension options | 16.8 |
| Effect from discounting at the incremental borrowing rate as at 01.01.2019 | (27.5) |
| **Liabilities from leases as at 01.01.2019** | **106.6** |

## NOTE 5 NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

**Impact of initial application of IFRS 16 Leases**
The recognized right-of-use assets relate to the following types of assets as at January 1, 2019:

| | |
|---|---|
| Buildings | 103.3 |
| Equipment | 3.0 |
| **Total** | **106.3** |

*Effect in 2019*
EBITDA, segment assets and segment liabilities in 2019 increased as a result of the change in accounting policy.

The following tables show how the reporting segments were affected by the change in policy, including any new leases that have been entered into during the year, as at December 31, 2019:

| MEUR | INTERIOR | POWERTRAIN & CHASSIS | SPECIALTY PRODUCTS | OTHER | GROUP |
|---|---|---|---|---|---|
| *Statement of financial position* | | | | | |
| Right-of-use assets | 26.6 | 35.6 | 27.9 | 13.7 | 103.8 |
| Deferred tax assets | (0.1) | 0.1 | 0.4 | 0.1 | 0.5 |
| **Total assets** | **26.6** | **35.7** | **28.3** | **13.8** | **104.3** |
| Result of the year | 0.2 | (0.3) | (1.4) | (0.2) | (1.7) |
| **Total equity** | **0.2** | **(0.3)** | **(1.4)** | **(0.2)** | **(1.7)** |
| | | | | | |
| Long-term interest-bearing liabilities | 23.1 | 29.8 | 27.2 | 12.1 | 92.2 |
| Short-term interest-bearing liabilities | 3.3 | 6.1 | 2.4 | 2.0 | 13.8 |
| **Total liabilities** | **26.3** | **35.9** | **29.6** | **14.2** | **106.0** |
| **Total equity and liabilities** | **26.6** | **35.6** | **28.2** | **13.9** | **104.3** |
| | | | | | |
| *Statement of comprehensive income – YTD* | | | | | |
| EBITDA | 4.8 | 6.7 | 3.5 | 2.1 | 17.2 |
| Depreciation, amortization | (3.2) | (5.4) | (3.8) | (1.7) | (14.0) |
| Operating profit / EBIT | 1.6 | 1.4 | (0.3) | 0.4 | 3.1 |
| **Adjusted EBIT** | **1.6** | **1.4** | **(0.3)** | **0.4** | **3.1** |
| Net financial items | (1.3) | (1.8) | (1.5) | (0.7) | (5.3) |
| **Profit / (loss) before taxes** | **0.3** | **(0.4)** | **(1.7)** | **(0.3)** | **(2.2)** |
| Deferred taxes | (0.1) | 0.1 | 0.4 | 0.1 | 0.5 |
| **Net profit / (loss)** | **0.2** | **(0.3)** | **(1.4)** | **(0.2)** | **(1.7)** |
| **Total comprehensive income** | **0.2** | **(0.3)** | **(1.4)** | **(0.2)** | **(1.7)** |
| | | | | | |
| *Statement of cash flow – YTD* | | | | | |
| Cashflow from operating activities | 4.8 | 6.7 | 3.5 | 2.1 | 17.2 |
| Cashflow from financing activities | (4.8) | (6.7) | (3.5) | (2.1) | (17.2) |
| **Net change in cash** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |

**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 (effective on or after 1 January 2021)
- The Conceptual Framework for Financial Reporting (effective on or after 1 January 2020)
- Amendment to IFRS 4 – Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'
- Amendments to IFRS 3 – Definition of a Business (effective on or after 1 January 2020)
- Amendments to IAS 1 and IAS 8 – Definition of Material (effective on or after 1 January 2020)
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform (effective on or after 1 January 2020)

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.



## NOTE 6 SUBSIDIARIES

| ENTITY NAME | COUNTRY OF INCORPORATION | OWNERSHIP | 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. | U.S. | 100% | |
| Kongsberg Actuation Systems II LLC. | U.S. | 100% | |
| Kongsberg Holding III Inc. | U.S. | 100% | |
| Kongsberg Interior Systems II LLC. | U.S. | 100% | |
| Kongsberg Automotive Inc. | U.S. | 100% | |
| Kongsberg Power Products Systems I LLC. | U.S. | 100% | |

* 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 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 adjusted EBITDA and adjusted EBIT as included in the internal management reports issued on a monthly basis. Segment adjusted 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 arm's 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 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**
Powertrain & Chassis 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**
Specialty Products 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)

**2019**

| MEUR | INTERIOR PRODUCTS | POWERTRAIN & CHASSIS | SPECIALTY PRODUCTS | OTHERS* | TOTAL GROUP |
|---|---|---|---|---|---|
| Product sales | 299.4 | 442.1 | 388.4 | 0.0 | 1,129.9 |
| Tooling | 2.4 | 13.5 | 3.5 | (0.0) | 19.4 |
| Engineering | 1.7 | 5.1 | 3.7 | 0.0 | 10.6 |
| Other income | 0.4 | 0.5 | 0.1 | 0.1 | 1.0 |
| **Operating revenues** | **304.0** | **461.1** | **395.7** | **0.1** | **1,160.9** |
| **EBITDA** | **23.3** | **37.9** | **69.4** | **(20.2)** | **110.4** |
| Depreciation | (12.9) | (16.2) | (11.7) | (2.1) | (42.9) |
| Amortization | (0.6) | (2.9) | (1.0) | (0.6) | (5.1) |
| **Operating profit / (loss) – EBIT** | **9.8** | **18.7** | **56.8** | **(22.8)** | **62.4** |
| | | | | | |
| *Timing of revenue recognition* | | | | | |
| Performance obligations satisfied at a point in time | 304.0 | 461.1 | 395.7 | 0.1 | 1,160.9 |
| | | | | | |
| *Assets and liabilities* | | | | | |
| Goodwill | 57.6 | 22.9 | 68.6 | 0.0 | 149.1 |
| Other intangible assets | 0.5 | 8.9 | 1.1 | 0.6 | 11.2 |
| Property, plant and equipment | 90.4 | 79.9 | 60.6 | 1.3 | 232.1 |
| Right-of-use assets | 26.6 | 35.6 | 27.9 | 13.7 | 103.8 |
| Inventories | 19.2 | 38.4 | 46.6 | (1.3) | 102.9 |
| Trade receivables | 55.5 | 80.6 | 65.3 | 15.4 | 216.8 |
| Other assets | 13.0 | 9.8 | 3.7 | 1.8 | 28.3 |
| **Segment assets** | **262.8** | **276.1** | **273.7** | **31.5** | **844.2** |
| Unallocated assets | | | | 82.8 | 82.8 |
| **Total assets** | **262.8** | **276.1** | **273.7** | **114.3** | **927.0** |
| Trade payables | 36.8 | 48.9 | 42.5 | 2.5 | 130.7 |
| Non-current lease interest-bearing liabilities | 23.1 | 29.8 | 27.2 | 12.1 | 92.2 |
| Current lease interest-bearing liabilities | 3.3 | 6.1 | 2.4 | 2.0 | 13.8 |
| Unallocated liabilities | | | | 407.3 | 407.3 |
| **Total liabilities** | **63.2** | **84.8** | **72.1** | **424.0** | **644.0** |
| Capital expenditure | (25.3) | (22.8) | (16.7) | (0.2) | (65.0) |

* 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 thus excludes IC profit.

## NOTE 7 SEGMENT INFORMATION (CONTINUED)

2018

| MEUR | INTERIOR PRODUCTS | 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 |
| Engineering | 5.4 | 5.6 | 5.5 | 0.0 | 16.5 |
| Other income | 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** |
| | | | | | |
| *Timing of revenue recognition* | | | | | |
| Performance obligations satisfied at a point in time | 285.6 | 437.1 | 400.2 | 0.2 | 1,123.1 |
| | | | | | |
| *Assets and liabilities* | | | | | |
| 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 | | | | 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 thus excludes IC profit.



## NOTE 7 SEGMENT INFORMATION (CONTINUED)

### Operating segments – reconciliation to total assets

| MEUR | 2019 | 2018 |
|---|---|---|
| Segment assets of reportable segments | 812.7 | 688.0 |
| Assets of segment Other | 31.5 | 1.7 |
| | | |
| *Unallocated assets include:* | | |
| Deferred tax assets | 19.9 | 20.1 |
| Other non-current assets | 5.6 | 10.1 |
| Cash and cash equivalents | 25.2 | 59.2 |
| Other current receivables | 32.0 | 41.2 |
| **Total assets of the Group** | **927.0** | **820.2** |

### Operating segments – reconciliation to total liabilities

| MEUR | 2019 | 2018 |
|---|---|---|
| Trade payables of reportable segments | 128.2 | 156.5 |
| Non-current lease liabilities of reportable segments | 92.2 | 0.0 |
| Current lease liabilities of reportable segments | 13.8 | 0.0 |
| Liabilities of segment Other | 2.5 | 3.2 |
| | | |
| *Unallocated liabilities include:* | | |
| Deferred tax liabilities | 21.8 | 23.6 |
| Retirement benefit obligations | 20.1 | 16.8 |
| Interest-bearing loans and borrowings | 270.5 | 269.4 |
| Other non-current interest-free liabilities | 1.5 | 5.1 |
| Other current interest-bearing liabilities | 10.0 | 0.1 |
| Current income tax liabilities | 7.0 | 4.0 |
| Other short-term liabilities | 76.5 | 88.0 |
| **Total liabilities of the Group** | **644.0** | **566.7** |

### 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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| MEUR | JAN-DEC | % | JAN-DEC | % |
| Europe | 551.8 | 48% | 570.2 | 51% |
| North America | 425.5 | 37% | 379.9 | 34% |
| South America | 27.8 | 2% | 24.5 | 2% |
| Asia | 150.3 | 13% | 144.7 | 13% |
| Other | 5.4 | 0% | 3.8 | 0% |
| **Total operating revenues** | **1,160.9** | | **1,123.1** | |

## NOTE 7 SEGMENT INFORMATION (CONTINUED)

**Intangible assets, PPE and RoU by geographical location**

| | 2019 | | 2018 | |
|---|---|---|---|---|
| MEUR | DEC | % | DEC | % |
| Europe | 303.8 | 61% | 203.6 | 57% |
| North America | 150.9 | 30% | 121.5 | 34% |
| South America | 3.7 | 1% | 1.9 | 1% |
| Asia | 37.8 | 8% | 31.5 | 9% |
| **Total Intangible assets, PPE and RoU** | **496.3** | | **358.4** | |

**Major customers**
Included are revenues of MEUR 130.8 (2018: MEUR 118.9) in 2019 which arose from sales to the Group's largest customer. No other single customer contributed 10% or more to the Group's revenues in 2019. In 2018, the Group had one customer 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 | 2019 | 2018 |
|---|---|---|
| Wages and salaries | 232.6 | 225.1 |
| Social security tax | 45.2 | 46.6 |
| Pension cost, defined benefit plans | 1.5 | 1.1 |
| Pension cost, defined contribution plans | 9.7 | 9.0 |
| Other employee-related expenses* | 34.8 | 31.8 |
| **Total salaries and social expenses** | **323.8** | **313.6** |

* Other employee-related expenses include bonus costs.

As of December 31, 2019, the Group had 10,908 employees, while as of December 31, 2018 the number of employees was 11,401.

## NOTE 9 OTHER OPERATING EXPENSES

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

| MEUR | 2019 | 2018 |
|---|---|---|
| *Operating expenses* | | |
| Freight, packaging and customs duties charges | 50.6 | 53.5 |
| Facility costs | 12.9 | 26.0 |
| Consumables | 34.5 | 35.7 |
| Repairs and maintenance | 16.7 | 16.2 |
| Service costs / External services | 17.7 | 13.6 |
| Other costs | 13.0 | 5.2 |
| | | |
| *Administrative expenses* | | |
| Lease expenses* | 1.0 | 6.1 |
| Service costs / External services | 33.0 | 34.9 |
| Consumables | 9.1 | 9.3 |
| Travel costs | 5.3 | 8.2 |
| Other costs | 2.3 | 19.0 |
| **Total other operating expenses** | **196.1** | **227.7** |

* Decrease in 2019 is due to the adoption of the IFRS 16 standard.

## NOTE 10 FINANCIAL ITEMS

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

| MEUR | 2019 | 2018 |
|---|---|---|
| Dividend and other financial income | 0.2 | 0.0 |
| Gain from derecognition of financial liabilities measured at amortized cost* | 0.0 | 0.7 |
| Foreign currency gains** | 3.0 | 0.0 |
| Interest income | 0.6 | 0.6 |
| **Total financial income** | **3.8** | **1.3** |
| Interest expense | (15.9) | (12.8) |
| IFRS 16 interest expense | (5.3) | 0.0 |
| Foreign currency losses** | 0.0 | (3.0) |
| Other items | (1.5) | (0.7) |
| **Total financial expenses** | **(22.7)** | **(16.5)** |
| | | |
| **Total financial items** | **(18.9)** | **(15.2)** |

* Repayment of bank loans in 2018.
** Includes unrealized currency gain of MEUR 4.9 (2018: unrealized loss of MEUR 8.3).

## NOTE 11 TAXES

**Tax recognized in Statement of Income**
The major components of income tax expense:

| MEUR | 2019 | 2018 |
|---|---|---|
| Current tax on profits for the year* | (14.1) | (12.4) |
| Adjustments in respect of prior years – current tax | (3.3) | 3.0 |
| **Total current tax** | **(17.4)** | **(9.4)** |
| Current year change in deferred tax | (3.9) | (4.6) |
| Impact of changes in tax rates | 6.7 | 2.3 |
| Adjustments in respect of prior years – deferred tax | (0.2) | (3.0) |
| **Total change in deferred tax** | **2.6** | **(5.3)** |
| **Total income tax expense** | **(14.8)** | **(14.7)** |

* Includes withholding tax.

**Tax recognized in other comprehensive income**

| MEUR | 2019 | 2018 |
|---|---|---|
| Tax on translation differences | (0.6) | (3.1) |
| Tax on pension remeasurement | 0.2 | 0.1 |
| **Tax in other comprehensive income** | **(0.4)** | **(3.0)** |

**Reconciliation of Norwegian nominal statutory tax rate to effective tax rate**

| MEUR | 2019 | 2018 |
|---|---|---|
| **Profit before taxes** | **43.5** | **38.5** |
| Expected tax calculated at Norwegian tax rate | (9.7) | (8.9) |
| Dividends (permanent differences) | 0.0 | 0.0 |
| Other permanent differences / currency | 0.5 | (0.6) |
| Effect of withholding tax | (0.3) | (0.6) |
| Effect of different tax rates | 0.1 | (1.3) |
| Impact of changes in tax rates and legislation | 6.7 | 2.3 |
| Losses not recognized as deferred tax assets | (7.1) | (1.8) |
| Write-down of deferred tax assets | 0.0 | (3.6) |
| Adjustments in respect of prior years and other adjustments | (5.1) | (0.2) |
| **Income tax expense** | **(14.8)** | **(14.7)** |
| **Average effective tax rate** | **34%** | **38%** |



## NOTE 11 TAXES (CONTINUED)

**Tax recognized in the Statement of Financial Position**

**Current tax liability**

| MEUR | 2019 | 2018 |
|---|---|---|
| Current income tax liabilities | 7.0 | 4.0 |
| **Total** | **7.0** | **4.0** |

**Deferred tax**

| MEUR | 2019 | 2018 |
|---|---|---|
| Deferred tax asset | 19.9 | 20.1 |
| Deferred tax liability | (21.8) | (23.6) |
| **Total** | **(1.9)** | **(3.5)** |

Deferred tax positions are netted within the same tax entity. Due to the Group contribution in Norway, there is an offset of current income tax liabilities with deferred tax asset of MEUR 0.8.

**Specification of deferred tax assets / (liabilities) recognized in the Statement of Financial Position**

| MEUR | OPENING BALANCE | CHARGED TO INCOME | CHANGES IN RATE | OCI | FX DIFF AND RECLASSIFI-CATION DUE TO GROUP CONTRIBUTION | CLOSING BALANCE |
|---|---|---|---|---|---|---|
| Property, plant and equipment | (0.7) | (0.6) | 0.0 | 0.0 | 0.0 | (1.3) |
| Intangible assets | (4.6) | (0.6) | 0.0 | 0.0 | 0.0 | (5.2) |
| Leases | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.5 |
| Retirement benefits obligations | 3.3 | 0.0 | 0.0 | 0.2 | 0.0 | 3.5 |
| Losses carried forward | 8.3 | (0.2) | (1.0) | 0.0 | (0.8) | 6.3 |
| Receivables | 2.5 | 0.2 | (0.0) | 0.0 | 0.0 | 2.7 |
| Accrued expenses | 2.3 | 0.3 | 0.0 | 0.0 | 0.0 | 2.6 |
| Accrued interest | 9.1 | (2.4) | 0.3 | 0.0 | 0.0 | 7.0 |
| Restructuring reserves | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 | 1.2 |
| Unrealized exchange differences on long-term receivables / payables | (23.0) | (0.2) | 0.0 | (0.6) | 0.0 | (23.8) |
| Other temporary differences | (1.9) | (0.9) | 7.4 | 0.0 | 0.0 | 4.6 |
| **Net deferred tax asset / (liability)** | **(3.5)** | **(3.9)** | **6.7** | **(0.4)** | **(0.8)** | **(1.9)** |

## NOTE 11 TAXES (CONTINUED)

**Measurement of deferred taxes**
Deferred tax assets and liabilities are measured at the tax rates enacted. The Swiss tax reform enacted in 2019 is expected to lead to significant benefits from future deductible amounts which is reflected in the recognition of a deferred tax asset of MEUR 7.4.

**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 for unused tax losses and unused tax credit to the extent that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized. 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. As at the year-end, the estimates indicated that tax losses (mainly related to accrued interest) will not be deductible within the foreseeable future (MEUR 7.1).

**Tax positions not recognized**

| MEUR | 2019 | 2018 |
|---|---|---|
| Tax positions not recognized | 17.7 | 22.8 |
| **Total** | **17.7** | **22.8** |

**Remaining lifetime of tax losses (net tax value)**

| MEUR | 2019 | 2018 |
|---|---|---|
| Less than five years | 3.2 | 5.1 |
| 5–10 years | 0.4 | 2.1 |
| 10–15 years | 0.0 | 3.0 |
| 15–20 years | 3.2 | 0.0 |
| Without time limit | 17.2 | 21.7 |
| **Total** | **24.0** | **31.8** |

## NOTE 12 INTANGIBLE ASSETS

| MEUR | GOODWILL | CUSTOMER RELATIONSHIPS | PATENTS AND DEVELOPMENT | SOFTWARE AND OTHER | TOTAL |
|---|---|---|---|---|---|
| Cost 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) | (1.0) |
| Translation differences on cost | 2.5 | 1.2 | (0.2) | 0.0 | 3.5 |
| **Acquisition costs at 31.12.2018** | **169.0** | **94.6** | **52.1** | **14.1** | **329.7** |
| Accumulated amortization 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 on amortization | (0.9) | (1.2) | 0.1 | 0.0 | (2.1) |
| **Accumulated amortization 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 at 31.12 2018** | **147.8** | **0.1** | **12.1** | **2.1** | **162.2** |
| Cost at 01.01.2019 | 169.0 | 94.6 | 52.1 | 14.1 | 329.7 |
| Additions | 0.0 | 0.4 | 0.4 | 1.0 | 1.8 |
| Disposals accumulated cost | 0.0 | (0.0) | (0.0) | (0.0) | (0.0) |
| Translation differences | 1.7 | 1.0 | 0.1 | 0.2 | 3.0 |
| **Acquisition costs at 31.12.2019** | **170.7** | **96.0** | **52.6** | **15.2** | **334.6** |
| Accumulated amortization at 01.01.2019 | (21.2) | (94.4) | (40.0) | (11.9) | (167.5) |
| Amortization / impairment loss | 0.0 | (0.3) | (3.8) | (0.9) | (5.1) |
| Disposals accumulated amortization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Translation differences | (0.4) | (1.1) | (0.1) | (0.2) | (1.8) |
| **Accumulated amortization at 31.12.2019** | **(21.6)** | **(95.8)** | **(43.9)** | **(13.0)** | **(174.3)** |
| Cost | 170.7 | 96.0 | 52.6 | 15.2 | 334.6 |
| Accumulated amortization | (21.6) | (95.8) | (43.9) | (13.0) | (174.3) |
| **Book value at 31.12 2019** | **149.1** | **0.2** | **8.7** | **2.2** | **160.3** |

## NOTE 12 INTANGIBLE ASSETS (CONTINUED)

**Internally developed intangible assets**

| MEUR | 2019 | 2018 |
|---|---|---|
| Internally developed intangible assets at 01.01. | 9.8 | 9.7 |
| Additions during the year | 0.5 | 2.1 |
| Amortization / impairment | (2.0) | (1.8) |
| Translation differences | (0.0) | (0.2) |
| **Internally developed intangible assets at 31.12.** | **8.3** | **9.8** |
| | | |
| Non-capitalized development costs net of customer contribution | (41.0) | (45.0) |
| Amortization of internally developed intangible assets | (2.0) | (1.8) |
| **Total recognized development cost in the reporting period*** | **(43.0)** | **(46.8)** |
| | | |
| Cash investment in development | (41.5) | (47.1) |

* Net amount, gross amount MEUR 53.7 in 2019 (2018: MEUR 63.2).

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

**Impairment testing**

The Group has performed impairment tests on the carrying values of all intangible assets (including goodwill), property, plant & equipment, and net working capital 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 cash-generating units (CGUs). 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 by Gordon's 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 2020 to 2022. The business plans were based on the Group's strategic three-year plan (STP), adjusted for relevant recent changes in internal short-term forecasts and market data. Adjustments were made to exclude significant cash flows relating to 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 well-known 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 to be a realistic forecast considering 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 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 8.1% 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:
  1.03%. Based on 10-year governmental Eurobond rate and US treasury 10-year yield, weighted 50/50.
- Beta:
  1.61. Based on an estimated unlevered beta for the automotive industry levered to the Group's structure.
- Market Risk Premium:
  5.60% (post tax). Based on market sources.
- Cost of debt:
  based on the Groups cost of debt.

**Sensitivity analysis**

The value in use depends on the free cash flow and discount rate. The cash flow will fluctuate in relation to changes in price, currency, and volume. Business awards, success of the car model, product fitment rates, government regulations, and economic conditions, in turn influence the volume.

- On-Highway:
  The CGU's value-in-use is significantly higher than the carrying value. No reasonable change in any of the key assumptions would cause the unit's recoverable amount to be lower than the carrying value.
- Driveline:
  A potential reduction in discounted free cash flow by 14% for all years on an average basis or an increase of the post-tax discount rate of 1% point would reduce the headroom to nil. The discounted free cash flow for Driveline would need to fall short by more than 10% in order to lead to a material impairment.



## NOTE 12 INTANGIBLE ASSETS (CONTINUED)

- Light Duty Cables:
  The CGU has a carrying amount of MEUR 53.4 and a value-in-use that is slightly higher. Any increase of the post-tax discount rate or any isolated reductions in discounted free cash flow would lead to a headroom of nil. The reduction in discounted cash flow of more than 5% would result in a material impairment.
- Interior Comfort System:
  Based on the sensitivity analysis it is concluded that no reasonable change in any of the key assumptions would cause the unit's recoverable amount to be lower than the carrying value. A potential reduction in discounted free cash flow by 42% for all years on an average basis or an increase of the post-tax discount rate of 4% points would reduce the headroom to nil.
- Couplings:
  The CGU's value-in-use is significantly higher than the carrying value. No reasonable change in any of the key assumptions would cause the unit's recoverable amount to be lower than the carrying value.
- Fluid Transfer Systems:
  The CGU's value-in-use is higher by 65% than its carrying value. No reasonable change in any of the key assumptions would cause the unit's recoverable amount to be lower than the carrying value.
- Off-Highway:
  No reasonable change in any of the key assumptions would cause the unit's recoverable amount to be lower than the carrying value.

## NOTE 13 PROPERTY, PLANT AND EQUIPMENT (PP&E)

| MEUR | LAND | BUILDINGS | EQUIPMENT | TOTAL |
|---|---|---|---|---|
| Cost at 01.01.2018 | 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 at 31.12.2018** | **4.5** | **29.1** | **534.1** | **567.7** |
| | | | | |
| Accumulated depreciation 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 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 at 31.12 2018** | **4.5** | **8.5** | **183.3** | **196.3** |
| | | | | |
| Cost at 01.01.2019 | 4.5 | 29.1 | 534.1 | 567.7 |
| Additions | 0.0 | 0.5 | 63.3 | 63.8 |
| Disposals accumulated cost | 0.0 | (0.0) | (7.2) | (7.2) |
| Translation differences | 0.0 | 0.1 | 5.9 | 6.0 |
| **Acquisition costs at 31.12.2019** | **4.5** | **29.7** | **596.1** | **630.3** |
| | | | | |
| Accumulated depreciation at 01.01.2019 | 0.0 | (20.6) | (350.8) | (371.4) |
| Depreciation / impairment loss | 0.0 | (1.2) | (27.6) | (28.8) |
| Disposals accumulated depreciation | 0.0 | 0.0 | 5.6 | 5.6 |
| Translation differences | 0.0 | (0.1) | (3.5) | (3.6) |
| **Accumulated depreciation at 31.12.2019** | **0.0** | **(21.9)** | **(376.3)** | **(398.2)** |
| | | | | |
| Cost | 4.5 | 29.7 | 596.1 | 630.3 |
| Accumulated depreciation | 0.0 | (21.9) | (376.3) | (398.2) |
| **Book value at 31.12 2019** | **4.5** | **7.8** | **219.8** | **232.1** |

**Impairment testing**

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

## NOTE 14 RIGHT-OF-USE ASSETS

| MEUR | BUILDINGS | EQUIPMENT | TOTAL |
|---|---|---|---|
| Cost at 01.01.2019 | 103.3 | 3.0 | 106.3 |
| Additions | 9.7 | 1.3 | 11.0 |
| Disposals accumulated cost | 0.0 | 0.0 | 0.0 |
| Translation differences | 0.5 | 0.1 | 0.6 |
| **Acquisition costs at 31.12.2019** | **113.5** | **4.4** | **117.9** |
| Accumulated depreciation at 01.01.2019 | 0.0 | 0.0 | 0.0 |
| Depreciation/impairment loss | (13.2) | (0.9) | (14.1) |
| Disposals accumulated depreciation | 0.0 | (0.0) | 0.0 |
| Translation differences | 0.0 | (0.0) | (0.0) |
| **Accumulated depreciation at 31.12.2019** | **(13.2)** | **(0.9)** | **(14.1)** |
| Cost | 113.5 | 4.4 | 117.9 |
| Accumulated depreciation | (13.2) | (0.9) | (14.1) |
| **Book value at 31.12 2019** | **100.3** | **3.5** | **103.8** |

**Lease liabilities**

| MEUR | 2019 | 2018 |
|---|---|---|
| Non-current lease liabilities | 92.2 | 0.0 |
| Current lease liabilities | 13.8 | 0.0 |
| **Total lease liabilities** | **106.0** | **0.0** |

**Maturity analysis – contractual undiscounted cash flows**

| MEUR | 2019 | 2018 |
|---|---|---|
| Less than one year | 17.1 | 0.0 |
| One to five years | 55.9 | 0.0 |
| More than five years | 61.9 | 0.0 |
| **Total undiscounted lease liabilities** | **134.9** | **0.0** |

In 2019, the Group had total cash outflows of approximately MEUR 18.2 for all leases.

**Amounts recognized in the statement of comprehensive income relating to leases**

| MEUR | 2019 | 2018 |
|---|---|---|
| Interest expense on lease liabilities (included in financial items) | (5.3) | 0.0 |
| Depreciation of Right-of-use assets | (14.0) | 0.0 |
| Expenses relating to low-value and short-term leases | (1.1) | 0.0 |
| **Total expenses relating to leases** | **20.4** | **0.0** |



## NOTE 15 INVENTORIES

**Specification of inventories**

| MEUR | 2019 | 2018 |
|---|---|---|
| Raw materials | 62.8 | 74.6 |
| Work in progress | 18.7 | 21.1 |
| Finished goods | 21.4 | 24.8 |
| **Total inventories** | **102.9** | **120.4** |

Values displayed above are net of provisions for slow-moving and obsolete inventory shown below.

**Provision for slow-moving and obsolete inventory**

| MEUR | 2019 | 2018 |
|---|---|---|
| Book value at 01.01. | (10.0) | (7.9) |
| Write-down | (2.4) | (2.8) |
| Products sold (previously written down) | 0.6 | 0.1 |
| Reversals | 1.6 | 0.5 |
| Foreign currency effects | (0.1) | 0.1 |
| **Book value at 31.12.** | **(10.3)** | **(10.0)** |

## NOTE 16 TRADE AND OTHER RECEIVABLES

**Specification of trade and other receivables**

| MEUR | 2019 | 2018 |
|---|---|---|
| Trade receivables | 216.8 | 210.7 |
| Public duties | 10.3 | 8.0 |
| Account receivables | 1.1 | 0.6 |
| Other short-term receivables | 10.8 | 11.8 |
| **Total trade and other receivables** | **239.0** | **231.2** |

## NOTE 16 TRADE AND OTHER RECEIVABLES (CONTINUED)

**Trade receivables maturity**

| MEUR | 2019 | 2018 |
|---|---|---|
| Not overdue | 199.0 | 187.3 |
| Overdue 1–20 days | 11.6 | 12.9 |
| Overdue 21–40 days | 2.5 | 2.8 |
| Overdue 41–80 days | 1.6 | 2.1 |
| Overdue 81–100 days | 0.6 | 1.1 |
| Overdue > 100 days | 2.1 | 5.2 |
| **Gross trade receivables** | **217.2** | **211.3** |
| Total provision for bad debt | (0.5) | (0.6) |
| **Net trade receivables** | **216.8** | **210.7** |

The provision for bad debt has decreased by MEUR 0.1 compared to 31.12.2018. 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 at the 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. Expected losses on trade receivables was MEUR 0.3 in 2019 (2018: MEUR 0.9). The risk for losses on receivables other than trade receivables is assessed to be insignificant. For risk management see Note 22.

**Receivables by currency**

| MEUR | 2019 | 2018 |
|---|---|---|
| EUR | 91.8 | 94.2 |
| USD | 69.1 | 64.3 |
| CNY | 51.9 | 37.9 |
| NOK | 4.6 | 9.7 |
| Other | 21.6 | 25.1 |
| **Total receivables** | **239.0** | **231.2** |

**Other current assets**

| MEUR | 2019 | 2018 |
|---|---|---|
| Tooling for sale | 11.4 | 11.5 |
| Customer development for sale | 6.2 | 1.2 |
| Prepayments | 10.8 | 8.1 |
| **Total other current assets** | **28.3** | **20.7** |

**Other non current assets**

| MEUR | 2019 | 2018 |
|---|---|---|
| Long-term receivables | 2.9 | 4.3 |
| Contract costs – non-current | 6.8 | 0.0 |
| Grants and others | 5.6 | 5.8 |
| **Total other non-current assets** | **15.3** | **10.1** |

## NOTE 17 SHARE CAPITAL

**Shares**

The share capital of the Company is NOK 223,995,506.00, comprising 447,991,012 ordinary shares with a par value of NOK 0.50. The Company holds 98,454 shares as treasury shares. For more information see the Statement of Changes in Equity. The Company is listed on the Oslo Stock Exchange with the ticker code 'KOA'.

| | 2019 | 2018 |
|---|---|---|
| Number of shares in issue as at 01.01. | 447,444,943 | 406,768,131 |
| New shares issued | 546,069 | 40,676,812 |
| **Number of shares in issue as at 31.12.** | **447,991,012** | **447,444,943** |
| **Of these, treasury shares** | **98,454** | **168,454** |

The twenty largest shareholders in the Company as at 31.12.2019 were as follows:

| Shareholders and nominees | NO. OF SHARES | % | COUNTRY |
|---|---|---|---|
| MORGAN STANLEY & CO. INT. PLC. | 117,706,071 | 26.3% | UK |
| MORGAN STANLEY & CO. LLC | 64,283,344 | 14.3% | US |
| VPF NORDEA KAPITAL | 19,432,454 | 4.3% | Norway |
| KLP AKSJENORGE | 17,131,633 | 3.8% | Norway |
| THE BANK OF NEW YORK MELLON SA/NV | 16,789,312 | 3.7% | Belgium |
| VPF NORDEA AVKASTNING | 13,919,278 | 3.1% | Norway |
| KOMMUNAL LANDSPENSJONSKASSE | 12,270,182 | 2.7% | Norway |
| VERDIPAPIRFONDET PARETO INVESTMENT | 11,960,000 | 2.7% | Norway |
| CITIBANK, N.A. | 10,038,370 | 2.2% | US |
| MP PENSJON PK | 8,531,014 | 1.9% | Norway |
| NORDNET BANK AB | 7,065,173 | 1.6% | Sweden |
| ERLING NEBY AS | 7,000,000 | 1.6% | Norway |
| NORDEA 1 SICAV | 6,843,005 | 1.5% | UK |
| VERDIPAPIRFONDET NORDEA NORGE PLUS | 6,551,353 | 1.5% | Norway |
| HANDELSBANKEN NORDISKA SMABOLAG | 5,845,344 | 1.3% | Sweden |
| N-UCIT NORDEA PRIVATE BK NO AK PT | 4,297,604 | 1.0% | UK |
| KLP AKSJENORGE INDEKS | 3,329,947 | 0.7% | Norway |
| MSIP EQUITY | 3,317,536 | 0.7% | UK |
| JPMORGAN CHASE BANK, N.A., LONDON | 2,972,219 | 0.7% | UK |
| VERDIPAPIRFONDET PARETO NORDIC | 2,731,517 | 0.6% | Norway |
| **Total twenty largest shareholders** | **342,015,356** | **76.3%** | |
| Other shareholders | 105,975,656 | 23.7% | |
| **Number of shares in issue at 31.12.2019** | **447,991,012** | **100.0%** | |
| Number of shareholders | 4,389 | | |
| Foreign ownership | 60.7% | | |

**Share options**

Options at NOK 1.5, NOK 5.8, NOK 5.9 and NOK 6.20 expire after 7 years, and options at NOK 10.64 and NOK 7.87 are Performance Stock Options and 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 the Statement of Change in Equity for information on amounts recognized in 2019. Refer to note 3 for further information.

## **NOTE 17** SHARE CAPITAL (CONTINUED)

**Movements in share options (NOK)**

| NOK | 2019 AVERAGE EXERCISE PRICE | 2019 OPTIONS | 2018 AVERAGE EXERCISE PRICE | 2018 OPTIONS |
|---|---|---|---|---|
| Options as at 01.01. | 8.12 | 4,635,130 | 5.98 | 4,681,765 |
| Granted | 7.87 | 4,227,035 | 10.64 | 2,353,388 |
| Forfeited | 8.66 | (604,896) | 6.50 | (595,046) |
| Expired | 6.04 | (65,000) | 18.91 | (170,774) |
| Exercised | 1.82 | (147,606) | 5.09 | (1,634,203) |
| **Options as at 31.12.** | **8.08** | **8,044,663** | **8.12** | **4,635,130** |

**Outstanding options at the end of the year (NOK)**

| EXPIRY DATE | 2019 EXERCISE PRICE (NOK) | 2019 OPTIONS | 2018 EXERCISE PRICE (NOK) | 2018 OPTIONS |
|---|---|---|---|---|
| 31.03.2019 | | | 3.00 | 39,348 |
| 31.03.2019 | | | 2.00 | 58,800 |
| 10.04.2020 | 1.50 | 65,334 | 1.50 | 142,000 |
| 10.04.2021 | 5.80 | 226,200 | 5.80 | 226,200 |
| 10.04.2022 | 5.90 | 475,586 | 5.90 | 535,586 |
| 10.04.2023 | 6.20 | 1,207,853 | 6.20 | 1,337,853 |
| 05.06.2028 | 10.64 | 1,996,415 | 10.64 | 2,295,343 |
| 15.05.2029 | 7.87 | 4,073,275 | | |
| **Options as at 31.12.** | | **8,044,663** | | **4,635,130** |

**Treasury shares**
The Company holds 98,454 treasury shares (2018: 168,454). No treasury shares were acquired in 2019.

**Movements in restricted share units (RSU)**

| NOK | 2019 | 2018 |
|---|---|---|
| RSU at 01.01. | 1,572,552 | 0.0 |
| Granted | 2,447,200 | 0.0 |
| Released | (468,463) | 0.0 |
| Forfeited | (281,271) | 0.0 |
| **RSU at 31.12** | **3,270,018** | **0.0** |

**Outstanding restricted share units at the end of the year**

| Grant (Vesting date) | 2019 | 2018 |
|---|---|---|
| Grant 2018 (05.06.2019) | 0.0 | 524,184 |
| Grant 2019 (15.05.2020) | 589,545 | 0.0 |
| Grant 2018 (05.06.2020) | 455,919 | 524,184 |
| Grant 2019 (17.05.2021) | 589,545 | 0.0 |
| Grant 2018 (07.06.2021) | 455,919 | 524,184 |
| Grant 2019 (16.05.2022) | 1,179,090 | 0.0 |
| **RSU at 31.12** | **3,270,018** | **1,572,552** |



## **NOTE 18** EARNINGS AND DIVIDEND PER SHARE

**Earnings per share**

| | 2019 | 2018 |
|---|---|---|
| Net profit attributable to equity shareholders (MEUR) | 28.6 | 23.7 |
| **Weighted average number of shares in issue** | **447.6** | **425.7** |
| Weighted average total number of ordinary shares | 447.7 | 426.9 |
| Weighted average number of treasury shares held | (0.1) | (1.2) |
| **Basic earnings per share, EUR** | **0.06** | **0.06** |
| **Weighted average number of shares in issue (diluted)** | **457.8** | **430.3** |
| Weighted average number of outstanding options | 10.2 | 4.6 |
| **Diluted earnings per share, EUR** | **0.06** | **0.06** |

**Dividend per share**

| EUR | 2019 | 2018 |
|---|---|---|
| Dividend per share paid | 0.0 | 0.0 |
| Dividend per share proposed | 0.0 | 0.0 |

No dividend was proposed for 2019.

## **NOTE 19** RETIREMENT BENEFIT OBLIGATIONS

**Retirement benefit obligations recognized in the Statement of Financial Position**

| MEUR | 2019 | 2018 |
|---|---|---|
| Defined benefit pension obligation | 19.8 | 16.4 |
| Top hat, retirement provisions and other employee obligations | 0.3 | 0.4 |
| **Retirement benefit obligations** | **20.1** | **16.8** |

**Defined benefit scheme – assumptions**

| MEUR | 2019 | 2018 |
|---|---|---|
| Discount rate | 1.0% | 1.9% |
| Rate of return on plan assets | 0.4% | 0.4% |
| Salary increases | 1.2% | 1.2% |
| Increase in basic government pension amount | 0.9% | 1.0% |
| Pension increase | 0.5% | 0.6% |

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

## NOTE 19 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

**Defined benefit scheme – net periodic pension cost**

| MEUR | 2019 | 2018 |
|---|---|---|
| Service cost | 1.2 | 0.8 |
| 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** | **1.5** | **1.1** |
| | | |
| Remeasurement of net defined benefit liability | 3.3 | 0.2 |
| | | |
| Actual return on plan assets | 4.9% | 1.7% |

**Defined benefit scheme – net pension liability**

| MEUR | 2019 | 2018 |
|---|---|---|
| Pension liabilities and assets: | | |
| Projected benefit obligation (PBO) | 25.5 | 20.3 |
| Fair value of pension assets | (5.7) | (3.9) |
| Unrecognized effects | 0.0 | 0.0 |
| **Net pension liability before social security taxes** | **19.8** | **16.4** |
| Social security taxes liabilities | 0.0 | 0.0 |
| **Net pension liability** | **19.8** | **16.4** |

**Specification of carrying value of net pension liability**

| MEUR | 2019 | 2018 |
|---|---|---|
| Retirement benefit obligation | 25.5 | 20.3 |
| Retirement benefit asset | (5.7) | (3.9) |
| **Net pension liability** | **19.8** | **16.4** |

**Defined benefit scheme – change in net pension liability**

| MEUR | 2019 | 2018 |
|---|---|---|
| Net pension liability as at 01.01. | 16.4 | 16.5 |
| Pension cost for the year | 1.5 | 1.1 |
| Remeasurement of net defined benefit liability | 3.3 | 0.2 |
| Paid pensions | (0.7) | (0.6) |
| Pension plan contributions | (0.6) | (0.7) |
| Translation differences | (0.1) | (0.1) |
| **Net pension liability as at 31.12.** | **19.8** | **16.4** |



## NOTE 19 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

**Defined benefit scheme – sensitivities***

| MEUR | DBO AS AT 31.12.2019 | DBO AS AT 31.12.2018 |
|---|---|---|
| Actual valuation | 19.8 | 16.4 |
| | | |
| Discount rate +0.5% | 18.8 | 15.6 |
| Discount rate –0.5% | 21.0 | 17.4 |
| | | |
| Expected rate of salary increase +0.5% | 20.0 | 16.6 |
| Expected rate of salary increase –0.5% | 19.7 | 16.4 |
| | | |
| Expected rate of pension increase +0.5% | 20.7 | 17.2 |
| Expected rate of pension increase –0.5% | 19.0 | 15.8 |

* The sensitivity does not include all schemes; however, it 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 2020 is expected to be in line with the 2019 payment.**

## NOTE 20 INTEREST-BEARING LIABILITIES

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

| MEUR | 2019 | 2018 |
|---|---|---|
| Non-current interest-bearing loans and borrowings | 276.4 | 276.1 |
| Capitalized arrangement fees | (5.8) | (6.7) |
| Interest-bearing lease liabilities | 106.0 | 0.0 |
| Other current interest-bearing liabilities | 10.0 | 0.0 |
| **Total interest-bearing liabilities** | **386.5** | **269.4** |

On July 23, 2018, the Company completed an offering of MEUR 275.0 in aggregate principal amount of 5.000% Senior Notes due 2025 (the "Notes") pursuant to indentures among the Company, the guarantors party thereto, and The Law Debenture Trust Corporation plc, as trustee. The Group was in compliance with all applicable debt covenants at and for the year ended December 31, 2019.

The indentures for our outstanding Senior Notes contain customary terms and conditions, including amongst other things, incurring or guaranteeing additional indebtedness or issue certain preferred stock, pay dividends, redeem capital stock and making other distributions, make certain other restricted payments or restricted investments, prepaying or redeeming subordinated debt or equity, creating or permitting to exist certain liens, imposing restrictions on the ability of the Restricted Subsidiaries to pay dividends, transferring or selling certain assets, merging or consolidating with other entities, engaging in certain transactions with affiliates, and impairing the security interests for the benefit of the holders of the Notes.

Other current interest-bearing liabilities consist of the net draw from the Revolving Credit Facility (RCF) agreement entered in July 2018. The RCF agreement contains a "springing covenant" on total net leverage of 3.50:1, tested quarterly if cash utilizations exceed 40% of the total commitments under the RCF agreement on the applicable quarter date.

## NOTE 20 INTEREST-BEARING LIABILITIES (CONTINUED)

**Specification of total interest-bearing liabilities**

| MEUR | 2019 | 2018 |
|---|---|---|
| EUR | 297.1 | 275.0 |
| USD | 8.1 | 0.0 |
| Other currencies | 87.2 | 1.1 |
| Capitalized arrangement fees | (5.8) | (6.7) |
| **Total interest-bearing liabilities** | **386.5** | **269.4** |

**Changes in liabilities arising from financing activities**

| MEUR | 2019 | 2018 |
|---|---|---|
| Opening balance as of 01.01.* | 376.0 | 257.8 |
| *Changes arising from cash flows:* | | |
| Net drawdown of debt | 10.3 | 11.2 |
| Repayment of lease liabilities | (11.9) | 0.0 |
| *Non-cash changes:* | | |
| Additions of lease liabilities | 11.0 | 0.0 |
| Amortization of capitalized arrangement fees | 0.9 | 0.4 |
| Other non-cash changes | (0.3) | (0.7) |
| *Other:* | | |
| Foreign exchange movement | 0.0 | (5.7) |
| Translation effect | 0.5 | 6.4 |
| **Closing balance as of 31.12.** | **386.5** | **269.4** |

* The opening balance as at 01.01.2019 includes the lease liabilities of MEUR 106.6 resulting from the adoption of the IFRS 16 standard.

**Liquidity reserve**

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

| MEUR | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | 25.2 | 59.2 |
| Restricted cash | (0.8) | (0.1) |
| Undrawn facility | 40.0 | 50.0 |
| **Liquidity reserve** | **64.4** | **109.1** |

## NOTE 21 OTHER NON-CURRENT INTEREST-FREE LIABILITIES

**Specification of other non-current interest-free liabilities**

| MEUR | 2019 | 2018 |
|---|---|---|
| Contract liabilities long-term | 1.4 | 1.7 |
| Loss-making contracts | 0.0 | 2.3 |
| Other non-current interest-free liabilities | 0.1 | 1.0 |
| **Total other non-current interest-free liabilities** | **1.5** | **5.1** |

## NOTE 22 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 numerous 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 influenced 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. Hence, the Group seeks to align its revenue and cost base to reduce the currency exposure on a net cash flow basis.

Management is monitoring the currency exposure on the 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*

As at December 31, 2019, if the currency USD had weakened/strengthened by 5% against the EUR with all other variables held constant, revenues would vary by around +/– 1.5% or MEUR +/– 18. Operating profit would not have been significantly changed.

**Operational risk**

*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 as it is constantly exposed to potential strategic M&A activities by the supplier, customers or competitors that may negatively impact the Group's market position.

*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 raw materials,
- Copper,
- Zinc, and
- Aluminum.

Because of the raw material exposure, a change in the prices of these raw materials will have an effect on the Group. During the financial year 2019, the steel, copper, zinc, aluminum, and polymer prices have not fluctuated significantly and after the historically high levels reached in 2018, the prices remained on the stable level which is lower than in the previous year. Nevertheless, the prices can be still 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.

## NOTE 22 RISK MANAGEMENT (CONTINUED)

**Credit risk**

Credit risk is managed on the 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 has had limited loss on receivables. Applying forward-looking information, we do not see any material increase in the credit risk. Refer to note 16.

The automotive industry consists of a limited number of vehicle manufacturers; hence the five biggest customers will be around 37% 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. In the Group's opinion there is no concentration risk; however, due to the number of vehicle manufacturers 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 following 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. FFor information on the unused liquidity reserve, see note 20.

**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 the total balance. The Group has a treasury policy regulating the levels on these key ratios.

## NOTE 23 TRADE AND OTHER PAYABLES

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

| | 2019 | 2018 |
|---|---|---|
| Trade payables | 130.5 | 159.7 |
| Accrued expenses | 52.3 | 60.0 |
| Provisions | 7.9 | 10.1 |
| Other short-term liabilities | 16.4 | 17.9 |
| **Total trade and other payables** | **207.0** | **247.7** |

**Provisions**

| | WARRANTY RESERVE | RESTRUCTURING AND OTHER PROVISIONS | TOTAL 2019 | WARRANTY RESERVE | RESTRUCTURING AND OTHER PROVISIONS | TOTAL 2018 |
|---|---|---|---|---|---|---|
| Opening balance | 3.8 | 6.3 | 10.1 | 6.6 | 11.9 | 18.5 |
| Reclassification | | | | 2.7 | 0.7 | 3.1 |
| P&L charge | 2.5 | 1.9 | 4.3 | (0.3) | (5.2) | (5.5) |
| Payments | (1.0) | (2.3) | (3.3) | (5.3) | (1.1) | (6.1) |
| Release | (2.1) | (1.4) | (3.3) | 0.0 | 0.1 | 0.1 |
| Translation effect | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Closing balance** | **3.2** | **4.6** | **7.9** | **3.8** | **6.3** | **10.1** |

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 (U.S.).

## NOTE 23 TRADE AND OTHER PAYABLES (CONTINUED)

**Maturity structure**

| MEUR | PROVISIONS | ACCRUED EXPENSES | OTHER SHORT-TERM LIABILITIES | TRADE PAYABLES | TOTAL 2019 |
|---|---|---|---|---|---|
| Repayable 0–3 months after year-end | 1.2 | 31.4 | 8.7 | 117.0 | 158.3 |
| Repayable 3–6 months after year-end | 4.0 | 9.8 | 2.0 | 12.9 | 28.8 |
| Repayable 6–9 months after year-end | 0.6 | 7.4 | 0.2 | 0.6 | 8.8 |
| Repayable 9–12 months after year-end | 2.1 | 3.7 | 5.3 | (0.0) | 11.1 |
| **Total** | **7.9** | **52.3** | **16.4** | **130.5** | **207.0** |

## NOTE 24 FINANCIAL INSTRUMENTS

**Classification, measurement, and fair value of financial instruments**

2019

| MEUR | LOANS AND RECEIVABLES AT AMORTIZED COST | FINANCIAL LIABILITIES AT AMORTIZED COST | TOTAL 2019 | NON -FINANCIAL ASSETS AND LIABILITIES |
|---|---|---|---|---|
| Trade and other receivables | 239.0 | | 239.0 | |
| Cash and cash equivalents | 25.2 | | 25.2 | |
| Other current assets | | | (0.0) | 28.3 |
| Interest-bearing loans and borrowings | | (270.5) | (270.5) | |
| Interest-bearing lease liabilities | | (106.0) | (106.0) | |
| Other current interest-bearing liabilities | | (10.0) | (10.0) | |
| Trade and other payables | | (189.1) | (189.1) | (17.9) |
| **Total** | **264.2** | **(575.6)** | **(311.4)** | **10.4** |
| Fair value | 264.2 | (588.1) | (323.9) | 10.4 |
| Unrecognized gain / (loss)* | | (12.5) | (12.5) | |

* Based on level 1 input. The bond was traded at 102.4% of its par value at 31.12.2019 (94.1% at 31.12.2018).

2018

| MEUR | LOANS AND RECEIVABLES AT AMORTIZED COST | FINANCIAL LIABILITIES AT AMORTIZED COST | TOTAL 2018 | NON -FINANCIAL ASSETS AND LIABILITIES |
|---|---|---|---|---|
| Trade and other receivables | 231.2 | | 231.2 | |
| Cash and cash equivalents | 59.2 | | 59.2 | |
| Other current assets | | | 0.0 | 20.7 |
| Interest-bearing loans and borrowings | | (269.4) | (269.4) | |
| Other current interest-bearing liabilities | | (0.1) | (0.1) | |
| Trade and other payables** | | (225.7) | (225.7) | (22.0) |
| **Total** | **290.4** | **(495.2)** | **(204.8)** | **(1.3)** |
| Fair value | 290.4 | (491.3) | (200.9) | (1.3) |
| Unrecognized gain / (loss)* | | 3.9 | 3.9 | |

* based on level 1 input.
** includes MEUR 6.0 of interest liabilities on bond, not included in the financial statements as of 31.12.2018.

## NOTE 25 REMUNERATION AND FEES FOR MANAGEMENT, BOARD OF DIRECTORS (BOD), AND AUDITOR

### Remuneration and fees recognized in the Statement of Comprehensive Income

| MEUR | 2019 | 2018 |
|---|---|---|
| Total remuneration of the Board of Directors | 270.0 | 281.4 |
| Gross base salary to the CEO | 638.2 | 568.2 |
| Bonus to the CEO (short-term incentive) | 0.0 | 556.2 |
| CEO's RSU / option (long-term incentive) | 168.3 | 56.2 |
| Pension costs to the CEO | 103.9 | 91.4 |
| Other remuneration to the CEO | 94.4 | 253.1 |
| Management salaries other than to the CEO | 2,657.7 | 2,400.2 |
| Bonus, RSU, option and other remuneration of management other than the CEO | 711.2 | 1,521.9 |
| Pension costs of management other than the CEO | 269.4 | 257.2 |
| **Total – Board of Directors and Senior Management** | **4,913.1** | **5,985.8** |

### Specification of remuneration to Board of Directors

| NAME | KEUR | COMPENSATION COMMITTEE | AUDIT COMMITTEE | BOD FEES | TOTAL 2019 | TOTAL 2018 |
|---|---|---|---|---|---|---|
| Firas Abi-Nassif* | Chair (from 11.12.2018) | 6.1 | | 51.8 | 57.9 | 3.5 |
| Bruce E. Taylor | Chair (until 11.12.2018) | | | | 0.0 | 63.3 |
| Emese Weissenbacher | Board member (from 15.05.2019) | | 3.6 | 22.3 | 25.9 | 0.0 |
| Ellen M. Hanetho | Board member | | 7.1 | 35.5 | 42.6 | 44.8 |
| Gerard Cordonnier | Board member (from 15.05.2019) | 2.3 | 4.6 | 22.3 | 29.2 | 0.0 |
| Peter Schmitt | Board member (from 15.05.2019) | 2.3 | | 22.3 | 24.6 | 0.0 |
| Ernst F. Kellermann | Board member (until 15.05.2019) | | 3.6 | 13.2 | 16.8 | 44.8 |
| Gunilla Nordstrom | Board member (until 15.05.2019) | 2.3 | | 13.2 | 15.5 | 42.2 |
| Thomas Falck | Board member (until 15.05.2019) | 2.3 | 4.6 | 13.2 | 20.1 | 51.6 |
| Bjørn Ivan Ødegård | Employee representative | | | 11.7 | 11.7 | 10.4 |
| Jon-Ivar Jørnby | Employee representative | 2.3 | | 11.7 | 14.0 | 10.4 |
| Tonje Sivesintajet | Employee representative (from 01.01.2019) | | | 11.7 | 11.7 | 0.0 |
| Kari Brænden Aaslund | Employee representative (until 31.12.2018) | | | | 0.0 | 10.4 |
| **Total – BOD and Senior Management** | | **17.6** | **23.5** | **228.9** | **270.0** | **281.4** |

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

### Specification of remuneration to the Nomination Committee

| NAME | KEUR | 2019 | 2018 |
|---|---|---|---|
| Tor Himberg-Larsen | Committee chairman | 15.1 | 9.3 |
| Hans Trogen | Committee member | 1.9 | 1.9 |
| Heidi Finskas | Committee member | 1.3 | 1.3 |
| **Total – Nomination Committee** | | **18.3** | **12.4** |



## NOTE 25 REMUNERATION AND FEES FOR MANAGEMENT, BOARD OF DIRECTORS (BOD), AND AUDITOR (CONTINUED)

### Specification of remuneration to Senior Management other than Board of Directors

2019

| NAME | KEUR | UNTIL/FROM | BASE SALARY | BONUS | LTI* | PENSION | OTHER** | TOTAL 2019 |
|---|---|---|---|---|---|---|---|---|
| Norbert Loers | CFO | | 404.5 | 0.0 | 69.7 | 63.9 | 55.2 | 593.3 |
| Ralf Voss | President, Interior | | 287.2 | 0.0 | 48.9 | 0.0 | 29.5 | 365.6 |
| Bob Riedford | President, P&C | | 347.6 | 0.0 | 59.5 | 53.0 | 37.2 | 497.3 |
| David Redfearn | EVP, Fluid Transfer | | 180.6 | 0.0 | 27.3 | 41.4 | 7.1 | 256.4 |
| Linda Nyquist-Evenrud | SVP, Couplings | | 169.7 | 0.0 | 26.3 | 7.4 | 0.8 | 204.2 |
| Robert Pigg | SVP, Off-Highway | | 224.5 | 0.0 | 29.4 | 0.0 | 22.6 | 276.5 |
| Jon Munthe | General Counsel | | 190.5 | 0.0 | 25.0 | 7.4 | 0.8 | 223.7 |
| Lovisa Söderholm*** | EVP, Purchasing | Until 01.05.2019 | 55.8 | 0.0 | 1.6 | 18.0 | 1.1 | 76.5 |
| Dzeki Mackinovski | EVP, Purchasing | From 01.05.2019 | 187.0 | 0.0 | 17.5 | 23.9 | 98.2 | 326.6 |
| Marcus von Pock | EVP, HR & Communications | | 273.0 | 0.0 | 34.6 | 31.8 | 35.5 | 374.9 |
| Virginia Grando | EVP, Quality | | 222.2 | 0.0 | 28.3 | 16.4 | 29.9 | 296.8 |
| Doug Tushar*** | SVP, IS&T | From 17.09.2019 | 61.2 | 0.0 | 3.5 | 0.0 | 6.0 | 70.7 |
| Ralf Hoppe | VP | From 01.10.2019 | 53.9 | 0.0 | 0.0 | 6.2 | 15.7 | 75.8 |
| **Total – Senior Management other than CEO** | | | **2,657.7** | **0.0** | **371.6** | **269.4** | **339.6** | **3,638.3** |

* Long-term incentives plans – share based compensation. The amounts represent the expenses accounted for in 2019 according to IFRS 2. The income realized in 2019 by the participants amounts to approximately 20% of the IFRS value.
** Including statutory and social security employer contributions.
*** Value determined on a pro-rata basis.

### Specification of remuneration to Senior Management other than CEO

2018

| NAME | KEUR | UNTIL/FROM | BASE SALARY | BONUS | OPTIONS* | PENSION | OTHER** | TOTAL 2018 |
|---|---|---|---|---|---|---|---|---|
| Norbert Loers | CFO | | 389.6 | 279.7 | 52.4 | 60.9 | 52.2 | 834.8 |
| Ralf Voss | President, Interior | From 16.03.18 | 218.4 | 62.1 | 19.7 | 0.0 | 29.7 | 329.9 |
| Anders Nyström | President, Interior | Until 30.04.18 | 98.4 | 0.0 | 0.0 | 11.8 | 0.0 | 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 | 0.0 | 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 | 0.0 | 11.6 | 339.8 |
| Jon Munthe | General Counsel | | 180.4 | 92.7 | 24.5 | 7.1 | 0.3 | 305.0 |
| Lovisa Söderholm | EVP, Purchasing | | 177.4 | 35.7 | 19.9 | 44.4 | 0.0 | 277.4 |
| Marcus von Pock | EVP, HR & Communications | | 252.8 | 132.0 | 23.3 | 29.4 | 35.0 | 472.5 |
| Virginia Grando | EVP, Quality | | 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.

The Management group participates in a short-term incentive (STI) bonus scheme and a long-term incentive (LTI) scheme. Details of these schemes are in note 27.

## NOTE 25 REMUNERATION AND FEES FOR MANAGEMENT, BOARD OF DIRECTORS (BOD), AND AUDITOR (CONTINUED)

**Outstanding number of share options granted to Senior Management**

| ISSUED IN<br>STRIKE PRICE, NOK<br>EXPIRY YEAR | 2019<br>7.87<br>2029 | 2018<br>10.64<br>2028 | 2016<br>6.20<br>2023 | 2015<br>5.90<br>2022 | 2014<br>5.80<br>2021 | 2013<br>1.50<br>2020 |
|---|---|---|---|---|---|---|
| Henning E. Jensen | 474,081 | 204,291 | 180,753 | | | |
| Norbert Loers | 171,700 | 101,880 | | | | |
| Ralf Voss | 122,602 | 71,432 | | | | |
| Bob Riedford | 147,553 | 86,259 | | | | |
| David Redfearn | 57,307 | 35,768 | 125,000 | 50,000 | 50,000 | 33,334 |
| Linda Nyquist-Evenrud | 52,392 | 28,895 | 15,000 | 15,000 | 15,000 | 12,000 |
| Robert Pigg | 73,002 | 38,519 | 50,000 | 50,000 | | |
| Jon Munthe | 57,261 | 35,089 | 50,000 | 50,000 | | |
| Dzeki Mackinovski | 85,850 | | | | | |
| Lovisa Söderholm | | 33,498 | 125,000 | 41,667 | | |
| Marcus von Pock | 86,903 | 49,582 | | | | |
| Virginia Grando | 70,741 | 40,752 | | | | |
| Doug Tushar* | | 28,164 | | | | |
| Ralf Hoppe | | | | | | |
| **Total options** | **1,399,392** | **754,129** | **545,753** | **206,667** | **65,000** | **45,334** |

* Doug Tushar was in possession of 28,164 share options as of 31.12.2018 that had been granted to him before he was appointed to the management.

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

| ISSUED IN<br>VESTING IN | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| Henning E. Jensen | 274,436 | 68,609 | 68,609 | 137,218 |
| Norbert Loers | 99,396 | 24,849 | 24,849 | 49,698 |
| Ralf Voss | 70,972 | 17,743 | 17,743 | 35,486 |
| Bob Riedford | 85,416 | 21,354 | 21,354 | 42,708 |
| David Redfearn | 33,176 | 8,294 | 8,294 | 16,588 |
| Linda Nyquist-Evenrud | 30,328 | 7,582 | 7,582 | 15,164 |
| Robert Pigg | 42,260 | 10,565 | 10,565 | 21,130 |
| Jon Munthe | 33,148 | 8,287 | 8,287 | 16,574 |
| Dzeki Mackinovski | 49,700 | 12,425 | 12,425 | 24,850 |
| Marcus von Pock | 50,308 | 12,577 | 12,577 | 25,154 |
| Virginia Grando | 40,952 | 10,238 | 10,238 | 20,476 |
| Doug Tushar | | | | |
| Ralf Hoppe | | | | |
| **Total options** | **810,092** | **202,523** | **202,523** | **405,046** |

For more details about the share option plan see note 17.





| ISSUED IN<br>VESTING IN | 2018 | 2020 | 2021 |
|---|---|---|---|
| Henning E. Jensen | 93,298 | 46,649 | 46,649 |
| Norbert Loers | 46,528 | 23,264 | 23,264 |
| Ralf Voss | 32,622 | 16,311 | 16,311 |
| Bob Riedford | 39,394 | 19,697 | 19,697 |
| David Redfearn | 16,336 | 8,168 | 8,168 |
| Linda Nyquist-Evenrud | 13,196 | 6,598 | 6,598 |
| Robert Pigg | 17,592 | 8,796 | 8,796 |
| Jon Munthe | 16,026 | 8,013 | 8,013 |
| Dzeki Mackinovski | | | |
| Marcus von Pock | 22,644 | 11,322 | 11,322 |
| Virginia Grando | 18,612 | 9,306 | 9,306 |
| Doug Tushar | 12,862 | 6,431 | 6,431 |
| Ralf Hoppe | | | |
| **Total RSU** | **329,110** | **164,555** | **164,555** |

**Specification of fees paid to the auditors**

| KEUR | 2019 | 2018 |
|---|---|---|
| Statutory audit services to the Parent company (Deloitte) | 150.4 | 123.9 |
| Audit related services related to the issuance of the bond (Deloitte) | 0.0 | 90.6 |
| Statutory audit services to subsidiaries (Deloitte) | 576.2 | 528.5 |
| Statutory audit services to subsidiaries (Other) | 34.0 | 78.5 |
| Non-audit services (Deloitte) | 56.1 | 99.5 |
| Tax services (Deloitte) | 352.3 | 239.9 |
| **Total** | **1,169.0** | **1,161.0** |

## NOTE 26 SHARES OWNED BY MANAGEMENT AND BOARD OF DIRECTORS AS AT 31.12.2019

**Board of Directors**

| NAME | POSITION | NO. OF SHARES |
|---|---|---|
| Firas Abi-Nassif* | Chair | 0 |
| Ellen M. Hanetho | Board member | 24,017 |
| Emese Weissenbacher | Board member | 0 |
| Gerard Cordonnier | Board member | 0 |
| Peter Schmitt | Board member | 0 |
| Bjørn Ivan Ødegård | Employee representative | 0 |
| Jon-Ivar Jørnby | Employee representative | 0 |
| Tonje Sivesindtajet | Employee representative | 0 |
| **Total number of shares** | | **24,017** |

* Does not personally own shares, but is shareholder of Teleios, which owns 103,846,758 shares.

## NOTE 26 SHARES OWNED BY MANAGEMENT AND BOARD OF DIRECTORS AS AT 31.12.2019 (CONTINUED)

**Senior Management**

| NAME | POSITION | NO. OF SHARES |
|---|---|---|
| Henning E. Jensen | CEO & President | 446,649 |
| Norbert Loers | CFO | 150,000 |
| Ralf Voss | President, Interior | 36,311 |
| Bob Riedford | President, Powertrain & Chassis | 54,724 |
| David Redfearn | EVP, Fluid Transfer | 83,483 |
| Linda Nyquist-Evenrud | SVP, Couplings | 55,298 |
| Robert Pigg | SVP, Off Highway | 52,796 |
| Jon Munthe | General Counsel | 55,595 |
| Dzeki Mackinovski | EVP, Purchasing | 89,500 |
| Marcus von Pock | EVP, Human Resources & Communications | 50,572 |
| Virginia Grando | EVP, Quality | 61,806 |
| **Total number of shares** | | **1,136,734** |

## NOTE 27 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.

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 long-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 and 2019 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. 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

The performance goals for the MIP are recommended by the CC and approved by the Board. The target bonus for the CEO is 80% of gross base salary. The average actual bonus payout in the last five years for the CEO is 43.4% of gross base salary.

For all other participants the individual target bonus ranges – according to role and 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.

For 2019 there was no cash bonus paid to all eligible participants, as the defined fundamental qualifier (related to a certain level of earning) was not reached.

## NOTE 27 STATEMENT OF REMUNERATION OF MANAGEMENT (CONTINUED)

*Special retention program*
As the Company is pursuing multiple potential activities including M&A activities, it was determined that there was a need for securing the continued service of key members of the Company management. Consequently, a retention scheme was introduced until the end of 2022 for the CEO and for selected CEO direct reports in the form of an extension of the employer notice period of 1–3 years for the respective managers.

*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 but only a cash subsidy for taken investments in shares, to ensure a transition into the new LTI system.

The new LTI plan design introduced in 2018 offers 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 the case we clearly outperform this peer group with more than one standard deviation from average, will 100% of granted stock options 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 being granted, 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 was a staggered vesting for each vesting year of one third of the total restricted shares. In 2019 the staggered vesting offered 25% in Year 1, 25% in Year 2, and 50% in Year 3.

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

Approximately 150 executives (mainly our Global Leadership Team, the Senior Leadership Team and managers with confirmed legacy of LTI eligibility) are defined as eligible and 25 key employees at lower levels have been selected; the individual LTI target value is based on the role and responsibility and is increased with higher responsibility/grade (between 70% and 10% of base salary).

In June 2019 the second grant took place and 4.3 million SO and 2.5 million RSU were granted. The acceptance rate of the program was very high with 93% acceptance and 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, 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 legal entity in which they are employed. The CEO has no special retirement agreement.

**Severance pay**
The CEO's agreed period of notice is 6 months.

The CEO has 12 months severance pay (base salary). The employee is not entitled to a 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 CEO direct reports is 6 months.

## NOTE 28 COMMITMENTS AND GUARANTEES

**Commitments**
Due to the implementation of IFRS 16, the Group's operating lease commitments are now disclosed in note 14. In relation to low-value and short-term leases that are not presented as lease liabilities, the Group is committed to an expected expense of MEUR 0.6 in 2020.

**Guarantees**
The issued notes are guaranteed on a senior basis by:
> Parent guarantor (Kongsberg Automotive ASA),
> 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 29 CONTINGENT LIABILITIES

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

**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", was 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 system 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.

## NOTE 30 SUBSEQUENT EVENTS

There are no subsequent events to be reported.

## NOTE 31 RELATED-PARTY TRANSACTIONS

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

**Key management and BoD compensation**
See note 25 – includes remuneration for senior management and Board of Directors .



## STATEMENT OF COMPREHENSIVE INCOME

| MEUR | NOTE | 2019 | 2018 |
|---|---|---|---|
| **Operating revenues** | **24** | **10.5** | **10.1** |
| *Operating expenses* | | | |
| Salaries and social expenses | 5 | (0.2) | (0.2) |
| Other operating expenses | 6 | (5.4) | (8.6) |
| Depreciation and impairment | 10, 11 | (0.0) | 0.0 |
| Amortization and impairment | 9 | (0.6) | (0.5) |
| **Total operating expenses** | | **(6.2)** | **(9.3)** |
| **Operating profit** | | **4.3** | **0.8** |
| *Financial items* | | | |
| Financial income | 7 | 29.7 | 34.1 |
| Financial expenses | 7 | (15.5) | (12.1) |
| **Net financial items** | | **14.2** | **21.9** |
| **Profit before taxes** | | **18.5** | **22.7** |
| Income taxes | 8 | (5.7) | (4.1) |
| **Net profit** | | **12.7** | **18.6** |
| *Other comprehensive income* | | | |
| Translation differences | | 3.0 | (5.3) |
| Remeasurement of net PBO | 14 | (0.0) | 0.0 |
| **Other comprehensive income** | | **3.0** | **(5.3)** |
| **Total comprehensive income for the year** | | **15.7** | **13.5** |

## STATEMENT OF CASH FLOWS

| MEUR | NOTE | 2019 | 2018 |
|---|---|---|---|
| *Operating activities* | | | |
| Profit before taxes | | 18.5 | 22.7 |
| Depreciation | 10 | 0.0 | 0.0 |
| Amortization | 9 | 0.6 | 0.5 |
| Interest income | 7 | (25.3) | (24.1) |
| Interest expenses and other financial expenses | 7 | 14.9 | 9.9 |
| Taxes paid | | (0.9) | (0.1) |
| Changes in trade receivables | 11 | (10.5) | (3.5) |
| Changes in trade payables | 17 | (6.6) | 20.1 |
| Currency differences | 7 | (3.8) | (8.7) |
| Dividends received | 7 | (0.6) | (0.6) |
| Changes in other items [1] | | (3.5) | (0.8) |
| **Cash flow used by / from operating activities** | | **(17.3)** | **15.4** |
| *Investing activities* | | | |
| Capital expenditures, including intangible assets | 9, 10 | (0.0) | (0.3) |
| Proceeds from sale of fixed assets | 9, 10 | (0.2) | 0.0 |
| Repayment of group loans | | 0.0 | (1.1) |
| Investments in subsidiaries | | (8.9) | (48.3) |
| Interest received | 7 | 25.3 | 24.1 |
| Dividends received | 7 | 0.6 | 0.6 |
| **Cash flow from / used by investing activities** | | **16.9** | **(25.0)** |
| *Financing activities* | | | |
| Proceeds from increases in equity | | 0.0 | 35.5 |
| Proceeds from sale / (purchase) of treasury shares | | 0.0 | 0.0 |
| Net drawdown / (repayment) of debt | | 0.0 | (18.7) |
| Interest paid | 7 | (13.9) | (11.1) |
| Dividends paid | | 0.0 | 0.0 |
| Other financial charges / income | | 0.0 | (0.1) |
| **Cash flow used by / from financing activities** | | **(13.9)** | **5.7** |
| **Currency effects on cash** | | **2.3** | **(5.5)** |
| Net change in cash | | (12.0) | (9.4) |
| Net cash at January 1 | | 12.0 | 21.3 |
| **Net cash as at December 31** | | **0.0** | **12.0** |
| Of this, restricted cash | | 0.0 | 0.0 |

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



## STATEMENT OF FINANCIAL POSITION

| MEUR | NOTE | 2019 | 2018 |
|---|---|---|---|
| ASSETS | | | |
| *Non-current assets* | | | |
| Intangible assets | 9 | 0.5 | 1.1 |
| Property, plant and equipment | 10 | 0.0 | 0.0 |
| Right-of-use assets | 11 | 0.1 | 0.0 |
| Investments in subsidiaries | 4 | 307.5 | 267.1 |
| Loans to subsidiaries | 24 | 412.4 | 408.7 |
| Other non-current assets | | 0.2 | 0.2 |
| **Total non-current assets** | | **720.7** | **677.1** |
| *Current assets* | | | |
| Trade and other receivables | 12, 24 | 31.7 | 21.2 |
| Cash and cash equivalents | | 0.0 | 12.0 |
| **Total current assets** | | **31.7** | **33.1** |
| **Total assets** | | **752.4** | **710.2** |
| EQUITY AND LIABILITIES | | | |
| *Equity* | | | |
| Share capital | 13 | 22.7 | 22.5 |
| Treasury shares | 13 | 0.0 | 0.0 |
| Share premium | | 207.6 | 205.8 |
| Other reserves | | (30.4) | (32.8) |
| Retained earnings | | 166.2 | 153.5 |
| **Total equity** | | **366.1** | **349.0** |
| *Non-current liabilities* | | | |
| Deferred tax liabilities | 8 | 21.0 | 20.2 |
| Retirement benefit obligations | 14 | 0.3 | 0.3 |
| Interest-bearing liabilities | 15 | 268.3 | 267.3 |
| **Total non-current liabilities** | | **289.6** | **287.8** |
| *Current liabilities* | | | |
| Current income tax liabilities | 8 | 0.1 | (0.7) |
| Trade and other payables | 17, 24 | 96.6 | 74.1 |
| **Total current liabilities** | | **96.7** | **73.4** |
| **Total liabilities** | | **386.3** | **361.2** |
| **Total equity and liabilities** | | **752.4** | **710.2** |

## STATEMENT OF CHANGES IN EQUITY

| MEUR | SHARE CAPITAL | TREASURY SHARES | SHARE PREMIUM | OTHER RESERVES | RETAINED EARNINGS | TOTAL EQUITY |
|---|---|---|---|---|---|---|
| **Equity as at 01.01.2018** | **20.7** | **(0.1)** | **171.4** | **(32.5)** | **136.7** | **296.2** |
| 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 |
| *Total comprehensive income for the year:* | | | | | | |
| Profit for the year | | | | | 18.6 | 18.6 |
| *Other comprehensive income:* | | | | | | |
| Translation differences | (0.3) | | (3.2) | (1.8) | | (5.3) |
| **Total comprehensive income for the year** | **(0.3)** | **0.0** | **(3.2)** | **(1.8)** | **18.6** | **13.5** |
| **Equity as of 31.12.2018 / 01.01.2019** | **22.5** | **0.0** | **205.8** | **(32.8)** | **153.5** | **349.0** |
| Equity increase | 0.0 | | 0.0 | | | 0.0 |
| Sale of treasury shares | | 0.0 | | 0.0 | | 0.0 |
| Share-based compensation | | | | 1.4 | | 1.4 |
| *Total comprehensive income for the year:* | | | | | | |
| Profit for the year | | | | | 12.7 | 12.7 |
| *Other comprehensive income:* | | | | | | |
| Translation differences | 0.2 | | 1.8 | 1.0 | | 3.0 |
| **Total comprehensive income for the year** | **0.2** | **0.0** | **1.8** | **1.0** | **12.7** | **15.7** |
| **Equity as of 31.12.2019** | **22.7** | **0.0** | **207.6** | **(30.4)** | **166.2** | **366.1** |

* Adjustments due to first implementation of IFRS 9.

## NOTES

### NOTE 1 REPORTING ENTITY

Kongsberg Automotive ASA ('the Company') is a limited liability company incorporated and domiciled in Norway. The address of its registered office is Dyrmyrgata 48, NO-3611 Kongsberg, Norway. The Company is listed on the Oslo Stock Exchange. The Company is the ultimate parent of the Group and serves the purpose of holding company in the Group. The information provided in the consolidated financial statements covers the Company to a significant degree. For a description of the operating activities of the subsidiaries of Kongsberg Automotive ASA, please refer to the consolidated financial statement of the Group. The Company financial statements were authorized for issue by the Board of Directors on February 26, 2020.

### 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 Group's consolidated financial statements. Where the notes for the Company are substantially different from the notes for the Group, it is shown accordingly. Otherwise, refer to the notes to the Group's Consolidated Financial Statements.

### NOTE 4 INVESTMENTS IN SUBSIDIARIES

| Entity name | COUNTRY OF INCORPORATION | OWNERSHIP 2019 | 2019 | 2018 |
|---|---|---|---|---|
| Kongsberg Automotive Holding 2 AS | Norway | 100% | 240.8 | 201.0 |
| KA Group AG | Switzerland | 0% | 53.8 | 53.4 |
| 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 | 0.9 |
| Kongsberg Automotive Driveline System India Ltd | India | 100% | 0.4 | 0.4 |
| 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 |
| **Total investments in subsidiaries** | | | **307.5** | **267.1** |

## NOTE 4 INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

A cash contribution of MUSD 10.0 was granted to Kongsberg Automotive Holding 2 AS to be provided to its U.S.-based subsidiaries as an equity increase. Notes receivables of MEUR 17.1 were contributed to Kongsberg Automotive Holding 2 AS to be provided to its U.S.-based subsidiaries as an equity increase.

Moreover, the Group contribution was granted in the amount of MEUR 11.1.

**Impairment testing**
The Company 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; intercompany loans to group companies, IC receivables. The impairment assessment is made on "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 was 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 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 tested subsidiary.

**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 Group Note 12.

**Impairment test results and conclusion**
Based on the results from the impairment test performed, the Company concluded that there is no requirement for impairment indicated as at 31.12.2019.

## NOTE 5 SALARIES AND SOCIAL EXPENSES

| MEUR | 2019 | 2018 |
|---|---|---|
| Wages and salaries | 0.2 | 0.2 |
| Social security tax | 0.0 | 0.0 |
| Pension cost (defined benefit plans) | (0.1) | 0.0 |
| Pension cost (defined contribution plans) | 0.0 | 0.0 |
| Other employee-related expenses | 0.1 | 0.0 |
| **Total salaries and social expenses** | **0.2** | **0.2** |

The Company had no employees as of 31.12.2019 and there were no employees as of 31.12.2018 either. Wage and salaries comprise directors' fees.

## NOTE 6 OTHER OPERATING EXPENSES

| MEUR | 2019 | 2018 |
|---|---|---|
| *Administrative expenses* | | |
| Leasehold expenses | 0.0 | 0.2 |
| Service costs | 4.2 | 5.4 |
| Consumables | 0.0 | 0.0 |
| Travel costs | 0.0 | 0.2 |
| Other costs* | 1.2 | 2.8 |
| **Total other operating expenses** | **5.4** | **8.6** |

* Includes write-down and loss on Group loans and receivables in 2018.

## NOTE 7 FINANCIAL ITEMS

| MEUR | 2019 | 2018 |
|---|---|---|
| Dividend and other financial income | 0.6 | 0.6 |
| Gain from derecognition of financial liabilities measured at amortized cost* | 0.0 | 0.7 |
| Foreign currency gains** | 3.8 | 8.7 |
| Interest income | 25.3 | 24.1 |
| **Total financial income** | **29.7** | **34.1** |
| Interest expense | (15.5) | (12.1) |
| Other items | (0.0) | 0.0 |
| **Total financial expenses** | **(15.5)** | **(12.1)** |
| **Total financial items** | **14.2** | **21.9** |

* Repayment of bank loans in 2018.
** Includes unrealized currency gain of MEUR 3.9 (2018: unrealized gain of MEUR 3.8).

## NOTE 8 TAXES

**Tax recognized in Statement of Income**
The major components of income tax expense:

| MEUR | 2019 | 2018 |
|---|---|---|
| Current tax on profits for the year* | (3.3) | (3.4) |
| Adjustments in respect of prior years – current tax | (1.7) | 3.0 |
| **Total current tax expense** | **(5.0)** | **(0.4)** |
| Current year change in deferred tax | (0.7) | (1.7) |
| Impact of changes in tax rates | 0.0 | 1.0 |
| Adjustments in respect of prior years – deferred tax | 0.0 | (3.0) |
| **Total change in deferred tax** | **(0.7)** | **(3.7)** |
| **Total income tax expense** | **(5.7)** | **(4.1)** |

* Includes withholding tax.

**Tax recognized in other comprehensive income**
No tax was recognized in other comprehensive income in 2019 and 2018.

## NOTE 8 TAXES (CONTINUED)

**Reconciliation of Norwegian nominal statutory tax rate to effective tax rate**

| MEUR | 2019 | 2018 |
|---|---|---|
| **Profit / (loss) before taxes** | **18.5** | **22.7** |
| Expected tax calculated at Norwegian tax rate | (4.0) | (5.2) |
| Dividends (permanent differences) | 0.0 | 0.1 |
| Other permanent differences / currency | 0.0 | (0.3) |
| Effect of withholding tax | 0.0 | (0.2) |
| Impact of changes in tax rates and legislation | 0.0 | 1.0 |
| Adjustments in respect of prior years and other adjustments | (1.7) | 0.5 |
| **Income tax (expense) / credit** | **(5.7)** | **(4.1)** |
| **Average effective tax rate** | **31%** | **18%** |

**Tax recognized in the Statement of Financial Position**

**Current tax**

| MEUR | 2019 | 2018 |
|---|---|---|
| Current income tax receivables | 0.0 | 0.7 |
| Current income tax liabilities | (0.1) | 0.0 |
| **Total** | **(0.1)** | **0.7** |

**Deferred tax**

| MEUR | 2019 | 2018 |
|---|---|---|
| Deferred tax liability | (21.0) | (20.2) |
| **Total** | **(21.0)** | **(20.2)** |

Deferred tax positions are netted within the entity.



## NOTE 8 TAXES (CONTINUED)

**Specification of deferred tax assets / (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 | 1.2 | 0.0 | 0.0 | 0.0 | 0.0 | 1.2 |
| Losses | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Account receivables | 1.1 | 0.0 | 0.0 | 0.0 | 0.0 | 1.1 |
| Unrealized FX on long-term receivables / payables | (22.7) | (1.0) | 0.0 | 0.0 | (0.2) | (23.9) |
| Other temporary differences | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.5 |
| **Net deferred tax asset / (liability)** | **(20.3)** | **(0.5)** | **0.0** | **0.0** | **(0.2)** | **(21.0)** |

**Tax positions not recognized**
The Company had no unrecognized positions in 2019 and 2018.

**Remaining lifetime of tax losses (net tax value)**
The Company had no tax loss carry-forwards in 2019 and 2018.

## NOTE 9 INTANGIBLE ASSETS

| MEUR | CUSTOMER RELATIONSHIPS | SOFTWARE AND OTHER | TOTAL |
|---|---|---|---|
| Cost 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 on cost | 0.0 | (0.1) | (0.1) |
| **Acquisition costs at 31.12.2018** | **0.2** | **4.4** | **4.6** |
| Accumulated amortization 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 on amortization | 0.0 | 0.0 | 0.1 |
| **Accumulated amortization 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 at 31.12 2018** | **0.0** | **1.1** | **1.1** |
| Cost at 01.01.2019 | 0.2 | 4.4 | 4.6 |
| Additions | 0.0 | 0.0 | 0.0 |
| Disposals accumulated cost | 0.0 | 0.0 | 0.0 |
| Translation differences | 0.0 | 0.0 | 0.0 |
| **Acquisition costs at 31.12.2019** | **0.2** | **4.4** | **4.6** |
| Accumulated amortization at 01.01.2019 | (0.2) | (3.3) | (3.5) |
| Amortization / impairment loss | 0.0 | (0.6) | (0.6) |
| Disposals accumulated amortization | 0.0 | 0.0 | 0.0 |
| Translation differences | (0.0) | (0.0) | (0.0) |
| **Accumulated amortization at 31.12.2019** | **(0.2)** | **(3.9)** | **(4.1)** |
| Cost | 0.2 | 4.4 | 4.6 |
| Accumulated amortization | (0.2) | (3.9) | (4.1) |
| **Book value at 31.12 2019** | **0.0** | **0.5** | **0.5** |

## NOTE 10 PROPERTY, PLANT AND EQUIPMENT (PP&E)

| MEUR | EQUIPMENT |
|---|---|
| Cost at 01.01.2018 | 0.8 |
| Additions | 0.0 |
| Disposals accumulated cost | 0.0 |
| Translation differences | 0.0 |
| **Acquisition costs at 31.12.2018** | **0.8** |
| Accumulated depreciation at 01.01.2018 | (0.8) |
| Depreciation / impairment loss | 0.0 |
| Disposals accumulated depreciation | 0.0 |
| Translation differences | 0.0 |
| **Accumulated depreciation at 31.12.2018** | **(0.8)** |
| Cost | 0.8 |
| Accumulated depreciation | (0.8) |
| **Book value at 31.12.2018** | **0.0** |
| Cost at 01.01.2019 | 0.8 |
| Additions | 0.0 |
| Disposals accumulated cost | 0.0 |
| Translation differences | 0.0 |
| **Acquisition costs at 31.12.2019** | **0.8** |
| Accumulated depreciation at 01.01.2019 | (0.8) |
| Depreciation / impairment loss | (0.0) |
| Disposals accumulated depreciation | 0.0 |
| Translation differences | (0.0) |
| **Accumulated depreciation at 31.12.2019** | **(0.8)** |
| Cost | 0.8 |
| Accumulated depreciation | (0.8) |
| **Book value at 31.12.2019** | **0.0** |

## NOTE 11 RIGHT-OF-USE ASSETS

| MEUR | BUILDINGS | TOTAL |
|---|---|---|
| Cost at 01.01.2019 | 0.0 | 0.0 |
| Additions | 0.2 | 0.2 |
| Disposals accumulated cost | 0.0 | 0.0 |
| **Acquisition costs at 31.12.2019** | **0.2** | **0.2** |
| Accumulated depreciation at 01.01.2019 | 0.0 | 0.0 |
| Depreciation | (0.1) | (0.1) |
| Disposals accumulated depreciation | 0.0 | 0.0 |
| **Accumulated depreciation at 31.12.2019** | **(0.1)** | **(0.1)** |
| Cost | 0.2 | 0.2 |
| Accumulated depreciation | (0.1) | (0.1) |
| **Book Value at 31.12 2019** | **0.1** | **0.1** |

**Lease liabilities**

| MEUR | 2019 | 2018 |
|---|---|---|
| Non-current lease liabilities | 0.1 | 0.0 |
| Current lease liabilities | 0.0 | 0.0 |
| **Total lease liabilities** | **0.1** | **0.0** |

**Maturity analysis – contractual undiscounted cash flows**

| MEUR | 2019 | 2018 |
|---|---|---|
| Within one year | 0.1 | 0.0 |
| One to five years | 0.1 | 0.0 |
| More than five years | 0.0 | 0.0 |
| **Total lease liabilities** | **0.2** | **0.0** |

## NOTE 12 TRADE AND OTHER RECEIVABLES

**Specification of trade and other receivables**

During 2019, the Group changed from a notional cash pool under Kongsberg Automotive ASA to a physical cash pool with KA Group AG as the master header for the Group and Kongsberg Automotive ASA as a sub-header for some of the European entities. Therefore, the Company held no cash as at 31 December 2019 and its cash held by KA Group AG was included as In-house bank under trade and other receivables.

| MEUR | 2019 | 2018 |
|---|---|---|
| Trade receivables | 0.0 | 0.0 |
| Short-term Group loans and receivables | 20.5 | 21.0 |
| In-house bank | 11.1 | 0.0 |
| Other short-term receivables | 0.0 | 0.0 |
| **Receivables** | **31.6** | **21.0** |
| Prepayments | 0.1 | 0.1 |
| **Total trade and other receivables** | **31.7** | **21.2** |

## NOTE 12 TRADE AND OTHER RECEIVABLES (CONTINUED)

**Receivables by currency**

| MEUR | 2019 | 2018 |
|---|---|---|
| EUR | 18.7 | 10.4 |
| USD | 11.5 | 10.0 |
| NOK | 1.5 | 0.6 |
| Other | 0.0 | 0.1 |
| **Total trade and other receivables** | **31.7** | **21.0** |

## NOTE 13 SHARE CAPITAL

Refer to note 17 in the Group's statements.

## NOTE 14 RETIREMENT BENEFIT OBLIGATIONS

**Retirement benefit obligations recognized in the Statement of Financial Position**

| MEUR | 2019 | 2018 |
|---|---|---|
| Defined benefit pension obligation | 0.0 | 0.1 |
| Top hat, retirement provisions and other employee obligations | 0.3 | 0.2 |
| **Retirement benefit obligations** | **0.3** | **0.3** |

**Defined benefit scheme – assumptions**

| MEUR | 2019 | 2018 |
|---|---|---|
| Discount rate | 2.6% | 2.6% |
| Rate of return on plan assets | 2.6% | 2.6% |
| Salary increases | 2.8% | 2.8% |
| Increase in basic government pension amount | 2.5% | 2.5% |
| Pension increase | 2.5% | 2.5% |

**Defined benefit scheme – net periodic pension cost**

The Company had no defined benefit scheme – net periodic pension costs in 2019 and 2018.

## NOTE 14 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

**Defined benefit scheme – net pension liability**

| MEUR | 2019 | 2018 |
|---|---|---|
| *Pension liabilities and assets:* | | |
| Projected benefit obligation (PBO) | 0.0 | 0.1 |
| Fair value of pension assets | 0.0 | 0.0 |
| Unrecognized effects | 0.0 | 0.0 |
| **Net pension liability before social security taxes** | **0.0** | **0.1** |
| Social security taxes liabilities | 0.0 | 0.0 |
| **Net pension liability** | **0.0** | **0.1** |

**Specification of carrying value of net pension liability**

| MEUR | 2019 | 2018 |
|---|---|---|
| Retirement benefit obligation | 0.0 | 0.1 |
| Retirement benefit asset | 0.0 | 0.0 |
| **Net pension liability** | **0.0** | **0.1** |

**Defined benefit scheme – change in net pension liability**

| MEUR | 2019 | 2018 |
|---|---|---|
| Net pension liability as at 01.01. | 0.1 | 0.1 |
| Pension cost for the year | 0.0 | 0.0 |
| Remeasurement of net defined benefit liability | (0.0) | 0.0 |
| Paid pensions | (0.1) | 0.0 |
| Pension plan contributions | 0.0 | 0.0 |
| Translation differences | 0.0 | (0.1) |
| **Net pension liability as at 31.12.** | **0.0** | **0.1** |

**Expected pension payment:**
No pension payment for 2020 is expected as the net pension liability as of 31.12.2019 amounted to MEUR 0.0.

## NOTE 15 INTEREST-BEARING LIABILITIES

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

| MEUR | 2019 | 2018 |
|---|---|---|
| Non-current interest-bearing loans* | 274.0 | 274.0 |
| Capitalized arrangement fees** | (5.8) | (6.7) |
| Interest-bearing lease liabilities | 0.1 | 0.0 |
| **Total interest-bearing liabilities** | **268.3** | **267.3** |

* relates to the loan granted by KA Group AG.
** relates to the bond fees paid by Kongsberg Automotive ASA on behalf of Kongsberg Actuation Systems BV.

**Specification of total interest-bearing liabilities**

| MEUR | 2019 | 2018 |
|---|---|---|
| EUR | 274.0 | 274.0 |
| NOK | 0.1 | 0.0 |
| Capitalized arrangement fee | (5.8) | (6.7) |
| **Total interest-bearing liabilities** | **268.3** | **267.3** |

**Changes in non-current interest-bearing liabilities**

| MEUR | 2019 | 2018 |
|---|---|---|
| Opening balance at 01.01. | 267.3 | 256.5 |
| Net cash flows | 0.0 | (18.3) |
| Foreign exchange movement | (2.4) | (5.7) |
| Translation effect | 2.4 | 6.5 |
| Other | 1.0 | 28.2 |
| **Closing balance at 31.12.** | **268.3** | **267.3** |

## NOTE 16 RISK MANAGEMENT

The Company's risk management is an integral part of the Group's risk management. Refer to note 22 of the Group's statements for further information.

**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**
The Company is exposed to very limited interest risk.

## NOTE 17 TRADE AND OTHER PAYABLES

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

| MEUR | 2019 | 2018 |
|---|---|---|
| Trade payables | 0.1 | 1.6 |
| Short-term group liabilities | 95.4 | 71.3 |
| Accrued expenses | 1.1 | 1.2 |
| **Total trade and other payables** | **96.6** | **74.1** |

**Provisions**
The Company had no provisions as of December 31, 2019 and December 31, 2018.

**Maturity structure**

| MEUR | ACCRUED EXPENSES | TRADE PAYABLES | TOTAL 2019 |
|---|---|---|---|
| Repayable 0–3 months after year-end | 0.7 | 0.1 | 0.8 |
| Repayable 3–6 months after year-end | 0.0 | 0.0 | 0.0 |
| Repayable 6–9 months after year-end | 0.2 | 0.0 | 0.2 |
| Repayable 9–12 months after year-end | 0.2 | 0.0 | 0.2 |
| **Total** | **1.1** | **0.1** | **1.3** |

## NOTE 18 REMUNERATION AND FEES FOR MANAGEMENT, BOARD OF DIRECTORS, AND AUDITORS

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

## NOTE 19 SHARES OWNED BY MANAGEMENT AND BOARD OF DIRECTORS AS AT DECEMBER 31, 2019

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

## NOTE 20 STATEMENT OF REMUNERATION OF MANAGEMENT

Refer to note 27 in the Group's consolidated financial statements.

## NOTE 21 COMMITMENTS AND GUARANTEES

**Guarantees**
Some subsidiaries require a financial support guarantee from the Parent company to satisfy the going concern assumption.
The Company has issued guarantees towards suppliers of subsidiaries.
The risk exposure is assessed to be immaterial.
In relation to the offering of Senior Secured Notes, the Company is the parent guarantor.



## NOTE 22 CONTINGENT LIABILITIES

Refer to note 29 in the Group's consolidated financial statements.

## NOTE 23 SUBSEQUENT EVENTS

There are no subsequent events to be reported.

## NOTE 24 RELATED-PARTY TRANSACTIONS

The Group's ultimate parent is Kongsberg Automotive ASA. The Company has carried out the following transactions with related parties:

**Specification of revenues – Type of services**

| MEUR | 2019 | 2018 |
|---|---|---|
| Group benefit fees from subsidiaries | 2.8 | 2.8 |
| Service fee from KA AG | 7.7 | 7.2 |
| Other revenues | 0.0 | 0.1 |
| **Operating revenues** | **10.5** | **10.1** |

Since 2017, the Group benefit fee has been replaced by a new service fee from KA Group AG covering KA ASA's services benefiting the Group. From 2018 onwards, the Group benefit fee comprises trademark fees from KA Group AG.

**Specification of revenues – Revenues by geographical location**

| MEUR | 2019 | 2018 |
|---|---|---|
| Switzerland | 10.5 | 10.0 |
| Sweden | 0.0 | 0.1 |
| **Operating revenues** | **10.5** | **10.1** |

## NOTE 24 RELATED-PARTY TRANSACTIONS (CONTINUED)

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

| MEUR | 2019 | 2018 |
|---|---|---|
| Kongsberg Automotive Holding 2 AS | 355.8 | 351.9 |
| Kongsberg Automotive Sp. z.o.o. | 18.6 | 18.6 |
| Kongsberg Automotive AB | 11.0 | 11.2 |
| Kongsberg Actuation Systems S.L. | 10.0 | 10.0 |
| Kongsberg Automotive Slovakia s.r.o. | 10.0 | 10.0 |
| Other Group companies | 7.0 | 7.0 |
| **Total outstanding loans to other Group companies** | **412.4** | **408.7** |

Most of the 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. Margins on new intercompany loans are determined according to Moody's rating methodology.

**Short-term Group receivables**

| MEUR | 2019 | 2018 |
|---|---|---|
| Kongsberg Automotive Hong Kong Ltd | 11.2 | 8.4 |
| Kongsberg Automotive (Wuxi) Ltd. | 3.8 | 3.8 |
| KA Group AG | 0.5 | 2.9 |
| Kongsberg Automotive Holding 2 AS | (0.0) | 1.3 |
| Kongsberg Automotive Driveline Systems (India) Private Ltd | 0.8 | 0.9 |
| Other Group companies | 4.2 | 3.6 |
| **Total outstanding short-term receivables from other Group companies** | **20.5** | **21.0** |

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 liabilities with other Group companies**

| MEUR | 2019 | 2018 |
|---|---|---|
| Trade and other payable Group companies* | 95.4 | 71.3 |
| **Total** | **95.4** | **71.3** |

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

# CORPORATE GOVERNANCE


# CORPORATE GOVERNANCE

## 1 IMPLEMENTATION OF THE PRINCIPLES FOR CORPORATE GOVERNANCE

Kongsberg Automotive (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 is 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. 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 website.

## 2 DEFINITION OF KA'S BUSINESS

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

*The company's objective is to engage in the engineering industry and other activities naturally related thereto, and the company shall emphasize development, marketing and manufacturing of products to the car industry. The company shall be managed in accordance with general business practice. The company may co-operate 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 November 26, 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 on May 15, 2019, granted a mandate to the Board of Directors to increase the share capital by up to NOK 22,372,247 for the purposes of acquiring funding for the Company's operations or acquisition of other enterprises or enabling 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 General Meeting of May 15, 2019, further granted a mandate to purchase up to 44,744,494 own shares.

The above mandates are time limited and expire at the earlier of the next ordinary General Meeting or June 30, 2020.

## 4 EQUAL TREATMENT OF SHAREHOLDERS & TRANSACTIONS WITH RELATED PARTIES

KA has only one class of shares and all shareholders in KA enjoy equal rights. Transactions in own shares are generally 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, an 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. An 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 2019 between the Company's shareholders, board directors or members of the executive management, or parties closely associated with such parties and the Company.

## 5 SHARES AND NEGOTIABILITY

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 website: www.kongsbergautomotive.com no later than 21 days prior to the meeting. Furthermore, the 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 website at the same time. The supporting material is 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 website.

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 are available on the website. The form of proxy includes provisions that allows for instructions on the voting on each individual agenda item. 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 website will further provide information regarding the right of 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 five of the Act on Public Limited Liability Companies.

## 7 THE NOMINATION COMMITTEE

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

The members of the Nomination Committee for 2019/2020 are Tor Himberg-Larsen (chairman), Synnøve Gjønnes (replacing 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 three members elected by the General Meeting for three 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 website. The Committee's nominations and recommendations shall be enclosed with the summons for the General Meeting and also be available on the Company's website. The Nomination Committee stays in regular 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 meets the Company's needs for expertise, capacity and diversity.

Information about the Nomination Committee and the deadlines for submitting proposals to the Nomination Committee is available on the Company's website where the shareholders are encouraged to propose candidates for directorships.

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

## 8 BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The Board of Directors shall, according to the Articles of Association of the Company, consist of three to nine members of whom up to five 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, Emese Weissenbacher, Gerard Cordonnier, and Peter Schmitt. The following directors are elected by and among the employees: Tonje Sivesindtajet, Bjørn Ivan Ødegaard, and Jon-Ivar Jørnby.

All directors of the Board elected by the General Meeting are elected for periods of up to two years and are eligible for re-election. 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. More than two of the board directors elected by the General Meeting are independent of the main shareholders.

Participation in board meetings and board committees in 2019 was as follows:

| | BOARD MEETINGS | COMPENSATION COMMITTEE | AUDIT COMMITTEE |
|---|---|---|---|
| FIRAS ABI-NASSIF | 11 | 5 | |
| ELLEN M. HANETHO | 11 | | 6 |
| EMESE WEISSENBACHER[1)] | 5 | | 1 |
| GERARD CORDONNIER[1)] | 7 | 2 | 3 |
| PETER SCHMITT[1)] | 7 | 2 | |
| THOMAS FALCK[2)] | 3 | 3 | 3 |
| GUNILLA NORDSTROM[2)] | 4 | 3 | |
| ERNST KELLERMANN[2)] | 4 | | 3 |
| TONJE SIVESINDTAJET | 11 | | |
| JON-IVAR JØRNBY | 11 | 2 | |
| BJØRN IVAN ØDEGÅRD | 11 | | |

[1)] Elected May 15, 2019

[2)] January 1 to May 15, 2019

Information about the shareholdings of the directors of the Board is included in the annual report and also available on the Company's website.

## 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 establishment 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 website. The Board schedules at least six 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 usually 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 are 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 BoD 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, is kept informed on current status and approves 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 in 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 a 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 sets presidency for a distinctive reporting throughout the Group. The KA reporting process follows a standard schedule applicable to all reporting units.

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 and are not granted any shares of Kongsberg Automotive ASA (KOA:NO) or share options. The Board directors were not awarded any KOA shares in 2019. The Board directors did not receive any compensation from the Company other than the remuneration for the directorship and remuneration for Board committees work as described in note 25.

## 12 REMUNERATION TO THE EXECUTIVE MANAGEMENT

The Board of Directors has established guidelines for the remuneration to the executive management. The remuneration to the management is further reviewed annually by the Board and the Compensation Committee. The guidelines are available on the Company's website 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 compliance with the requirement for equal treatment of all participants in the securities market. A financial calendar for the Company is available on the Company's website.

All information distributed to the shareholders is made available simultaneously on the Company's website.

## 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 website.

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 the 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.

February 26, 2020



# DECLARATION TO THE **ANNUAL REPORT 2019**

Responsibility Statement

The Chief Executive Officer and the Board of Directors confirm, to the best of their knowledge, that the financial statements for the period January 1 to December 31, 2019, have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the organization's and the Group's assets, liabilities, financial position, and profit or loss of the entity and the Group taken as a whole. They 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 26, 2020
The Board of Directors and President and CEO of Kongsberg Automotive ASA

**Firas Abi-Nassif**
Chairman

**Emese Weissenbacher**
Board member

**Ellen M. Hanetho**
Board member

**Gerard Cordonnier**
Board member

**Peter Schmitt**
Board member

**Tonje Sivesindtajet**
Employee elected

**Jon-Ivar Jørnby**
Employee elected

**Bjørn Ivan Ødegård**
Employee elected

**Henning E. Jensen**
President and CEO

# **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, which comprise:

- The financial statements of the parent company Kongsberg Automotive ASA (the Company), which comprise the statement of financial position as at 31 December 2019, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 2019, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 2019, 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 2019, 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.

The key audit matter identified in our audit is:

- Carrying value of goodwill

*Carrying value of goodwill*

| **Key audit matter** | **How the matter was addressed in the audit** |
|---|---|
| Refer to note 12 to the Group financial statements for description of management's impairment testing process and key assumptions.<br><br>As disclosed in note 12 the carrying value of goodwill amounted to EUR 149.1 million at 31 December 2019.<br><br>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 2019 year-end testing did not identify any impairment charge. However, as disclosed in note 12, the recoverable values for Driveline Systems and Light Duty Cable are sensitive to adverse changes in the assumptions used by management.<br><br>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.<br><br>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 cash generating units (CGU) and the level of management judgement involved, this has been identified as a key audit matter. | 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:<br>• We obtained a detailed understanding of management's process for performing the CGU impairment assessment. As part of this we assessed the design and implementation of the key controls.<br>• We tested the methodology applied to estimate recoverable values as compared to the requirements of IAS 36, Impairment of assets;<br>• We tested the mathematical accuracy of management's impairment models;<br>• We obtained an understanding of and assessed the basis for the key assumptions for the Group's three-year strategic plan;<br>• We evaluated and challenged management's cash flow forecasting included in the three-year plan and the growth rate beyond with reference to the recent and historical performance of the CGU's and external market forecasts and by performing sensitivity analysis;<br>• We assessed the discount rate applied by benchmarking against independent data. |

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| *Carrying value of goodwill* | |
|---|---|
| **Key audit matter** | **How the matter was addressed in the audit** |
| | We used Deloitte valuation specialists in our audit of the carrying value of goodwill.<br><br>We considered the appropriateness of the related disclosures provided in note 12. |

*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.



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*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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.

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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, 26 February 2020
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 neither 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
- Adjusted 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. As such, the IFRS effect in 2019 has not been excluded from this measurement; however, 2018 figures have not been restated. 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.

**2019**

| MEUR | INTERIOR PRODUCTS | POWERTRAIN & CHASSIS | SPECIALTY PRODUCTS | OTHERS | GROUP |
|---|---|---|---|---|---|
| **Operating profit** | **9.8** | **18.7** | **56.8** | **(22.8)** | **62.4** |
| Restructuring costs | 0.5 | 0.2 | (0.9) | 0.0 | (0.2) |
| Additional salaries and social expenses | 0.0 | (0.0) | 0.0 | 0.6 | 0.6 |
| Other additional operating expenses | 0.0 | 0.0 | 3.0 | 5.1 | 8.1 |
| **Adjusted EBIT** | **10.3** | **19.0** | **58.8** | **(17.2)** | **70.9** |
| *Adjusted EBIT margin* | *3.4%* | *4.1%* | *14.9%* | | *6.1%* |

**2018**

| MEUR | INTERIOR PRODUCTS | POWERTRAIN & CHASSIS | SPECIALTY PRODUCTS | OTHERS | GROUP |
|---|---|---|---|---|---|
| **Operating profit** | **8.3** | **7.9** | **59.4** | **(21.9)** | **53.7** |
| Restructuring costs | 0.4 | (0.3) | 0.2 | 0.0 | 0.3 |
| Additional salaries and social expenses | 0.2 | 1.9 | 0.7 | 0.1 | 2.9 |
| Other additional operating expenses | 3.6 | 3.4 | 6.3 | 4.4 | 17.7 |
| **Adjusted EBIT** | **12.5** | **13.0** | **66.6** | **(17.4)** | **74.7** |
| *Adjusted EBIT margin* | *4.4%* | *3.0%* | *16.6%* | | *6.7%* |

## 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.

**2019**

| MEUR | INTERIOR PRODUCTS | POWERTRAIN & CHASSIS | SPECIALTY PRODUCTS | OTHERS | GROUP |
|---|---|---|---|---|---|
| **Operating profit** | **9.8** | **18.7** | **56.8** | **(22.8)** | **62.4** |
| Depreciation | 12.9 | 16.2 | 11.7 | 2.1 | 42.9 |
| Amortization | 0.6 | 2.9 | 1.0 | 0.6 | 5.1 |
| **EBITDA** | **23.3** | **37.9** | **69.4** | **(20.2)** | **110.4** |
| Restructing items | 0.5 | 0.2 | 2.1 | 5.6 | 8.5 |
| **Adjusted EBITDA** | **23.8** | **38.1** | **71.5** | **(14.6)** | **118.9** |
| *Adjusted EBITDA margin* | *7.8%* | *8.3%* | *18.1%* | | *10.2%* |

**2018**

| MEUR | INTERIOR PRODUCTS | POWERTRAIN & CHASSIS | SPECIALTY PRODUCTS | OTHERS | 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** |
| Restructing items | 4.2 | 5.1 | 7.2 | 4.6 | 21.0 |
| **Adjusted EBITDA** | **23.4** | **28.2** | **75.1** | **(16.4)** | **110.3** |
| *Adjusted EBITDA margin* | *8.2%* | *6.4%* | *18.8%* | | *9.8%* |

## Free Cash Flow

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

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 | 2019 | 2018 |
|---|---|---|
| Cash flow from operating activities | 51.4 | 43.2 |
| Cash flow used by investing activities | (63.3) | (70.0) |
| Cash flow used by / from financing activities | (22.9) | 44.9 |
| Net drawing / (repayment) of debt | 1.6 | (11.2) |
| **Free Cash Flow** | **(33.2)** | **6.9** |

## NIBD

Net Interest-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 | 2019 | 2018 |
|---|---|---|
| Interest-bearing loans and borrowings | 270.5 | 269.4 |
| Interest-bearing lease liabilities | 92.2 | 0.0 |
| Other short-term liabilities, interest-bearing | 23.8 | 0.1 |
| Cash and cash equivalents | (25.2) | (59.2) |
| **Net Interesting-Bearing Debt** | **361.3** | **210.2** |

## 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 | 2019 | 2018 |
|---|---|---|
| Total assets | 927.0 | 820.2 |
| Deferred tax liabilities | (21.8) | (23.6) |
| Other long term liabilities | (21.6) | (21.9) |
| Current liabilities incl. other short-term interest bearing liabilities | (237.9) | (251.8) |
| **Capital Employed** | **645.6** | **522.9** |

## ADJUSTED ROCE

Return on Capital Employed (ROCE) is based on the 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 | | 2019 | | 2018 |
|---|---|---|---|---|
| Capital Employed beginning* (1) | 01.01.2019 | 629.2 | 01.01.2018 | 450.8 |
| Capital Employed at end (2) | 31.12 2019 | 645.6 | 31.12 2018 | 522.9 |
| Adjusted EBIT last twelve months (3) | | 70.9 | | 74.7 |
| **Adjusted ROCE** (3) / ((1)+(2))*2 | | **11.1%** | | **15.3%** |

* Capital Employed as at 01.01.2019 includes the right-of-use assets of MEUR 106.3 resulting from the adoption of IFRS 16 standard.

# CONSOLIDATED **KEY FINANCIAL DATA**

| | | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| *Operations and profit* | | | | | | |
| 1 Operating revenues | (MEUR) | 1,160.9 | 1,123.1 | 1,056.6 | 985.7 | 1,016.0 |
| 2 Depreciation and amortization | (MEUR) | 48.0 | 35.6 | 45.4 | 45.1 | 66.1 |
| 3 Operating profit | (MEUR) | 62.4 | 53.7 | 23.8 | 18.3 | 32.4 |
| 4 Profit before taxes | (MEUR) | 43.5 | 38.5 | 6.4 | 19.3 | 3.7 |
| 5 Net profit | (MEUR) | 28.8 | 23.8 | (8.0) | 1.3 | (8.3) |
| 6 Cash flow from operating activities | (MEUR) | 51.4 | 43.2 | 38.3 | 70.8 | 73.5 |
| 7 Investment in property, plant and equipment | (MEUR) | 63.5 | 63.9 | 47.4 | 48.1 | 41.0 |
| 8 Development expenses, gross | (MEUR) | 53.7 | 63.2 | 67.4 | 80.9 | 70.5 |
| 9 Development expenses, net | (MEUR) | 43.0 | 46.8 | 55.0 | 64.3 | 55.2 |
| *Profitability* | | | | | | |
| 10 EBITDA margin | % | 9.5 | 8.0 | 6.5 | 6.4 | 9.7 |
| 11 Operating margin | % | 5.4 | 4.8 | 2.3 | 1.9 | 3.2 |
| 12 Net profit margin | % | 2.5 | 2.1 | (0.8) | 0.1 | (0.8) |
| 13 Return on total assets | % | 7.1 | 7.0 | 3.4 | 2.7 | 4.7 |
| 14 Return on capital employed (ROCE) | % | 11.1 | 11.1 | 5.3 | 4.0 | 7.0 |
| 15 Return on equity | % | 10.7 | 10.7 | (4.0) | 0.6 | (3.9) |
| *Capital as at 31.12.* | | | | | | |
| 16 Total assets | (MEUR) | 927.0 | 820.2 | 721.9 | 691.6 | 684.1 |
| 17 Capital employed | (MEUR) | 645.6 | 522.9 | 448.5 | 447.0 | 468.1 |
| 18 Total equity | (MEUR) | 282.9 | 253.5 | 190.7 | 208.6 | 214.2 |
| 19 Equity ratio | % | 30.5 | 30.9 | 26.4 | 30.2 | 31.3 |
| 20 Liquidity reserve | (MEUR) | 64.4 | 109.1 | 105.4 | 140.8 | 125.2 |
| 21 Long-term interest-bearing debt | (MEUR) | 362.7 | 269.4 | 257.8 | 238.4 | 253.9 |
| 22 Interest coverage ratio | | 2.8 | 3.0 | 1.4 | 2.3 | 1.1 |
| 23 Current ratio (Banker's ratio) | | 1.7 | 1.7 | 1.5 | 1.6 | 1.8 |
| *Personnel* | | | | | | |
| 24 Number of employees as at 31.12. | | 10,908 | 11,401 | 10,482 | 9,791 | 10,004 |

**Definitions**

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

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