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KONGSBERG

INFORMATION MEMORANDUM

KONGSBERG GRUPPEN ASA

(organisation number 943 753 709)

The information contained in this information memorandum (the "**Information Memorandum**") relates to the acquisition of the commercial marine business carried out by Rolls-Royce (as defined below) ("**Rolls-Royce Commercial Marine**") by Kongsberg Gruppen ASA, a public limited liability company existing under the laws of Norway (the "**Company**" or "**Kongsberg Gruppen**", and, together with its consolidated subsidiaries, the "**Group**" or "**Kongsberg**") (the "**Transaction**").

This Information Memorandum serves as an information memorandum as required under Section 3.5 of the Continuing Obligations for Stock Exchange Listed Companies (the "**Continuing Obligations**"), which apply in respect of agreements entered into by a company with shares admitted to trading on the Oslo Stock Exchange concerning a transaction that constitutes a change of more than 25% in respect of assets, operating revenue or annual result. This Information Memorandum has been submitted to Oslo Børs ASA for review before it was published. This Information Memorandum is not a prospectus and has neither been approved nor reviewed by Oslo Børs ASA or the Norwegian Financial Supervisory Authority (Nw. *Finanstilsynet*) in accordance with the rules that apply to prospectuses. This Information Memorandum has been prepared in an English version only.

On 6 July 2018, Kongsberg Gruppen entered into a sale and purchase agreement (the "**Purchase Agreement**") with Rolls-Royce plc ("**Rolls-Royce**" or the "**Seller**"), in respect of the Transaction. Pursuant to the Purchase Agreement, Kongsberg Gruppen will acquire the marine products, systems and aftermarket services business, excluding certain assets and liabilities, carried out by subsidiaries of Rolls-Royce against payment of a cash consideration. The completion of the Transaction (the "**Completion**") is expected to take place in the first quarter or early in the second quarter of 2019.

This Information Memorandum does not constitute an offer or solicitation to buy, subscribe or sell the securities described herein, and no securities are being offered or sold pursuant to this Information Memorandum.

This Information Memorandum not may not be distributed or sent into the United States or any other jurisdiction in which such distribution would be unlawful or would require registration or other measures. The securities of the Company may not be offered or sold in the United States absent registration or an exemption from registration under the U.S. Securities Act of 1933, as amended (the "Securities Act"). The securities of the Company have not been, and will not be, registered under the Securities Act. There will be no public offer in the United States.

In reviewing this Information Memorandum, you should carefully consider the matters described in Section 1 "Risk Factors" beginning on page 4.

The date of this Information Memorandum is 16 August 2018

IMPORTANT INFORMATION

For the definitions of terms used throughout this Information Memorandum, including the preceding page, see Section 11 ("Definitions").

No shares or other securities are being offered or sold in any jurisdiction pursuant to this Information Memorandum.

All inquiries relating to this Information Memorandum must be directed to the Company. No other person is authorized to give any information about, or to make any representations on behalf of, Kongsberg Gruppen in connection with the Transaction. If any such information is given or representation made, it must not be relied upon as having been authorized by the Company.

The information contained herein is as of the date hereof and is subject to change, completion and amendment without further notice. There may have been changes affecting Kongsberg subsequent to the date of this Information Memorandum. The delivery of this Information Memorandum shall not imply that there has been no change in Kongsberg's affairs or that the information set forth herein is correct as of any date subsequent to the date hereof.

The contents of this Information Memorandum are not to be construed as legal, business or tax advice. Each reader of this Information Memorandum should consult with its own legal, business or tax advisor as to legal, business or tax advice. If you are in any doubt about the contents of this Information Memorandum, you should consult your stockbroker, bank manager, lawyer, accountant or other professional advisor. No due diligence has been made on the Group in connection with preparation of this Information Memorandum.

The distribution of this Information Memorandum in certain jurisdictions may be restricted by law. The Company requires persons in possession of this Information Memorandum to inform themselves about, and to observe, any such restrictions.

Currency Presentation

Unless otherwise indicated, all references in this Information Memorandum to "**NOK**" are to the lawful currency of Norway; all references to "**U.S. dollars**" or "**USD**" are to the lawful currency of the United States of America; and all references to "**GBP**" are to the lawful currency of the United Kingdom; and all references to "**Euro**" or "**EUR**" are to the lawful common currency of the European Union (the "**EU**") member states who have adopted the Euro as their sole national currency.

Non-IFRS financial measures

In this Information Memorandum and in Section 8 "Selected Financial Information for Kongsberg" specifically, the Company presents certain non-IFRS financial measures. **EBITDA** is an abbreviation of "Earnings Before Interest, Taxes, Depreciation and Amortisation". Kongsberg uses EBITDA in the income statement as a summation line for other accounting lines. These accounting lines are defined in Kongsberg's accounting principles, which are part of the consolidated financial statements for 2017 incorporated in this Information Memorandum by reference, see Section 10.4 "Incorporation by reference". The same applies for **EBITA** (which is an abbreviation of "Earnings Before Interest, Taxes and Amortization") and **EBIT** (which is an abbreviation of "Earnings Before Interest and Tax). In Section 4.10 "Capital resources", Kongsberg presents "equity ratio" and "liquidity ratio", which are defined as equity in percent of total assets and current assets divided by current liabilities, respectively.

The non-IFRS financial measures presented herein are not recognized measurements of financial performance or liquidity under the International Financing Reporting Standards as adopted by the EU ("**IFRS**"), but are used by the Company to monitor and analyse the underlying performance of Kongsberg's business and operations. In particular, non-IFRS financial measures should not be viewed as substitutes for profit/loss for the period, profit/loss before tax from continuing operations, operating income, cash and cash equivalents at a period end or other income statement or cash flow items computed in accordance with IFRS. The non-IFRS financial measures do not necessarily indicate whether cash flow is sufficient or available to meet Kongsberg's cash requirements and may not be indicative of the Group's historical operating results, nor are such measures meant to be predictive of the Group's future results.

The Company has presented these non-IFRS financial measures in this Information Memorandum because it considers them to be important supplemental measures of the Group's performance and believes that they are widely used by investors in comparing performance between companies. Because companies calculate the non-IFRS financial measures presented herein differently, the non-IFRS financial measures presented herein may not be comparable to similarly defined terms or measures used by other companies. The non-IFRS financial measures presented herein are also classified as alternative performance measures under the guidelines of the European Securities and Markets Authority.

Governing Law

This Information Memorandum is subject to Norwegian law. Any dispute arising in respect of this Information Memorandum is subject to the exclusive jurisdiction of the Norwegian courts, with Oslo District Court as legal venue in first instance.

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APPENDICES

1 RISK FACTORS

*Holders of shares in the Company (the "**Shares**") should consider the risks described below, as well as the other information in this Information Memorandum. The below risk factors should be carefully considered when analysing the Company, Kongsberg and/or the Transaction. The risks described could have a material adverse effect on the business, financial condition or results of operations of the Company or Kongsberg (including Rolls-Royce Commercial Marine). Accordingly, the risks described herein could have a material adverse effect on the trading price of the Company's Shares. The risks and uncertainties described in this Section 1 "Risk Factors" are the material known risks and uncertainties faced by the Group (including Rolls-Royce Commercial Marine) as of the date hereof. The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on the Group's business, results of operations, cash flows, financial condition and/or prospects. The risks mentioned herein could materialise individually or cumulatively.*

1.1 Risks related to the Transaction

The unaudited pro forma financial information included in this Information Memorandum has been prepared solely to show what the effects of the Transaction might have been had the Transaction occurred at an earlier date and does not purport to present the results of operations or financial condition of Kongsberg, nor should it be used as the basis of projections of the results of operations or financial condition of Kongsberg for any future period or date

This Information Memorandum includes unaudited pro forma condensed consolidated financial information for Kongsberg as of and for the year ended 31 December 2017. Although the unaudited pro forma financial information is based on estimates and assumptions based on current circumstances believed to be reasonable, actual results could have materially differed from those presented herein. There is a greater degree of uncertainty associated with pro forma figures than with actual reported results. The unaudited pro forma financial information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not purport to present the results of operations of Kongsberg as if the Transaction had occurred at the commencement of the period being presented, or the financial condition of Kongsberg as of the date being presented, nor should it be used as the basis of projections of the results of operations for Kongsberg for any future period or the financial condition of Kongsberg for any date in the future.

Completion of the Transaction is subject to regulatory clearances in a number of jurisdictions and the Transaction may hence be delayed or may not be completed at all. A delay or cancellation of the Transaction could negatively affect the business, results of operation and financial condition of Kongsberg

Completion of the Transaction is subject to clearance by regulatory authorities in several jurisdictions and accordingly subject to a condition that is beyond the control of the Company; see Section 3.7 "Condition for completion of the Transaction". Kongsberg has in the Purchase Agreement undertaken towards Rolls-Royce to use its reasonable endeavours, and take reasonable steps and do what is reasonably necessary, to secure the required regulatory clearances, but no assurance can be given that the Condition will be satisfied in time for the Transaction to be consummated in the first quarter or early in the second quarter of 2019, or prior to the Long Stop Date (see Section 3.11 "Termination of the Purchase Agreement"). Accordingly, the Transaction may be consummated later than currently expected or may not be consummated at all.

If the Transaction is consummated later than currently expected, the operational and financial effects of the Transaction will be delayed and the period of Transaction related uncertainty for employees, customers, suppliers, partners and other stakeholders will be extended. Further, Kongsberg may incur additional costs and expenses in obtaining the required regulatory clearances. A delay in obtaining the clearances could thus negatively affect the business, results of operation, cash flows, financial condition and/or prospects of Kongsberg.

If the Transaction is not consummated, transaction costs, including inter alia costs of advisors and costs relating to the Rights Issue and Bond Issue (as defined in Section 3.10 "Financing of the Transaction"), and the use of key management personnel's time and attention, will have been incurred without the expected benefits and at the expense of other business opportunities. In addition, Kongsberg will not realise the benefits the

Company expects to realise by the Transaction. Failure to complete the Transaction could also be negatively perceived in the investor market and result in a decline of the market value of the Shares and bonds issued by the Company. If the above risks materialise, it could negatively affect the business, results of operation, cash flows, financial condition and/or prospects of Kongsberg.

Integration of the acquired business is a comprehensive and complex task, and Kongsberg may not be successful in the integration

The acquisition of Rolls-Royce Commercial Marine represents an acquisition of a size and complexity not experienced by Kongsberg before and in order for the acquisition to be successful, Kongsberg must succeed in integrating Rolls-Royce Commercial Marine into the Group in a manner enabling the business of both Rolls-Royce Commercial Marine and Kongsberg Maritime to be continued in a manner not negatively affecting the businesses and enabling Kongsberg to achieve the desired synergies. Kongsberg will face foreseen and may also face unforeseen risks and challenges when integrating Rolls-Royce Commercial Marine into its existing business.

The financial performance of Rolls-Royce Commercial Marine has in the later years been weak. Improvement of the financial performance of that business is partly dependent on a successful integration and achievement of planned synergies.

The expected synergies and other benefits from the Transaction may not be achieved or not be achieved in the time frame in which they are expected. Achieving the anticipated synergies and other benefits from the Transaction depends in part on Kongsberg's ability to integrate Rolls-Royce Commercial Marine in an effective and cost-efficient manner. Kongsberg's failure to do so may result in significant costs and diversion of management's time from on-going business. No assurance can be given that the integration of Rolls-Royce Commercial Marine into the Group will be successful. Unsuccessful integration may have a material adverse effect on the business, results of operations, cash flows, financial conditions and/or prospects of Kongsberg.

Kongsberg may not achieve the expected synergies and other benefits from the Transaction

When resolving to acquire Rolls-Royce Commercial Marine, Kongsberg made certain assumptions inter alia with respect to synergies to be achieved, retention of employees, customers, suppliers and other business partners, customer future preferences and demand for products and solutions, market developments and other circumstances. There is a risk that some or all of the assumptions made will not be fulfilled, which may have a material adverse effect on the business, results of operations, cash flows, financial conditions and/or prospects of Kongsberg.

Kongsberg is acquiring an ongoing business with a number of exposures relating to the period prior to Completion

By the acquisition of Rolls-Royce Commercial Marine, Kongsberg is acquiring liabilities and other exposures relating to that business and which stems from periods prior to Completion. The Company's protection against such liabilities and other exposures under the Purchase Agreement is limited both by the scope of the warranties provided by Rolls-Royce and by the amount and time limitations applicable to these warranties (see Section 3.6 "Warranties of the Seller" for further details). Pre-Completion liabilities and other exposures may have a material adverse effect on the business, results of operations, cash flows, financial conditions and/or prospects of Kongsberg.

The Group will incur Transaction related costs

The Group has incurred and will incur transaction costs and expenses in connection with the Transaction. Moreover, management resources may be diverted in an effort to complete the Transaction. If the Transaction is not completed, Kongsberg will have incurred costs for which it will have received little or no benefit. Furthermore, if the Transaction is not completed, Kongsberg may experience negative reactions from the financial markets, the media and its shareholders, potential investors, customers, employees and other stakeholders. Each of these factors may materially and adversely affect the trading price of the Shares and could have a material adverse effect the business, results of operations, cash flows, financial condition and/or prospects of Kongsberg.

Risk related to financing of the Transaction

The purchase price to be paid by the Company to Rolls Royce for Rolls-Royce Commercial Marine will in part be financed through new equity to be raised through the underwritten Rights Issue of NOK 5 billion which is expected to take place in the fourth quarter of 2018 (see Section 3.10 "Financing of the Transaction"). NOK 2.5 billion of the Rights Issue is underwritten by Bank Underwriters and Pre-committing Shareholders (as defined in Section 3.10 "Financing of the Transaction"), while the remaining NOK 2.5 billion is expected to be subscribed for by Norwegian Government represented by the Ministry of Trade, Industry and Fisheries. The underwriting obligation of the Bank Underwriters is subject inter alia to the share capital increase pertaining to the Rights Issue being resolved by the extraordinary general meeting of the Company, subscription by the Ministry of Trade, Industry and Fisheries and the Pre-committing Shareholders' subscription for their respective parts of the Rights Issue, and that no material adverse event that is not disclosed in the Rights Issue prospectus or otherwise shall have occurred.

The parliamentary approval required for the pro rata participation by the Government in the Rights Issue is expected to be adopted in October 2018. No assurance can be made as to whether the Parliament will give its approval or whether the other conditions for the underwriting by the Bank Underwriters will be satisfied, and consequently whether the Company will be able to carry out the Rights Issue and thus obtain the planned financing for the Transaction. Failing to obtain the planned financing of the Transaction may materially and adversely affect the business, results of operations, cash flows, financial condition and/or prospects of Kongsberg.

Risks related to agreements with Rolls-Royce

As part of the Transaction, Rolls-Royce and Kongsberg intend that several agreements shall be entered into with effect from Completion, including a transitional services agreement, teaming agreements, a framework supply agreement, license agreements, trading agreements and local sale and purchase agreements (see Section 3.9 "Ancillary Agreements"). The full terms and conditions of all these agreements have not been finally agreed between the parties, and thus there is a risk that one or more of these agreements will not materialise or that such agreements will be entered into on terms and conditions less favourable to Kongsberg than currently expected by the Company.

1.2 Risks relating to the industry in which Kongsberg and Rolls-Royce Commercial Marine operate

Risk related to the various markets in which Kongsberg and Rolls-Royce Commercial Marine operate

The activities of Kongsberg and Rolls-Royce Commercial Marine are international with delivery of high-tech products, systems and solutions with related services, primarily to customers in the offshore market, merchant marine, subsea market and in respect of Kongsberg, the defence market. Market risk can therefore vary somewhat within these different segments and markets.

The offshore market comprises exploration, development, production and transport of oil and gas. There are also support functions such as supply services, operational support, as well as maintenance and service on platforms and vessels. Kongsberg and Rolls-Royce Commercial Marine are suppliers of products and services for all these segments. The demand for energy and oil price development will impact the willingness to invest in this market. The investment levels could also vary between the various geographical areas depending on e.g. oil reserves and the level of exploration and production activities. The negative trends in the oil and offshore market have increased corporate risk and affected the corporate activity level, and this has in particular affected Kongsberg Maritime as well as Rolls-Royce Commercial Marine in 2016 and 2017. Lower shipbuilding activity has led to increased competition and lower prices, and involves a risk for loss of market positions. This, together with more challenging oil and gas fields and increased cost focus in general, may have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

The merchant marine market includes a wide range of vessels, each very cyclical but not necessarily following the same cycles, from simple cargo ships to advanced tankers. Passenger ships in cruise and ferry traffic are also an important part of the market. Contracting of new ships is closely linked with the expected development in world trade and transport demand. Global economy development influences the demand for seaborne transportation of people, energy, raw materials and manufactured products. The type of ship and the geographical areas also influence the market. Reduced demand for seaborne transportation may have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Within the defence market, Kongsberg delivers products and systems for land-based, air-based and sea-based defence. Due to strict security requirements and protection of various countries' own defence industry, it may in many cases be challenging for defence suppliers to win defence contracts outside their home country. Such protectionism and strict security requirements may have impact on Kongsberg's ability to secure contracts in the international market place.

Risk related to cyclical fluctuations

Cyclical fluctuations influence the industries and markets in which Kongsberg and Rolls-Royce Commercial Marine operate to various degrees and at different points in time. Historically, this has primarily been due to changes in the level and pattern of global economic growth, the highly competitive nature of the international industries in which Kongsberg and Rolls-Royce Commercial Marine operate and changes in the supply and demand for their systems and solutions. As such, the operations of Kongsberg and Rolls-Royce Commercial Marine may be adversely affected by general downturns in the general economic and market conditions in the countries and regions where they operate. Kongsberg's performance and growth depends heavily on the demand for offshore oil and gas and seaborne trade as well as defence spending, national and international. A decrease in such demand may materially adversely affect Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Risk related to competition

Increased competition in the markets where Kongsberg and Rolls-Royce Commercial Marine operate may lead to reduced profitability and/or expansion opportunities, and their market shares and competitive position in these markets may erode in the future. Any new markets that are entered into could include participants that have greater experience or financial strength than Kongsberg, and it may thus not be successful in entering such new markets. Consolidations among companies operating in Kongsberg's and Rolls-Royce Commercial Marine's markets, especially within maritime, increases the threat of being marginalized. Further, rapid shifts in technology forces companies to make quick strategy movements. Inability to follow the technology shifts could eventually marginalize companies and reduce their competitive position. If any of these risks were to materialise, it may have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Geopolitical risk

Kongsberg and Rolls-Royce Commercial Marine have activity in a number of region world-wide, including in Europe, North and South America, Africa and Asia. As a result, their operations are subject to a variety of country, regulatory and political risks, particularly in connection with its operations in emerging markets. These risks include potential political and economic uncertainty, application of foreign exchange controls, price controls, corruption, nationalisation, expropriation, regulatory changes, crime and the lack of enforcement thereof, political insurrection, governmental interference, currency fluctuations, restrictions and devaluations, punitive or unpredictable taxation, trade barriers, export duties and quotas and other restrictive government actions, hostility from local populations, restrictions on the ability to repatriate dividends from subsidiaries, natural disasters and other catastrophic events, and changes in law and government policy. The financial risks of operating in emerging markets also include risks related to inflation, devaluation, price volatility, currency convertibility and country default.

Furthermore, the legal systems in the emerging markets in which Kongsberg and Rolls-Royce Commercial Marine operate may be less predictable than those in more developed markets, as the laws of and courts in those markets may not be fully developed in the enforcement of contracts and other types of commercial disputes. Third parties or governments could also seek to hold Kongsberg liable for obligations of related parties based on legal principles that differ from those which would be applied by courts in more developed markets. Any of these factors could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects by causing interruptions in its operations, by increasing the costs of operating in these countries or by limiting its ability to.

Environmental risk

The activities of a number of Kongsberg's and Rolls-Royce Commercial Marine's customers are subject to environmental regulations pursuant to a variety of international conventions and state and municipal laws and regulations. The systems and solutions delivered by Kongsberg and Rolls-Royce Commercial Marine are to a large degree critical to the operation of the vessel. A system failure may therefore potentially be a risk to other systems or parts causing errors or to the very extreme, accidents or operational failures. For example, if an error occurs on a system installed on an oil rig, this could cause oil spills. Litigation or criminal investigations relating to such events may involve companies in the Group or Rolls-Royce Commercial Marine. Kongsberg may incur significant costs due to any such litigation or investigation in addition to loss of reputation. This could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

In general, environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increase capital expenditures and operating cost. Environmental laws may result in a material increase in the cost of operating Kongsberg's units or otherwise materially adversely affect its business, profitability, cash flows and financial condition.

1.3 Risks relating to Kongsberg

Kongsberg's future business performance depends on its ability to renew and extend existing contracts, and to win new contracts

Kongsberg's revenue is derived from contractual arrangements and its business areas use various contractual formats. Kongsberg delivers a large variety of products and services both in respect of size, contract period, and complexity, and to different segments. Agreed contract terms might imply risk of losses upon cancellation of contracts or consequential damages for any dysfunctionality of the product or services. Contract losses could also materialise as a consequence of cost overrun of fixed price contracts.

Kongsberg's ability to renew or extend existing contracts or enter into new contracts will largely depend on prevailing market conditions. If Kongsberg is unable to enter into new contracts that start immediately after the end of its current contracts or if new contracts are entered into on terms less favourable compared to existing contract terms, or which leave Kongsberg with mobilisation or demobilisation costs that cannot be fully recovered, it could have a material adverse effect on Kongsberg's business, results of operations, cash flow, financial condition and/or prospects.

Kongsberg's contracts may be subject to early termination

Some of Kongsberg's existing customers have, and future customers may have, the right to terminate their contracts without cause in compliance with applicable notice periods. In addition, under certain circumstances, Kongsberg's existing contracts permit, and future contracts may permit, a customer to terminate its contract early without the payment of any termination fee, as a result of non-performance, delay, quality of deliverables, or force majeure events. Many of these events are beyond Kongsberg's control. Early termination of contracts may reduce the revenue received by any businesses affected by the termination, which may have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

During periods of challenging market conditions, Kongsberg may be subject to an increased risk of its customers seeking to repudiate or delay commencement of their contracts, including through claims based on anticipated actual or alleged non-performance. If Kongsberg's customers cancel their contracts with Kongsberg and Kongsberg is unable to secure new contracts on a timely basis and on substantially similar terms, or if contracts are suspended for an extended period of time, Kongsberg's backlog could be reduced, which may have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Unforeseen or unanticipated risks, costs or timing when bidding on or managing contracts could adversely affect Kongsberg's business, results of operations, cash flows, financial condition and/or prospects

In preparation for a tender for a new contract, Kongsberg assesses its current capacity, and, if it is awarded the contract, it determines how to deploy resources in order to perform its obligations under the contract.

Kongsberg's financial and operating performance depends on making accurate assumptions and estimates, as well as identifying key issues and risks (including, but not limited to, the degree of complexity of the project assumptions regarding inter alia utilisation of equipment, operational expenses, mobilisation costs, tax payments, availability of skilled personnel and availability of critical equipment with long lead times) with respect to potential projects at the tender stage of the project, and ensuring that the pricing and contractual arrangements in relation to each project adequately safeguard Kongsberg against, or compensate it for, such risks. Assumptions are particularly necessary when tendering for a new customer or entering new product or geographic markets, as Kongsberg does not yet have the experience on which it can base its assumptions for the tender. In tenders where the response time is long, typically within defence, the risks generally increases, especially political risks and currency risks. Kongsberg must manage project risks efficiently and adapt to changes that occur during the life of a project. Even when a risk is properly identified, Kongsberg may be unable to or may not accurately quantify it. Unforeseen or unanticipated risks or incorrect assumptions when bidding for a contract may lead to increased costs for Kongsberg which could a have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Risks related to project management

Kongsberg's value creation primarily comprise delivery of systems and solutions of high technological complexity, and the delivery is typically organised as projects. Effective project management is therefore a key success factor in reducing operating risk, particularly in development contracts where the risk of the project not being completed is high. Kongsberg has established project management goals based on internal and external "best practices", and project managers attend an internal training program. The projects' revenues are based on contracts, and uncertainty is largely related to estimating the remaining costs and determining the percentage of completion, but also counterparty risk and warranty obligations. Kongsberg has established principles for categorising projects in terms of technological complexity and development content. This forms the basis for an assessment of implementation risk and recognition of revenue in the projects. Failure to manage project in a satisfactory manner could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Any failure in a customer's infrastructure or applications as a result, or alleged result, of the Group's service or solution's failure could result in a claim for substantial damages against the Group and/or result in significant reputational harm

Many of the Group's engagements involve projects and services that are critical to the customers' operations. Any failure in an infrastructure component or application that the Group has designed, built, operates or supports, or has operated or supported in the past, could result in a claim for substantial damages against the Group and/or significant reputational harm, regardless of the Group's responsibility for the failure. The Group attempts to limit by contract its liability for damages arising from negligent acts, errors, mistakes or omissions in rendering its services and solutions. However, there can be no assurance that such damages are subject to a contractual limitation on liability or that any such contractual limitations on liability will be enforceable or will otherwise protect the Group from liability for damages. Certain categories of damages are typically not limited in amount (for example, breach of confidentiality, gross negligence, wilful misconduct or infringement of third-party intellectual property rights). Any failure in systems that the Group has designed, built, operates or supports, or operated or supported in the past, could result in a claim for substantial damages against the Group and/or significant reputational harm, regardless of the Group's responsibility for the failure.

Although the Group has product liability insurance coverage, there can be no assurance that any such coverage will continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage for any future claim. The successful assertion of one or more large claims against the Group that exceed any available insurance coverage, or changes in the Company's insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Undetected errors or defects in the Group's products, systems or solutions could adversely affect the Group's performance and reduce the demand for its products and services

The Group's products, systems or solutions, as well as hardware, software and services provided by subcontractors, could contain errors or defects that the Group has not been able to detect. Such errors could adversely affect the performance of the products, systems or solutions and negatively impact the demand thereof. Despite testing by the Group and users of the offered software, errors have occurred and will likely continue to occur in the Group's products, systems and solutions from time to time. If errors or defects are discovered, the Group may have to incur significant capital expenditures to eliminate them and may not be able to successfully correct them in a timely manner or at all. Errors and defects could also result in a loss of, or delay in, market acceptance of the relevant products, systems or solutions, adverse client reactions, negative publicity and could damage the Group's reputation. Hence, any defects or errors in the Group's products, systems or solutions could result in the loss of orders or a delay in the receipt of orders, and could result in reduced operating revenue, delays in market acceptance, diversion of development resources, product liability claims or increased service and warranty costs, any of which could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Disruptions of deliveries by Kongsberg's suppliers could increase operating costs, decrease revenues and adversely impact Kongsberg's operations. In addition, consolidation of suppliers may limit Kongsberg's ability to obtain supplies and services when needed at an acceptable cost or at all

Kongsberg relies, and will in the future continue to rely, on a significant supply of consumables, spare parts and equipment to operate, maintain, repair, upgrade and deliver its equipment and systems and perform its services. Certain parts and equipment that Kongsberg uses in its operations may be available from only a small number of suppliers, manufacturers or service providers, or in some cases must be sourced through a single supplier, manufacturer or service provider. A disruption in the deliveries from such third-party suppliers, manufacturers or service providers, capacity constraints, production disruptions, price increases, quality control issues, recalls or other decreased availability of parts and equipment could adversely affect Kongsberg's ability to meet its commitments to customers, adversely impact Kongsberg's operations and revenues or increase Kongsberg's operating costs.

This may limit Kongsberg's ability to obtain supplies and services when needed, at an acceptable cost or at all. Cost increases, delays or unavailability could materially adversely affect Kongsberg's future operations, which may in turn have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Kongsberg's earnings and business are subject to risk caused by counterparties in contracts, and failure and misrepresentation of such counterparties causing them not to meet their obligations could cause loss to Kongsberg or otherwise materially and adversely affect the business of Kongsberg

The ability of each counterparty to perform its obligations under a contract with Kongsberg will depend on a number of factors that are beyond Kongsberg's control and may include, among other things:

- general economic conditions;
- the condition of the maritime, defence and other industries to which the counterparty is exposed;
- the overall financial condition of the counterparty; and
- various expenses.

Should a counterparty, especially one of Kongsberg's major customers, fail to honour its obligations under its agreements with Kongsberg, Kongsberg could sustain significant losses, which could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Kongsberg's business involves numerous operating hazards and Kongsberg's own insurance may not be adequate to cover Kongsberg's losses

The operations of Kongsberg are subject to hazards inherent in the industries where it operates, equipment defects, fires, explosions and pollution. These hazards can cause personal injury or loss of life, severe damage to or destruction of property and equipment, pollution or environmental damage, claims by employees, third parties or customers and suspension of operations. Operations may also be suspended because of machinery breakdowns, abnormal conditions, and failure of subcontractors to perform or supply goods or services, or personnel shortages.

Although Kongsberg carries protection and indemnity insurance, all risks may not be adequately insured against, and any particular claim may not be paid. Any claims covered by insurance would be subject to deductibles, and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material.

Kongsberg may also be unable to procure adequate insurance coverage at commercially reasonable rates in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in the lack of availability of, insurance against risks of environmental damage or pollution. Any uninsured or underinsured loss could harm Kongsberg's business, financial condition and operating results. In addition, Kongsberg's insurance may be voidable by the insurers as a result of certain of Kongsberg's actions.

Kongsberg's insurance coverage will not in all situations provide sufficient funds to protect Kongsberg from all liabilities that could result from its operations. The amount of Kongsberg's insurance cover may be less than the related impact on enterprise value after a loss. Kongsberg's coverage includes policy limits. As a result, Kongsberg retains the risk for any losses in excess of these limits. Any such lack of reimbursement may cause Kongsberg to incur substantial costs. In addition, Kongsberg could decide to retain substantially more risk in the future. Moreover, no assurance can be made that Kongsberg has, or will be able to maintain in the future, adequate insurance against certain risks. If a significant accident or other event occurs and is not fully covered by Kongsberg's insurance or any enforceable or recoverable indemnity from a customer, it could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Kongsberg conducts a portion of its operations through joint ventures and strategical co-operations, exposing it to risks and uncertainties, many of which are outside its control

The Group conducts a portion of its operations through joint ventures, where control may be shared with unaffiliated third parties, such as the joint venture in connection with Kongsberg's 50% share ownership in Kongsberg Satellite Services AS and 49.9% share of ownership in Patria Oyj. As with any joint venture arrangement, differences in views among the joint venture participants may result in delayed decisions or in failures to agree on major issues. Kongsberg's obligations in respect of, and Kongsberg's ability to receive any dividends from, its joint ventures depend on the terms and conditions of its shareholders' agreements and its relationships with its respective joint venture partners. There can be no assurance that Kongsberg will continue its relationships with its joint venture partners or that its joint venture partners will want to pursue the same strategies as Kongsberg.

Kongsberg also cannot control the actions of its joint venture partners, including any non-performance, default or bankruptcy of such partners, and Kongsberg typically shares liabilities on a joint and several basis with its joint venture partners under these joint venture arrangements. If Kongsberg's partners do not meet their contractual obligations, the joint venture may be unable to adequately perform and deliver its contracted services, requiring Kongsberg to make additional investments or perform additional services to ensure the adequate performance and delivery of services to the customer. Kongsberg could be liable for both its own obligations and those of its partners, which may result in reduced profits or, in some cases, significant losses on the project. Additionally, these factors could have a material adverse effect on the business operations of the joint venture and, in turn, Kongsberg's business operations, reputation, results of operations, cash flows, financial condition and/or prospects.

Operating through joint ventures in which the Group has a minority interest could result in the Group having limited influence over, and limited or no control of, the governance, performance and cost of operations in these companies. The joint ventures that Kongsberg does not control may make business, financial or investment decisions contrary to Kongsberg's interests or decisions different from those, which Kongsberg itself may have made. This may expose Kongsberg to additional operational, financial, legal or compliance risks Further, these joint ventures may not be subject to the same requirements regarding internal controls and internal control reporting that Kongsberg follows. As a result, internal control issues may arise, which could have a material adverse effect on Kongsberg's financial condition and results of operation. Additionally, in order to establish or preserve relationships with joint venture partners, Kongsberg may agree to risks and contributions of resources that are proportionately greater than the returns Kongsberg could receive, which could reduce its income and returns on these investments compared to what Kongsberg may have received if the risks and resources Kongsberg contributed were always proportionate to its returns. This could in turn have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Kongsberg relies on third parties, including subcontractors, to complete some parts of its projects and may be adversely affected by the sub-standard performance or non-performance of those third party subcontractors

Kongsberg engages third-party subcontractors to perform some parts of its projects. The Group may not have the skills to perform the work undertaken by its subcontractors and any inability to hire qualified subcontractors could hinder the successful completion of a project. Further, the Group's employees may not be able to monitor or control the performance of these subcontractors as efficiently as they could if that work was performed by Kongsberg itself. Kongsberg may suffer losses on contracts if the amounts it is required to pay for subcontractor services exceed its original estimates. While Kongsberg seeks to mitigate the risks associated with subcontractors by imposing contractual obligations on its subcontractors that mirror those it has with its customers, obtaining insurance cover for the entire project and (in some cases) requesting bank guarantees to cover non-performance by subcontractors of the relevant parts of the projects, the subcontracting of work exposes Kongsberg to risks associated with non-performance, delayed performance or sub-standard performance. If any such risk were to materialise, this could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Kongsberg may not be able to successfully implement its strategies

Maintaining and expanding Kongsberg's operations and achieving its other objectives involve inherent costs and uncertainties and there is no assurance that Kongsberg will achieve its objectives. There is no assurance that Kongsberg will be able to undertake these activities within its expected time-frame, that the cost of any of Kongsberg's objectives will be at expected levels or that the benefits of its objectives will be achieved within the expected timeframe or at all. Kongsberg's strategies may also be affected by factors beyond its control, such as volatility in the world economy and in each of its markets, the capital expenditure and investment by its customers and the availability of acquisition opportunities in a market. Any failures, material delays or unexpected costs related to the implementation of Kongsberg's strategies could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Loss of key personnel or the failure to obtain or retain highly skilled personnel could materially adversely affect Kongsberg's operations

Kongsberg's success depends on its retention of key personnel and its ability to recruit, retain and develop skilled personnel for its business. The demand for personnel with the capabilities and experience required in technology industry is high, and success in attracting and retaining such employees is not guaranteed. There is intense competition for skilled personnel and there are, and may continue to be, shortages in the availability of engineers and other appropriately skilled people at all levels. Shortages of qualified personnel or Kongsberg's inability to obtain and retain qualified personnel could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Labour interruptions could have a material adverse effect on Kongsberg's operations

As of 31 March 2018, the Group had 6,751 employees. Labour interruptions may materially impact Kongsberg. Although the Group has not experienced any labour disruptions in connection with its own personnel since 2006, there can be no assurance that labour disruptions by the Group's employees will not occur in the future. Further, unionised employees of third parties on whom the Group relies may be involved in strikes or other forms of labour unrest, causing operational disruptions for the Group. Such industrial actions could result in additional costs to Kongsberg, as well as limitations on Kongsberg's ability to provide services to its customers, which may have a material adverse impact on its business, results of operations, cash flows, financial condition and/or prospects.

Kongsberg's labour costs and related operating costs could increase as a result of a number of factors

A number of factors could increase Kongsberg's labour costs and potentially affect other costs of operations. For example, high growth within the industry in recent years has increased the cost of qualified personnel and equipment. There may also be increased costs related to local content requirements. Kongsberg's incurrence of additional labour related costs could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Damage to Kongsberg's reputation and business relationships may have an adverse effect beyond any monetary liability

Kongsberg's business depends on customer goodwill, Kongsberg's reputation and on maintaining good relationships with its customers, joint venture partners, suppliers, employees and regulators. Any circumstances that publicly damage Kongsberg's goodwill, injure the Group's reputation or damage the Group's business relationships may lead to a broader adverse effect on its business and prospects than solely the monetary liability arising directly from the damaging events by way of loss of business, goodwill, customers, joint venture partners and employees.

Kongsberg relies on information technology systems to conduct its business, and disruption, failure or security breaches of these systems could adversely affect its business and results of operations

Kongsberg relies heavily on information technology ("**IT**") systems in order to achieve its business objectives. Kongsberg relies upon industry accepted security measures and technology such as access control systems to securely maintain confidential and proprietary information maintained on its IT systems, and market standard virus control systems. However, as a high-tech company, Kongsberg is constantly exposed to external threats associated with data security and is under constant pressure from different external players. There is a risk of virus attacks, attempts at hacking, social manipulation and phishing scams, as well as theft of intellectual property or sensitive information belonging to Kongsberg or its business partners. Further, Kongsberg's portfolio of hardware and software products, solutions and services and its enterprise IT systems may be vulnerable to damage or disruption caused by circumstances beyond its control, such as catastrophic events, power outages, natural disasters, computer system or network failures, cyber-attacks or other malicious software programmes.

The failure or disruption of Kongsberg's IT systems to perform as anticipated for any reason could disrupt Kongsberg's business and result in decreased performance, significant remediation costs, transaction errors, loss of data, processing inefficiencies, downtime, litigation, and the loss of suppliers or customers. A significant disruption or failure could have a material adverse effect on Kongsberg's business operations, financial performance and financial condition.

The Group may not be able to keep pace with a significant step change in technological development

Kongsberg operates in markets that are highly susceptible to technological developments. Such technological developments have resulted in, and will likely continue to result in, substantial improvements in equipment functions and performance throughout the industry. As a result, Kongsberg's future success and profitability will be dependent in part upon its ability to:

- improve existing services and solutions;
- address the increasingly sophisticated needs of its customers; and
- anticipate major changes in technology and industry standards and respond to technological developments on a timely basis.

If Kongsberg is not successful in acquiring new equipment or upgrading its existing systems and solutions, or the technical skill set of its employees, on a timely and cost-effective basis in response to technological developments or changes in industry standards, this could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Policies, procedures and systems to safeguard employee health, safety and security may not be adequate or sufficiently implemented or adhered to

Kongsberg has detailed and specialised policies, procedures and systems to safeguard employee health, safety and security. Kongsberg aims to follow best practices for employee health, safety and security in every country in which Kongsberg operates. However, if these policies, procedures and systems are not adequate, or employees or contractors do not receive adequate training or instructions, or Kongsberg's safety policies are not implemented properly in local jurisdictions, the consequences could be severe including injury or loss of life, which could impair Kongsberg's reputation and operations and cause it to incur significant liability. Distance from certain principal locations can create further difficulty for the Group in implementing and impressing upon local workforces its policies on matters such as health and safety, and can present challenges in the supervision of its sub-contracted employees. Failure to deliver consistently high standards across all fields of operations could create risks for Kongsberg, including legal action and reputational risks, and could impact its success in winning future contracts. This could in turn have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Kongsberg's operations may be affected by adverse weather and other natural conditions

Inclement weather conditions may impact Kongsberg's operational performance. Extreme weather conditions may lead to more challenging operating conditions for systems and equipment delivered by Kongsberg, and hence lead to increased probability of failure to perform with resulting potential liabilities. Accordingly, adverse weather and other natural conditions may have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

1.4 Risks relating to laws, regulation and litigation

Kongsberg may become subject to legal proceedings or investigations that could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects

Kongsberg may become subject to criminal or civil proceedings related to, among others, product liability, environment, health and safety, anti-competitive, anti-corruption, trade sanctions or other similar laws or regulations or other forms of commercial disputes. If Kongsberg is not successful in resolving such matters in its favour, they may have a significant effect on Kongsberg's financial position or profitability. Violation of applicable laws and regulations could result in substantial fines or penalties and costs of corrective work operations. There may also be significant costs associated with bringing or defending lawsuits, and management's attention to such matters may divert their attention from Kongsberg's operations. Proceedings, liabilities or actions could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Technology disputes involving Kongsberg, Kongsberg's suppliers or sub-suppliers could impact Kongsberg's operations

The products and services provided by Kongsberg utilise patented or protected intellectual property, and consequently involve a potential risk of infringement of third party rights. It is not uncommon for industry participants to pursue legal action to protect their intellectual property. Kongsberg is not currently aware of patents that create the risk of Kongsberg infringing third party rights. However, in Norway or in other jurisdictions there can be no assurance that other industry participants will not pursue legal action against Kongsberg to protect their intellectual property. There may also be significant costs associated with defending such claims, and management's attention to such matters may divert their attention from Kongsberg's operations Where such industry participants pursue legal action, it could also result in limitations on Kongsberg's ability to use the patented technology or require Kongsberg to pay a fee for the continued use of intellectual property.

In the event that one of Kongsberg's suppliers or sub-suppliers, or the Group, becomes involved in a dispute over infringement of intellectual property rights relating to assets owned or used by Kongsberg, Kongsberg may lose access to repair services, replacement parts, or could be required to cease use of the relevant assets or intellectual property. The Group could also be required to pay royalties for the use of such assets or intellectual property. The consequences of technology disputes involving Kongsberg's suppliers could materially adversely affect Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

In addition, Kongsberg, may choose to pursue legal action to protect Kongsberg's intellectual property and/or proprietary technology. If the Group is unable to protect and maintain its intellectual property rights, or if there are any successful intellectual property challenges or infringement proceedings against Kongsberg, its ability to differentiate its service offerings could diminish. There are currently no such material cases ongoing, but there is no guarantee that such cases or claims will not be raised in the future. Also, from time to time, Kongsberg may pursue action to challenge patents and/or proprietary technology of competitors, suppliers and others. Should these cases not succeed, Kongsberg may be subject to legal costs and may not be able to use the patented technology or may have to pay a fee for the continued use of such patents.

The consequences of any of the intellectual property disputes with third parties described above could materially adversely affect Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

A change in tax laws of any country in which Kongsberg operates from time to time, or complex tax laws associated with international operations which Kongsberg may undertake from time to time, could result in a higher tax expense or a higher effective tax rate on Kongsberg's earnings

Kongsberg is subject to taxation by Norwegian tax authorities and the relevant governmental authorities in the other countries in which Kongsberg conducts operations through various subsidiaries. Tax laws and regulations are highly complex and subject to interpretation and change. Any change in taxation regime or interpretation of present tax regulations may affect the payable or deferred taxes of Kongsberg, and thereby have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

It should also be noted that Kongsberg, when computing its tax obligations and filing tax returns etc. in Norway and other countries, is required to take various tax accounting and reporting positions on matters that are not entirely free from doubt and for which Kongsberg has not received binding rulings from the local tax authorities. If additional taxes are imposed on Kongsberg, it may have a material adverse effect on the business, results of operations, cash flows, financial condition and/or prospects of Kongsberg.

A loss of a major tax dispute or a successful tax challenge to Kongsberg's operating structure or to Kongsberg's tax payments, among other things, could result in a higher tax rate on Kongsberg's earnings, which could have a material adverse effect on Kongsberg's earnings and cash flows

From time to time, Kongsberg's tax payments may be subject to review or investigation by tax authorities of the jurisdictions in which Kongsberg operates. If any tax authority successfully challenges Kongsberg's operational structure, intercompany pricing policies, the taxable presence of its subsidiaries in certain countries, or if Kongsberg loses a material tax dispute in any country, or any tax challenge of Kongsberg's tax payments is successful, Kongsberg's effective tax rate on its earnings could increase substantially and Kongsberg's earnings and cash flows from operations could be materially adversely affected. There are, for instance, several transactions taking place between the companies in Kongsberg, which must be carried out in accordance with arm's length principles in order to avoid adverse tax consequences. Statutory documentation on a transfer pricing policy with the aim of determining arm's length prices for intercompany transactions has been established in order to minimise this risk. However, there can be no assurance that the tax authorities will conclude that the Group's transfer pricing policy calculates correct arm's length prices for intercompany transactions, which could lead to an adjustment of the agreed price, which would in turn lead to an increased tax cost for Kongsberg.

Laws and regulations could hinder or delay Kongsberg's operations, increase Kongsberg's operating costs and reduce demand for its systems and solutions

Kongsberg is subject to complex laws and regulations, including environmental regulations that can adversely affect the cost, manner or feasibility of doing business. Kongsberg's operations are subject to government oversight and regulation in the form of international conventions, export regulations, sanctions, national, state and local laws and regulations in force in the jurisdictions in which Kongsberg Gruppen and its subsidiaries operate, as well as in the countries of their registration. Because such conventions, export regulations, laws and regulations are often revised, Kongsberg cannot predict the ultimate cost of complying with such conventions, laws and regulations or the impact thereof. Kongsberg may also incur additional costs in order to comply with other existing and future regulatory obligations, including, but not limited to, costs relating to: maintenance and inspection; development and implementation of emergency procedures; and insurance coverage or other financial assurance of Kongsberg's ability to address pollution incidents. Hence, such laws and regulations could hinder or delay Kongsberg's operations, increase Kongsberg's operating costs and reduce demand for its systems and solutions. This could in turn have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

The Group may be exposed to liabilities under various laws and regulations regarding anti-corruption and anti-bribery and with international sanctions regimes

Kongsberg is subject to laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties for the purpose of obtaining or retaining business. Although the Group has policies and procedures designed to ensure that it operates in compliance with applicable laws and regulations, there can be no assurance that such policies or procedures will work effectively all of the time or protect them against liability for actions taken by their employees, consultants, sales agents or distributors, because these parties are not always subject to the Group's control. Existing safeguards, such as the Group's anti-bribery and anti-corruption policies, and any future improvements may prove to be ineffective, and the Group's employees, consultants, sales agents or distributors may engage in conduct for which the Group might be held responsible. Violations of anti-corruption and anti-bribery laws and sanction regimes could result in severe criminal or civil sanctions being imposed on the Group and the Group may be subject to other liabilities and reputational harm, as well as to debarment from public procurement procedures. In addition, regulatory and governmental bodies may seek to hold the Group liable for successor liability violations of these laws committed by companies in which it invests or that it acquires. Any of the foregoing could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

1.5 Risks related to financing and market risk

In order to execute Kongsberg's growth strategy, Kongsberg may require additional capital in the future, which may not be available

To the extent Kongsberg does not generate sufficient cash from operations, Kongsberg may need to raise additional funds through debt or additional equity financings to execute Kongsberg's growth strategy and to fund capital expenditures. Adequate sources of capital funding may not be available when needed or may not be available on favourable terms. Kongsberg's ability to obtain such additional capital or financing will depend in part upon prevailing market conditions as well as conditions of its business and its operating results, and those factors may affect its efforts to arrange additional financing on satisfactory terms. If Kongsberg raises additional funds by issuing additional shares or other equity or equity-linked securities, it may result in a dilution of the holdings of existing shareholders. If funding is insufficient at any time in the future, Kongsberg may be unable to fund maintenance requirements and acquisitions, take advantage of business opportunities or respond to competitive pressures, any of which could adversely impact Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Kongsberg's existing or future debt arrangements could limit Kongsberg's liquidity and flexibility in obtaining additional financing, in pursuing other business opportunities or the Company's ability to declare dividends to its shareholders

As at 31 March 2018, the book value of Kongsberg's current and non-current borrowings was NOK 3,340, representing 16.4% of its total equities and liabilities. See Section 4.10.2 "Existing borrowing arrangements". The current indebtedness and future indebtedness that Kongsberg may incur could affect Kongsberg's future operations, as a portion of Kongsberg's cash flow from operations will be dedicated to the payment of interest and principal on such debt and will not be available for other purposes. Covenants contained in Kongsberg's debt agreements require the Company, its subsidiaries and/or Kongsberg to meet certain financial measures. These may affect Kongsberg's flexibility in planning for, and reacting to, changes in its business and limit Kongsberg's ability to dispose of assets or use the proceeds from such dispositions, withstand current or future economic or industry downturns or compete with others in the industry for strategic opportunities.

In addition, such financial measures do and could further place restrictions on Kongsberg's ability to declare dividends to its shareholders. Kongsberg's ability to meet its debt service obligations and to fund planned expenditures will be dependent upon Kongsberg's future performance, which will be subject to general economic conditions, industry cycles and financial, business and other factors affecting Kongsberg's operations, many of which are beyond Kongsberg's control. Kongsberg's future cash flows may be insufficient to meet all of its debt obligations and contractual commitments, and any such insufficiency could adversely affect Kongsberg's business.

To the extent that Kongsberg is unable to repay its indebtedness as it becomes due or at maturity, Kongsberg may need to refinance its debt, raise new debt, sell assets or repay the debt with the proceeds from equity offerings. Additional indebtedness or equity financing may not be available to Kongsberg in the future for the refinancing or repayment of existing indebtedness, and Kongsberg may not be able to complete asset sales in a timely manner sufficient to make such repayments.

If Kongsberg is unable to comply with restrictions and the financial covenants in agreements governing its indebtedness, there could be a default under the terms of these agreements, which could result in an acceleration of repayment of funds that have been borrowed

If Kongsberg is unable to comply with restrictions and covenants in the agreements governing its indebtedness or in current or future debt financing agreements, there could be a default or cancellation under the terms of those agreements. Kongsberg's ability to comply with such restrictions and covenants, including meeting financial ratios and measures, is dependent on its future performance. See Section 4.10.2 "Existing borrowing arrangements" for further information on any restrictive covenants pertaining to Kongsberg's existing debt arrangements. If a default occurs under these agreements, lenders could terminate their commitments to lend or accelerate the outstanding loans and declare all amounts borrowed due and payable. Borrowings under debt arrangements that contain cross-acceleration or cross-default provisions may also be accelerated and become due and payable. In addition, certain of Kongsberg's financing agreements include change of control provisions which if triggered could result in Kongsberg having to immediately prepay all amounts, including interest, accrued and owing under the relevant facility. If any of these events occur, Kongsberg cannot guarantee that its assets will be sufficient to repay in full all of its outstanding indebtedness, and Kongsberg may be unable to find alternative financing. Even if Kongsberg could obtain alternative financing, that financing might not be on terms that are favourable or acceptable. The occurrence of such events may have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Interest rate fluctuations could affect Kongsberg's cash flow and financial condition

Interest rate fluctuations could affect Kongsberg's cash flow and financial conditions. This is in principal driven by two exposures, interest bearing debt, fixed to floating interest rate SWAPS and FX forward contracts used for hedging future income and expenses in foreign currencies. Kongsberg's existing debt consists primarily of NOK bond loans. Kongsberg has issued bonds with fixed margin plus 3 month NIBOR as well as fixed interest rate bonds. When issuing new bonds Kongsberg could be impacted of both changes in credit spreads and interest rates. Kongsberg has entered into fixed to floating interest rate SWAPS which increases the exposure to interest rate fluctuations.

The NOK value of future income and expenses in foreign currencies are impacted of both current exchange rates as well as differences in interest rate levels between NIBOR and interest rate levels in other currencies.

Kongsberg trade FX forwards to mitigate FX risk in cash flows from projects where income currency differs from cost currency. The terms of the FX forwards are decided by the actual FX spot rate and the interest rate differential between income currency and cost currency. When interest rate in income currency is higher than cost currency the FX forward rate will be lower than FX spot rate – and vice versa. This differential can be seen as the cost of hedging. In cases where hedging tenors are long and interest rate differential is high, the cost of hedging can be material and thus represents a significant risk for Kongsberg. Interest rate fluctuations can therefore materially adversely affect Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Liquidity risk

Liquidity risk is the risk that Kongsberg may not be able to meet its liabilities as they fall due. Kongsberg's policy on overall liquidity is to ensure that there are sufficient cash and other liquid funds available which, when combined with committed credit facilities, are sufficient to meet short-term funding requirements. An insufficient liquidity position may have a material adverse effect on the operations and development of Kongsberg, which in turn may have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Credit risk

Kongsberg routinely executes a large volume of transactions involving daily settlement of substantial amounts, many of which expose Kongsberg to the risk of contractual default by a counterparty. Kongsberg's profitability, cash flows and financial condition may have a materially adverse effect, should its counterparties fail to meet their contractual obligations. Further, a general downturn in financial markets and economic activity may result in a higher volume of late payments and outstanding receivables. Even though Kongsberg seeks to recover all outstanding receivables, the amounts of write-offs may increase and have a materially adverse effect on the nosiness, results of operations, cash flows, financial condition and/or prospects of Kongsberg.

Currency risk

Kongsberg has a significant share of its revenues outside Norway and a large share of the cost-base in Norway, and its accounting and reporting currency is the Norwegian krone. Currency fluctuations could therefore have a material adverse effect on its business, results of operations, cash flows, financial condition and/or prospects. This may also give a disadvantage towards competitors operating in specifically U.S. Dollars and Euro. Currency fluctuations in general has increased significantly in recent years and can have a substantial impact on Kongsberg's operating costs directly. Currency fluctuations during tendering processes until signing of contract may also affect profitability. Hedging of currency towards contracts is a normal part of the financial operation of Kongsberg. Cancellation of contracts, third party or customers bankruptcies may impact the hedged positions and may accordingly also impact the profitability if such conditions are not claused in the contracts. Currency risk can also appear in relation to bidding processes where customers do not accept currency risk clauses in the contract nor accept to carry the currency risk their selves. Such risk can affect the profitability to Kongsberg and in turn have a material adverse effect on its business, results of operations, cash flows, financial condition and/or prospects.

Risk for over-capitalisation

The Rights Issue and the Bond Issue (as defined in Section 3.10 "Financing of the Transaction") are not conditional upon the completion of the Transaction. If the Rights Issue and the Bond Issue are completed, and the Transaction is not completed, then the Company will have raised financing for which it has no actual need and the Company may by reason of this have a lower return on capital employed than it otherwise would have had.

1.6 Risks related to the Kongsberg group structure

The Company is dependent upon cash flow from subsidiaries to meet its obligations and in order to pay dividends to its shareholders

The cash that Kongsberg obtains from its subsidiaries is the principal source of funds necessary to meet its obligations. Contractual provisions or laws, including laws or regulations related to the repatriation of foreign earnings, as well as Kongsberg's subsidiaries' financial condition and, operating requirements, potential restrictive covenants in future debt arrangements and debt requirements, may limit Kongsberg's ability to obtain cash from subsidiaries or joint ventures that it requires to pay its expenses or meet its current or future debt service obligations or to pay dividends to its shareholders. The Norwegian Public Limited Liability Companies Act of 13 June 1997 no. 45 (Nw. *Allmennaksjeloven*), as amended (the "**Norwegian Public Companies Act**"), also imposes certain legal restrictions on dividends, loans and advances from Norwegian subsidiaries that may affect the ability of Kongsberg's subsidiaries to transfer funds to the Company. Applicable tax laws may also subject such payments to Kongsberg by subsidiaries to further taxation.

While Kongsberg currently not is subject to any restrictions materially limiting its ability to transfer cash from Kongsberg's its subsidiaries or joint ventures, Kongsberg may become subject to such restrictions in the future. As a result, Kongsberg may not be permitted to make the necessary transfers from its subsidiaries or joint ventures to meet its obligations or to pay dividends to its shareholders may mean that, even though Kongsberg may have sufficient resources on a consolidated basis to meet its such obligations or to pay dividends to its shareholders, Kongsberg may not be permitted to make the necessary transfers from its subsidiaries or joint ventures to meet such obligations or to pay dividends to its shareholders. Likewise, Kongsberg may not be able to make necessary transfers from its subsidiaries in order to provide funds for the payment of its obligations, for which Kongsberg is or may become responsible under the terms of the governing agreements of Kongsberg's indebtedness. A payment default by Kongsberg, or any of the Group's subsidiaries, on any debt instrument would have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects.

Kongsberg's financial condition may be materially adversely affected if Kongsberg fails to successfully integrate acquired assets or businesses, or is unable to obtain financing for acquisitions on acceptable terms

Kongsberg believes that acquisition opportunities may arise from time to time, and that any such acquisition could be significant. At any given time, discussions with one or more potential sellers may be at different stages. However, any such discussions may not result in the consummation of an acquisition transaction, and Kongsberg may not be able to identify or complete any acquisitions or make assurances that any acquisitions Kongsberg makes will perform as expected or that the returns from such acquisitions will support the investment required to acquire or develop them. Kongsberg cannot predict the effect, if any, that any announcement or consummation of an acquisition would have on the trading price of the Shares.

Any future acquisitions could present a number of risks, including:

- the risk of using management time and resources to pursue acquisitions that are not successfully completed;
- the risk of failing to identify material problems during due diligence;
- the risk of over-paying for assets;
- the risk of failing to arrange financing for an acquisition as may be required or desired;
- the risk of incorrect assumptions regarding the future results of acquired operations;
- the risk of failing to integrate the operations or management of any acquired operations or assets successfully and timely; and
- the risk of diversion of management's attention from existing operations or other priorities.

In addition, the integration and consolidation of acquisitions requires substantial human, financial and other resources, including management time and attention, and may depend on Kongsberg's ability to retain the acquired business' existing management and employees or recruit acceptable replacements. Ultimately, if Kongsberg is unsuccessful in integrating any acquisitions in a timely and cost-effective manner, Kongsberg's business, results of operations, cash flows, financial condition and/or prospects could be materially adversely affected.

Kongsberg has engaged in divestments that may subject it to associated risks and liabilities

Kongsberg has provided certain representations, warranties and indemnities in connection with the businesses it has sold. As a result, Kongsberg may be subject to the risk of liability for breach of representations and warranties and/or indemnity obligations in favour of the respective buyers. While Kongsberg does not currently believe there will be claims under these representations, warranties and indemnities, it is possible that claims could be made against Kongsberg in the future. If such a claim or claims were successful, it could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial position and/or prospects.

1.7 Risks related to Rolls-Royce Commercial Marine

Rolls-Royce Commercial Marine is subject to a number of operational risks and market risks

Rolls-Royce Commercial Marine operations are similar to those of Kongsberg Maritime and it operates in the same market as Kongsberg Maritime. The operational risks and the market risks related to Rolls-Royce Commercial Marine are therefore materially the same as the operational and market risks pertaining to Kongsberg. The general risk factors described in Section 1.2 "Risks relating to the industry in which Kongsberg and Rolls-Royce Commercial Marine operate", Section 1.3 "Risks relating to Kongsberg" and Section 1.4 "Risks relating to laws, regulation and litigation" therefore generally apply correspondingly to Rolls-Royce Commercial

Marine. If any such risk materialise with respect to Rolls-Royce Commercial Marine, this may have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial position and/or prospects.

Rolls-Royce Commercial Marine may become subject to claims and litigation that could have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects

Rolls-Royce Commercial Marine is and may in the future become subject to claims and litigation from customers and other third parties in the ordinary course of its business. Such third party claims are regularly solved without any significant costs for Rolls-Royce Commercial Marine, and Rolls-Royce Commercial Marine has liability insurance cover reducing its exposure against such claims. While neither of these claims currently are deemed to be significant, it cannot be excluded that the claims will be increased and neither Rolls-Royce Commercial Marine and Kongsberg can predict with certainty the outcome or effect of any of these claims or other litigation matter Rolls-Royce Commercial Marine may become subject to in the future. If Rolls-Royce Commercial Marine is unsuccessful in its defence of significant claims and such claims are not covered or only partly covered by insurance, the outcome of such litigations may have a material adverse effect on Kongsberg's business, results of operations, cash flows, financial condition and/or prospects. There may also be significant costs associated with defending against claims and also significant deductibles under insurances, and management's attention to these matters may divert their attention from Kongsberg's operations.

Ongoing cost cutting program

Rolls-Royce Commercial Marine has an ongoing cost cutting program, Ship Shape, which it will continue to carry out prior to completion of the Transaction. Although Kongsberg will work closely with Rolls-Royce Commercial Marine on the ongoing efforts, there are no guarantees that the program will achieve the savings effects previously communicated and outlined by Rolls-Royce.

Investments and development of new technologies

Similar to Kongsberg, Rolls-Royce Commercial Marine has invested and is planning to invest significant capital and resources in the development of new maritime technologies, such as autonomy and remote asset management. Although Kongsberg is a firm believer in the future prospects and potential vital application of these technologies, there are no guarantees that they will be adopted by the market or whether Kongsberg and Rolls-Royce Commercial Marine will be successful in developing them.

1.8 Risks relating to the Shares

The Norwegian Ministry of Trade, Industry and Fisheries is the controlling shareholder of the Company and has significant voting power and the ability to influence matters requiring shareholder approval

The Norwegian Ministry of Trade, Industry and Fisheries (Nw. *Nærings- og Fiskeridepartementet*) is the majority shareholder of Kongsberg, has the majority of the votes in the general meetings of the Company and is expected to continue such ownership following the Rights Issue. The ministry has by its shareholding the ability to significantly influence the outcome of matters submitted for the vote of the Company's general meeting, including the election of members of the Board of Directors, and the interests of the Norwegian Ministry of Trade, Industry and Fisheries as a shareholder in the Company and those of Kongsberg and its other shareholders may not always be aligned. Although it is expected that the Norwegian Ministry of Trade, Industry and Fisheries will remain the major shareholder of the Company, no assurance can be given that this will continue on a permanent basis. If the Norwegian Ministry of Trade, Industry and Fisheries were to reduce its ownership, or if it were to use its influence in the general meeting to pursue interests other than those of the Group, this could have a material adverse effect on the market value of the Shares.

The price of the Shares may fluctuate significantly, which could cause investors to lose a significant part of their investment

The trading price of the Shares could fluctuate significantly in response to a number of factors beyond Kongsberg's control, including, but not limited to, quarterly variations in operating results, adverse business developments, changes in financial estimates and investment recommendations or ratings by securities analysts, or any other risk discussed herein materialising or the anticipation of such risk materialising.

In recent years, the global stock markets have experienced extreme price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies. Those changes may occur without regard to the operating performance of these companies. The price of the Shares may therefore fluctuate based upon factors that have little or nothing to do with Kongsberg, and these fluctuations may materially affect the price of the Shares.

Future sales, or the possibility for future sales, of substantial numbers of Shares may affect the Shares' market price

The Company cannot predict what effect, if any, future sales of the Shares, or the availability of Shares for future sales, will have on the market prices. Sales of substantial amounts of the Shares in the public market, including by the Norwegian Ministry of Trade, Industry and Fisheries, or the perception that such sales could occur, may adversely affect the market price of the Shares, making it more difficult for holders to sell their Shares at a time and price that they deem appropriate.

Future issuances of Shares or other securities may dilute the holdings of shareholders and could materially affect the price of the Shares

It is possible that the Company may in the future decide to offer additional shares or other securities in order to finance new capital-intensive projects, in connection with unanticipated liabilities or expenses or for any other purposes. See Section 1.5 "Risks relating financing and market risk". There can be no assurance that the Company will not decide to conduct further offerings of securities in the future. Depending on the structure of any future offering, certain existing shareholders may not be able to purchase additional equity securities. If the Company raises additional funds by issuing additional equity securities, holdings of existing shareholders may be diluted.

Exchange rate fluctuations could adversely affect the value of the Shares and any dividends paid on the Shares for an investor whose principal currency is not NOK

The Shares are priced and traded in NOK on the Oslo Stock Exchange, and any future payments of dividends on the Shares will be denominated in the currency of the bank account of the relevant shareholder, and will be paid to the shareholders through DNB Bank ASA ("**DNB**"), being the Company's VPS registrar (the "**VPS Registrar**"). Shareholders registered in the "**VPS**" (an abbreviation of Norwegian Central Securities Depository (Nw. *Verdipapirsentralen*)) who have not supplied their VPS account operator with details of their bank account, will not receive payment of dividends unless they register their bank account details of their VPS account, and thereafter inform the VPS Registrar about said account. The exchange rate(s) that is applied applied when denominating any future payments of dividends to the relevant shareholder's currency will be the VPS Registrar's exchange rate on the payment date. Exchange rate movements of NOK will therefore affect the value of these dividends and distributions for investors whose principal currency is not NOK. Further, the market value of the Shares as expressed in foreign currencies will fluctuate in part as a result of foreign exchange fluctuations. This could affect the value of the Shares and of any dividends paid on the Shares for an investor whose principal currency is not NOK.

Investors may not be able to exercise their voting rights for Shares registered in a nominee account

Beneficial owners of the Shares that are registered in a nominee account (such as through brokers, dealers or other third parties) may not be able to vote such shares unless their ownership is re-registered in their names with the VPS prior to the general meetings. Kongsberg can provide no assurances that beneficial owners of the shares will receive the notice of a general meeting in time to instruct their nominees to either effect a re-registration of their shares or otherwise vote their shares in the manner desired by such beneficial owners.

The transfer of Shares is subject to restrictions under the securities laws of the United States and other jurisdictions

The Shares have not been registered under the United States Securities Act of 1933, as amended ("**U.S. Securities Act**") or any U.S. state securities laws or any other jurisdiction outside Norway and are not expected to be registered in the future. As such, the Shares may not be offered or sold except pursuant to an exemption from the registration requirements of the U.S. Securities Act and applicable securities laws. In addition, there can be no assurance that shareholders residing or domiciled in the United States will be able to participate in future capital increases or rights offerings.

The Company may be unwilling or unable to pay any dividends in the future

Pursuant to the Company's dividend policy, the dividend shall over time constitute between 40 and 50 per cent of the Company's ordinary profit after tax. In deciding the size of the dividend, the expected future capital requirements will be considered. However, the Company may choose not, or may be unable, to pay dividends in future years. The amount of dividends paid by the Company, if any, for a given financial period, will depend on, among other things, the Company's future operating results, cash flows, financial position, capital requirements, the sufficiency of its distributable reserves, the ability of the Company's subsidiaries to pay dividends to the Company, credit terms, general economic conditions and other factors that the Company may deem to be significant from time to time.

2 STATEMENT OF RESPONSIBILITY

This Information Memorandum has been prepared by Kongsberg Gruppen ASA to provide information regarding the Transaction.

The Board of Directors of Kongsberg Gruppen ASA confirms that, having taken all reasonable care to ensure that such is the case, the information contained in this Information Memorandum is, to the best of its knowledge, in accordance with the facts and contains no omission likely to affect its import.

16 August 2018

The Board of Directors of Kongsberg Gruppen ASA

____________________ Eivind Kristofer Reiten	____________________ Irene Waage Basili
____________________ Morten Henriksen	____________________ Anne Grete Hjelle Strøm-Erichsen
____________________ Helge Lintvedt	____________________ Elisabeth Fossan
____________________ Martha Kold Bakkevig	____________________ Sigmund Ivar Bakke

3 THE TRANSACTION

This section provides information on the background and reasons for the Transaction as well as a discussion of certain related arrangements and agreements entered into or to be entered into in conjunction with the Transaction.

3.1 Overview

On 6 July 2018, the Company announced that it had entered into a sale and purchase agreement regarding the acquisition of Rolls-Royce Commercial Marine from Rolls-Royce (the Purchase Agreement). Completion of the Transaction ("**Completion**") is expected to occur in the first quarter or early in the second quarter of 2019.

The following is a brief description of the Transaction, including the business comprised by it, and the material terms and conditions of the Purchase Agreement.

3.2 The parties to the Transaction

The Purchase Agreement was entered into by and between Rolls-Royce plc, an English public limited liability company incorporated in England and Wales with organisation number 01003142 and whose registered office is at 62 Buckingham Gate, London SW1E 6AT, England (Rolls-Royce) as seller and the Company as purchaser.

Pursuant to the Purchase Agreement, Rolls-Royce has undertaken to sell and to procure that its relevant group companies at Completion sell the shares and/or assets and transfer the liabilities that constitute Rolls-Royce Commercial Marine. The Company shall prior to Completion nominate group companies as designated purchasers for Rolls-Royce Commercial Marine, and the Company has undertaken to procure that such designated purchasers at Completion acquire the shares and/or assets and assume the liabilities that constitute Rolls-Royce Commercial Marine.

3.3 Background and reasons for the Transaction

The maritime industry is undergoing significant changes driven by a recent downturn in the market and a rapid technology development. New technologies allow for maritime solutions that are more cost effective, enable more advanced operations and are more emission friendly. However, in the current challenging market situation, few customers will pay for new maritime solutions. Hence, most of the investments for taking global leading positions into the next market upturn must be taken by the suppliers. Furthermore, leading maritime suppliers need to maintain a global sales and service footprint to serve the customers where they are, which is expensive to maintain in a market downturn. Taking or maintaining profitable leading maritime positions requires scale and financial strength and is a driver for industry consolidation.

Kongsberg has for years considered a cooperation or combination with Rolls-Royce Commercial Marine as an attractive strategic solution for Kongsberg Maritime. In January 2018, Rolls-Royce announced that it had initiated a strategic review of Rolls-Royce Commercial Marine, and Kongsberg was subsequently invited to participate as a potential purchaser in a structured sale process for that business. Kongsberg submitted its final bid for the business on 22 June 2018, and the Purchase Agreement was signed by the parties on 6 July 2018.

Kongsberg is through Kongsberg Maritime a world leader within automation, navigation and control systems for the maritime industry, while Rolls-Royce Commercial Marine is complementary with its deliveries of propellers, propulsion systems, handling systems and ship design. Both Kongsberg and Rolls-Royce Commercial Marine hold leading positions within digitalization, ship intelligence and concepts for autonomy. Accordingly, Kongsberg and Rolls-Royce Commercial Marine both have world leading maritime solutions that are highly complementary and the combination establishes a global leading maritime supplier.

The Transaction is expected to give Kongsberg scale and additions to maintain and develop its global sales and service network. Kongsberg expects annual run-rate cost synergies in excess of NOK 500 million through infrastructure optimization and streamlining, and a significant potential for revenue synergies through cross-sales, deliveries of integrated packages and services. See Section 6.3 "Strengths and strategies following Completion of the Transaction" for further information.

Kongsberg is represented in more than 25 countries, whilst Rolls-Royce Commercial Marine is represented in 34 countries. Combined, the companies have equipment and deliveries associated to around 30,000 vessels worldwide, and the installed base and the global presence of Rolls-Royce Commercial Marine strengthens Kongsberg's already world leading position with a considerable aftermarket presence. The Transaction will also strengthen Kongsberg's ownership in the world leading Norwegian maritime cluster. Further, Kongsberg will obtain a stronger Nordic foothold through Rolls-Royce Commercial Marine's operations in Sweden and Finland, and a strengthened international position through the combined infrastructure.

Rolls-Royce Commercial Marine has in recent years experienced considerable reductions in activity levels and been loss making due to challenging market conditions especially within offshore related activity. A main priority for Kongsberg following Completion will therefore be to ensure profitability, while at the same time being an industry innovation leader.

3.4 The business comprised by the Transaction

The Transaction is structured as an acquisition by the Company of the marine products, systems and aftermarket services business carried out by the Target Companies (as defined below) and the Business Sellers (as defined below) on and from defined real properties, and by the employees that are defined as a part of the business at sites other than such real properties as constituted immediately prior to completion of the Transaction (Rolls-Royce Commercial Marine), including the Target Companies and the Business Assets and Liabilities (as defined below), excluding certain assets and liabilities. The Transaction does not include Bergen Engines or Rolls-Royce's Naval Business.

The "Target Companies" include Rolls-Royce Marine AS, Rolls-Royce Oy AB, Rolls-Royce AB, Rolls-Royce Namibia Ltd, Rolls-Royce International LLC, Rolls-Royce Marine France SARL and Rolls-Royce Italia SRL. The Target Companies have the following subsidiaries wholly or partly owned by subsidiaries are: Ulstein Holding AS, Ulstein Maritime Ltd, Rolls-Royce Poland Sp z.o.o., Rolls-Royce Marine India PVt Ltd, Rolls-Royce Marine Benelux BV, Rolls-Royce Marine A/S, Rolls-Royce Marine Deutschland GmbH, Rolls-Royce Marine Espania SA, Rolls-Royce Marine Hellas SA, Rolls-Royce Asia Ltd., Rolls-Royce Marine Manufacturing (Shanghai) Ltd., Rolls-Royce Korea Ltd., Scandinavian Electric Gdansk SP z.o.o, Navis Consult d.o.o. and Rolls-Royce Vietnam Limited. Further, the Target Companies and their subsidiaries have minority shareholdings in the following companies: Hovden Klubbhus AS, Runde Miljøbygg AS, Sunmøre Golf AS, Stadt Towing Tank AS, Solnor Guard Golfbane AS (under liquidation), Offshore Simulator Centre AS, Ålesund Kunnskapspark AS and DIMECC OY.

The "Business Assets and Liabilities" include:

(i) all the property, title, undertakings and rights in the assets of the Business Sellers (as hereinafter defined) to the extent that they relate to Rolls-Royce Commercial Marine, including but not limited to defined properties (the "**Business Properties**"), the benefit of all rights arising under or in relation to defined contracts, any accounts receivable, accrued income and other receivables or prepayments of Rolls-Royce Commercial Marine, defined transferable permits, entitlements, approvals, registration, orders etc. held by any of the Business Seller that is used in the operation of Rolls-Royce Commercial Marine immediately prior to completion ("**Business Licenses**"), defined IT systems and IT systems data, copies of the books and records to the extent these relate to Rolls-Royce Commercial Marine, the inventory of Rolls-Royce Commercial Marine and owned IPR, excluding in each case certain excluded assets; and

(ii) all liabilities (or parts thereof) of the Business Sellers to the extent that they relate to Rolls-Royce Commercial Marine, including (without limitation), the burden of all liabilities arising under or in relation to defined contracts, any liabilities arising under or in relation to transferable Business Licenses, all liabilities in relation to employees of Rolls-Royce Commercial Marine, all liabilities regarding amounts payable at completion to creditors if and to the extent they relate to Rolls-Royce Commercial Marine of any of the Business Sellers and all liabilities of the Business sellers relating to the Business Properties.

The "Business Sellers" are Rolls-Royce and the following of its subsidiaries: Rolls-Royce Power Engineering plc, Rolls-Royce Canada Ltd, Rolls-Royce Brasil Ltda, Rolls-Royce Australia Services Pty, Rolls-Royce Singapore Pte Ltd, Rolls-Royce Marine North America Inc., Rolls-Royce Japan Co. Ltd., Bergen Engines S.L., Rolls-Royce Turkey Power Solutions Industry, and Trade LLC, Rolls-Royce Marine Chile SA, Rolls-Royce Saudi Arabia

Limited, Rolls-Royce Marine Power Operations Limited, Rolls-Royce Malaysia Sdn Bhd, Rolls-Royce International Limited and Brown Brothers & Company Limited.

3.5 Total consideration and transaction costs

The consideration to be paid by the Company for Rolls-Royce Commercial Marine is based on an enterprise value of GBP 500 million (approximately NOK 5.3 billion) on a cash and debt free basis and with working capital at an agreed level. The purchase price to be paid by the Company at Completion will be based on the estimated amount of cash, debt and working capital of Rolls-Royce Commercial Marine at Completion, and will subsequently be adjusted to reflect the actual amount of cash, debt and working capital at Completion. The purchase price will be paid in cash.

Rolls-Royce and Kongsberg Gruppen will pay their respective costs attributable to the Transaction. The Company has incurred costs of approximately NOK 64 million in connection with the signing of the Transaction. In addition, the Company will incur costs relating to the Completion of the Transaction, the Rights Issue and the Bond Issue (see Section 3.10 "Financing of the Transaction"). The costs related to the Rights Issue are expected to amount to around NOK 53 million.

3.6 Warranties of the Seller

The Purchase Agreement contains warranties to the benefit of the Company customary for a transaction of this size and nature. These warranties include certain fundamental warranties (i.e. with respect to inter alia the seller's authorisation to enter into the Purchase Agreement, ownership to shares and assets to be sold under the agreement, and certain corporate information), and warranties related to accounting matters, information on external borrowing, insurance, tax, permits, trade control laws, sanctions and anti-trust laws, anti-corruption law, material contracts, litigations and investigations, products and services, data protection, environmental, health and safety matters, assets, real property, employment, retirement and benefit arrangements, intellectual property rights, transferring IT systems and related party contracts.

The scope of the warranties is limited, and the warranties are qualified by matters disclosed to Kongsberg and its advisors. Rolls-Royce's liability under the warranties is limited by certain agreed deminimis and basket thresholds and certain maximum amounts. Further, the warranties are subject to agreed time limitations.

3.7 Condition for completion of the Transaction

The completion of the Transaction is only subject to regulatory clearances being duly obtained (the "**Condition**"). The Transaction will trigger merger filing requirements in Norway, several EU countries and countries outside of EU/EEA, and Kongsberg Gruppen has an obligation under the Purchase Agreement to use its reasonable endeavours, and take reasonable steps and do what is reasonably necessary, to secure the required regulatory clearances.

3.8 The Rolls-Royce Reorganisation and conduct of business

Prior to Completion, Rolls-Royce shall procure that certain assets and liabilities that are not a part of the Transaction are transferred from the Target Companies and their subsidiaries to other companies in the Rolls-Royce group prior to Completion (the "**Rolls-Royce Reorganisation**").

Beyond the Rolls-Royce Reorganisation, the Purchase Agreement provides for certain restrictions on Rolls-Royce's conduct of business of Rolls-Royce Commercial Marine in the period until Completion.

3.9 Ancillary agreements

Pursuant to the Purchase Agreement, certain ancillary agreements shall be entered into in connection with Completion:

(i) a transitional services agreement shall be entered into between Rolls-Royce and the Company pursuant to which Rolls-Royce and its subsidiaries will provide certain services to Rolls-Royce Commercial Marine for a period of up to 12 months from Completion. The agreement comprises the main service categories finance, IT, HR, engineering and digital services. Rolls-Royce and the Company shall in the period prior to Completion cooperate and negotiate in good faith to determine and agree on the scope, term and charges that shall apply for the various services within these categories to be provided in the transitional period.

(ii) one or more teaming agreements shall be entered into between Bergen Engines AS and Rolls-Royce Marine AS, governing the overall trading relationship between those parties for the supply of engines and spares, original equipment, workshop services and products and field services and products. The terms of the teaming agreement(s), including the duration and the commercial conditions, shall be negotiated by the parties in the period prior to Completion.

(iii) a framework supply agreement shall be entered into between Rolls-Royce and/or relevant companies in the Rolls-Royce group and the Group, governing the performance of existing orders and agreements in the naval market, ongoing collaboration between the parties thereto and the provision of aftermarket services in the naval market. The terms of the framework supply agreement, including the duration of the agreement and the commercial conditions, shall be negotiated by the parties in the period prior to Completion.

(iv) a license agreement shall be entered into between Rolls-Royce and the Company, pursuant to which certain intellectual property rights used by the target companies or embodied in the business assets and which will remain the property of Rolls-Royce, shall be licensed to Kongsberg Gruppen. The license shall be royalty-free, worldwide, non-assignable (with certain exceptions), perpetual and irrevocable, and (with certain exceptions) without the right to sub-license. The subject matter of the license relates to Rolls-Royce's Waterjet technology and a ship intelligence technology.

(v) a license agreement shall be entered into between Rolls-Royce and the target companies, pursuant to which certain of the intellectual property rights which remain the property of the target companies shall be licensed back to Rolls-Royce. The license shall be royalty-free, worldwide, non-assignable (with certain exceptions), perpetual, irrevocable license, with the right to sub-license (on certain conditions). The subject matter of the license relates to the target companies' Waterjet technology, Ship Intelligence technology, Battery and Energy Storage technology, Evaluation Tool technology, Next Generation drive technology, SmartMotor technology and certain Existing Naval Ship Designs.

(vi) a 10 year trading agreement relating to the SmartMotor technology shall be entered into between Rolls-Royce and the target companies, pursuant to which the target companies for the first three years after Completion undertakes to purchase services from the business unit within Rolls-Royce that has developed the SmartMotor technology equal to an annual load of eight full time man-year equivalents. Intellectual property developed by this SmartMotor business unit within Rolls-Royce during the first three year period after Completion shall be transferred to the target companies and licensed back to Rolls-Royce. After the first three years and for the remaining seven years, the target companies shall continue to be entitled to purchase services but shall have minimum purchase obligation. Intellectual property created by the SmartMotor team within Rolls-Royce during this seven year period shall be transferred to the target companies and licensed back to Rolls-Royce only to the extent such Intellectual Property rights are developed when the SmartMotor team performs services for the target companies.

(vii) local sale and purchase agreements in order to procure the sale and purchase of the assets and liabilities comprised by the Transaction. These agreements will be entered into between the relevant selling companies in the Rolls-Royce group and purchasers designated by Kongsberg Gruppen.

3.10 Financing of the Transaction

Kongsberg Gruppen will finance the purchase price for Rolls-Royce Commercial Marine through a combination of new equity and debt. The new equity will be raised through an underwritten rights issue of NOK 5 billion (the "**Rights Issue**") which is expected to take place in the fourth quarter of 2018. The Company is planning to raise the new debt by issuing one or more new bond loans of up to NOK 2 billion (the "**Bond Issue**"), and Nordea Bank AB (publ) filial i Norge has undertaken to provide a bridge loan of up to NOK 2 billion (the "**Bridge Loan**") in the event that the Bond Issue has not been completed prior to Completion. Arctic Securities AS and Nordea Bank AB are acting as joint global coordinators for the Bond Issue. The Bond Issue is expected to take place in the fourth quarter of 2018.

The share capital increase pertaining to the Rights Issue is conditional upon being resolved by the Company's extraordinary general meeting with the support from at least two-thirds of the share capital represented and the votes cast. On 6 July 2018, the Norwegian Government announced that it is positive to the Norwegian Government, represented by the Ministry of Trade, Industry and Fisheries, as a shareholder in Kongsberg Gruppen participates in the Rights Issue on a pro rata basis (50.001%), pending Parliament consent and subject to the Rights Issue being conducted on acceptable terms and in line with market practice, and that no significant information is disclosed prior to the general meeting that shall vote on the share capital increase pertaining to the Rights Issue (the "**EGM**").

Shareholders that as of 6 July 2018 represented 21.99% of the shares in the Company have undertaken to vote in favour of the share capital increase pertaining to the Rights Issue at the EGM. Together with the Ministry of Trade, Industry and Fisheries, these shareholders represented 71.99% of the total number of shares in the Company as of 6 July 2018.

The 50% of the Rights Issue that does not relate to shares owned by the Norwegian Government is underwritten by a syndicate consisting of DNB Markets, a part of DNB Bank ASA ("**DNB**") and Danske Bank A/S, Norwegian Branch ("**Danske Bank**" and, together with DNB, the "**Bank Underwriters**") and the following pre-committing shareholders (the "**Pre-committing Shareholders**"):

Bank Underwriters and Pre-committing Shareholders	**Amount (NOK)**	**% of the Rights Issue**
DNB	751,858,667	15.03%
Danske Bank	751,858,667	15.03%
Folketrygdfondet	326,620,417	6.53%
Danske Capital Norge	154,844,083	3.10%
MP Pensjon	153,421,208	3.07%
Must Invest AS and affiliated shareholders	138,884,000	2.78%
Ulefoss Invest AS	106,991,792	2.14%
Odin Norge AS and Odin Energi AS	73,787,833	1.48%
Intertrade Shipping AS and Fløtemarken AS	41,666,666	0.83%
Total	**2,499,933,333**	**49.99%**

The underwriting obligation of the Bank Underwriters is subject inter alia to the share capital increase pertaining to the Rights Issue being resolved by the EGM, subscription by the Ministry of Trade, Industry and Fisheries and the Pre-committing Shareholders' for their respective parts of the Rights Issue, and that no material adverse event that is not disclosed in the Rights Issue prospectus or otherwise shall have occurred.

The Norwegian Parliament will be convened for the autumn sessions in early October 2018, and it is expected that the formal parliamentary approval for the pro rata participation by the Government in the Rights Issue will be given later that month. The Company will then call for the EGM and following the EGM issue the prospectus for the Rights Issue. The current time schedule for the Rights Issue is as follows:

	Date
Parliamentary approval of the Norwegian Government's participation in the Rights Issue	Late October 2018
The EGM...	Late November 2018
Subscription period for the Rights Issue and settlement	December 2018

Arctic Securities, Danske Bank and DNB are acting as joint global coordinators for the Rights Issue. The Company will prepare and publish a prospectus for the Rights Issue prior to commencement of the subscription period.

3.11 Termination of the Purchase Agreement

The Purchase Agreement may not be terminated by a party other than in the event that (i) the Condition is not fulfilled or waived within 15 months of the signing date, or such other date as may be agreed in writing between the parties (the "**Long Stop Date**"), or becomes incapable of being fulfilled, provided, however, that a party having caused the Condition not to be satisfied by acting in breach of the Purchase Agreement may not terminate the Purchase Agreement on such basis, or (ii) the timing of the Completion has been deferred pursuant to the Purchase Agreement and Rolls-Royce (on the one hand) or Kongsberg Gruppen (on the other hand) fails to comply with its obligations on the date Completion (as so deferred) is due to take place, and provided that Completion has not occurred.

If one or more of the regulatory clearances required for the Condition to be fulfilled has not been secured prior to the Long Stop Date, Kongsberg Gruppen may seek Rolls-Royce's consent to an extension of the Long Stop Date for such period as the Company reasonably believes will allow it to secure the relevant regulatory clearances (such consent not to be unreasonably withheld).

3.12 Timeline to Completion

The filing process required for fulfilment of the Condition is expected to take four to six months from the relevant filings are made. The Transaction is thus expected to be completed during the course of the first quarter or early in the second quarter of 2019. The expected timeline to Completion is as follows:

	Date
Preparations for merger filings	July - December 2018
Submission of merger filings to the relevant competition authorities	October 2018 – January 2019
The Condition for Completion being fulfilled	December 2018 – April 2019
Completion of the Transaction	First or early second quarter 2019

3.13 Agreements entered into for the benefit of the management or directors

No agreements have been entered into by the Company in connection with the Transaction for the benefit of any board members or senior employees in the Company, or for the benefit of any senior employees in Rolls-Royce Commercial Marine.

4 PRESENTATION OF KONGSBERG GRUPPEN

4.1 Name, incorporation and registered office

The legal name of the Company is Kongsberg Gruppen ASA, and the commercial name is Kongsberg Gruppen. The Company is a public limited liability company organised under the laws of Norway with registration number 943 753 709. The Company was established on 19 June 1987 and has been listed on the Oslo Stock Exchange since 1993. The Company is listed under the ticker code "KOG".

The Company's registered office is at Kirkegårdsveien 45, 3616 Kongsberg, Norway. Telephone: +47 32 28 82 00 and its website address is www.kongsberg.com.

4.2 History

The below table sets out certain key events in the history of the Company:

1814	The Company was founded under the name Kongsberg Vaabenfabrik
1892	International breakthrough with a new type of rifle ("the Krag")
1918	The Company commenced production of civilian products such as civil weapons, tools, and parts for the shipping industry and the whaling fleet
1921	Kongsberg launched its first civil products
1953	The Norwegian Parliament adopted a large-scale modernization and expansion of the Company with an aim to build a national high-tech defence industry that met the needs of the Norwegian Armed Forces as well as those of NATO
1957	After an agreement with Volvo, the production of automobile parts became a considerable business for Kongsberg The history of KM began with founding of Autronica
1960-1987	Having had a national focus in the post-war period, Kongsberg again directed its attention and expertise towards the international market. The years from 1960 to the end of the 80s were a time of innovation, development and rapid growth for Kongsberg. Kongsberg's focus on the maritime industry began in the early 1970s and coincided with the discovery of oil in the North Sea. The 1970s also became the decade when Kongsberg positioned itself towards the petroleum sector
1987	The Company went through a restructuring process. The civil division was sold out, while the defence division continued under the name Norwegian Defence Technology (NFT) from 19 June 1987 to 1995
1990	The Company launched its own aerospace division
1993	The Company was listed on the Oslo Stock Exchange
1994	Commencement of the first development of NASAMS (Norwegian Advanced Surface-to-Air Missile System) to the Norwegian Army. Further developments of the system have proven this to be one of the world's leading air defence systems and is currently in use by nine countries. In addition, four countries are using the NASAMS command and control system. The system is offered in a partnership between Raytheon and Kongsberg.
1995	The Company changed its name to Kongsberg Gruppen and the current logo was established. Then followed a long series of acquisitions, including buying back the maritime division
1996	Kongsberg acquired the listed company Simrad, which still is an important and profitable segment
1997	Kongsberg gathered its operations in the subsidiaries Kongsberg Maritime and Kongsberg Defence & Aerospace
2000	Kongsberg signed an important contract for delivering weapon control systems to the US Army
2007	The first large contract for delivery of NSM was concluded with the Norwegian Army after several years of development Kongsberg concluded a joint marketing agreement with Lockheed Martin for Joint Strike Missile to be adapted for deployment on the Joint Strike Fighter Kongsberg was awarded a framework contract to supply weapon stations to the Common Remotely Operated Weapon Station (CROWS) programme.
2008-2015	Kongsberg Maritime continued to increase by acquiring several minor companies and establish new operations in China. Kongsberg moved the mechanical production and composite operations into completely new production premises in a new industrial estate, which is one of the largest investments in Kongsberg's history (approximately MNOK 800).
2014	Kongsberg celebrated the Company's 200th anniversary

2015	Kongsberg signed an agreement with Avinor for delivery of complete solutions for remote control towers for Norwegian Airports
2016	Kongsberg completed the purchase of 49.9% of the shares in the Finnish defence group Patria
	Kongsberg Digital was established as an important step in the development of the next generation of digital products and services
2017	Organisational restructuring to further increase competitiveness, and Kongsberg Defence Systems and Kongsberg Protech Systems were merged to Kongsberg Defence & Aerospace (KDA)
	Joint venture, kta Naval Systems, established with thyssenkrupp Marine Systems and Atlas Elektronikk to provide Submarine Combat System
	Kongsberg's Naval Strike Missile (NSM) was selected by the German Navy. The first contract was signed in 2018
	Partnership agreement with Yara to build "Yara Birkeland", the world's first autonomous zero emission containership
	Launch of the digital platform "Kognifai"
2018	Kongsberg entered into a partnership agreement with Barzan Holding in Quatar on long term technology development programs
	The U.S. Navy selected the Naval Strike Missile, offered by Raytheon and Kongsberg, to meet its over-the-horizon requirement for littoral combat ships and future frigates

4.3 Business overview

4.3.1 General

Kongsberg is an international technology group, with roots dating back to 1814, that delivers advanced and reliable solutions that improve safety, security and performance in complex operations and under extreme conditions. Kongsberg operates mainly within the global defence, maritime, oil and gas, fisheries and aerospace sectors. The Group's business is reported as two business areas, Kongsberg Maritime and Kongsberg Defence & Aerospace, in addition to "Other operations", consisting of Kongsberg Digital, property and the corporate center. The company headquartered in Kongsberg, Norway, where the group management is based, and has been listed on the Oslo Stock Exchange since 1993. The Norwegian state, represented by the Norwegian Ministry of Trade, Industry and Fisheries, is the largest shareholder with 50.001% of the Shares.

4.3.2 Strategy

Kongsberg's objective is to secure and increase stakeholders' values through profitable and growth-oriented industrial development with a long-term, sustainable and international perspective. For Kongsberg to be successful, a good balance between operations, market positioning and new initiatives is important. Kongsberg's strategic and business related decisions are based on a culture that promotes high ethical standards and sustainable development.

4.4 Business areas

4.4.1 Overview

Kongsberg is divided into three business areas and other operations. The three business areas are:

- Kongsberg Defence & Aerospace;
- Kongsberg Maritime; and
- Kongsberg Digital.

Please see Section 8.7 "Segment information" for information on revenues derived from each of the Group's business areas. Kongsberg Digital is a digital focus area under development which is reported as "other activities". "Other activities" also include real estate business and the corporate staff.

4.4.2 Kongsberg Defence & Aerospace

Kongsberg Defence & Aerospace is a supplier of defence products and systems for command and control, surveillance, space, tactical communications, remote weapon stations and missiles, as well as advanced composites and engineering products for the aircraft and helicopter market. The activities span from underwater to surface, land and air to space. The main divisions and products of Kongsberg Defence & Aerospace have been set out below.

Integrated Defence Systems

The Integrated Defence Systems division provides air defence systems, land-based command and control systems, surveillance systems, naval combat systems as well as the NINOX Remote Tower System. The ground based air defence solutions include the National Advanced Surface-to-air Missile Systems ("**NASAMS**"), where the division has a strategic co-operation agreement with Raytheon, the HAWK XXI system (which combines combat-proven air defence credentials with advanced fire control and battle management) the FDC-SHORAD/VSHORAD (FDC-S) system (which provides air defence battle management, fire control and coordination, and system communications management), the BOC (Battalion Operations Center) and the GBADOC (Ground Based Air Defence Operation Center). Other products include advanced digital solutions utilized by the Army for their artillery systems, combat vehicles, command centers etc., C4ISR solutions for Norwegian and allied systems and Simulation & Training.

The NINOX Remote Tower System is the solution for all future remote tower related operations; virtual-, contingency- and remotely controlled towers. NINOX is a new Remote Tower System (RTS) that has been designed and engineered from the top down to provide exceptional performance within cutting-edge camera technologies, real-time systems with high network security based on open international DDS standard, and sensor technologies. Avinor's NINOX program is the world's largest RTS program.

In addition, Kongsberg offers world-class naval systems with a product range of systems for submarines, surface vessels, mine warfare systems, underwater surveillance and protection, and simulation and training.

The division has also established kta Naval Systems, a joint venture company together with the German thyssenkrupp Marine Systems ("**tkMS**") and Atlas Elektronikk for exclusive deliveries of combat systems to tkMS submarines. See Section 4.6 "Agreements concerning Kongsberg's most important joint ventures and holding interests" for further information.

Space & Surveillance

The Space & Surveillance division delivers a broad spectrum of equipment, systems and services related to space and maritime surveillance to customers in more than 40 countries. The division is a supplier of satellite ground stations for downloading and processing satellite data, as well as maritime domain awareness systems and control centers for maritime surveillance. The Space & Surveillance division consists of five operational units; Kongsberg Space, Kongsberg Norspace AS, Kongsberg Norcontrol AS, Kongsberg Spacetec AS and Kongsberg Satellite Services AS.

Kongsberg Space is Norway's leading supplier of equipment to scientific satellites, space probes and launchers. Through development, qualification, and delivery of products like attachment and release mechanisms, rotation and pointing mechanisms for solar wings and antennas, drive and control electronics and electro optical systems, Kongsberg Space is established as an important niche supplier to ESA and other European space operators.

Kongsberg Norspace AS delivers satellite on-board electronics for Telecommunications, Navigation, Search & Rescue, Earth Observation and Scientific programs. Its functions span from units for satellite remote control and telemetry (TT&C/TC&R) to frequency processing units. Kongsberg Norspace delivers globally to all major satellite prime manufacturers.

Kongsberg Norcontrol AS is a provider of high-end, real time situational awareness, decision support and management solutions and services for optimum safety, efficiency and security within the maritime domain. Typical solutions include Vessel Traffic Services (VTS), Vessel Tracking and Monitoring (VTM), Coastal and Exclusive Economic Zone (EEZ) surveillance, Critical National Infrastructure protection and River Information Systems (RIS). With a heritage of more than 40 years, Kongsberg Norcontrol's solutions are in-service with the world's leading maritime organisations, most successful port and coastal authorities, and safest offshore operators.

Kongsberg Spacetec AS is a world leading provider of ground station systems for remote sensing and meteorological satellites. The unit's Multi-mission Earth Observation System (MEOS) provides complete turn-key solutions, including front end tracking antenna, data collection, Ground Station Control and Ground Station Networking, as well as solutions for image processing and other value added processing. Kongsberg Spacetec is also a provider of information and monitoring systems integrating comprehensive information on coastal-, sea- and land areas into a common operational picture.

Kongsberg Satellite Services AS (KSAT) is a joint venture which operates over 60 antennas optimally positioned for access to polar and geostationary orbiting satellites. KSAT is also the world leading company for maritime monitoring and surveillances services using satellite based data from several radar and optical services. KSAT provides unbiased multi-mission near real time services providing accurate information based on satellites to users worldwide in less than 20 minutes from data acquisition. The combination of KSAT ground station network and services is unrivalled. See Section 4.6 "Agreements concerning Kongsberg's most important joint ventures and holding interests" for further information.

Missile Systems

The Missile Systems division has more than 50 years' experience from a variety of missile programmes. Products include the Naval Strike Missile (NSM), the Joint Strike Missile (JSM), Penguin Anti-Ship Missile (Penguin) and the Burst Adjustable Tactical Ranging Aiming Module (BATRAM 1550).

The Naval Strike Missile (NSM) is the only fifth generation long range precision strike missile in existence as per today. The NSM is a very flexible system which can be launched from a variety of platforms against a variety of targets. The NSM is in operational use in Norway and Poland and has also been sold to Malaysia and the U.S. navy. It has also been selected to be the missile for German Frigates.

The Joint Strike Missile (JSM) is a fifth generation cruise missile designed for anti-ship and land attack missions. JSM includes advanced mission planning systems to exploit sea and land geography. In addition, it employs a highly accurate navigation system and low altitude flight profile. The JSM range allows for launch platform survivability and flexible mission routing to enhance survivability and mission success. The JSM is suitable for F-35A and C model internal carry, and for all variants external carry and other fixed wing and maritime patrol aircrafts.

In addition, the division's product portfolio consists of Penguin Anti-Ship Missile (Penguin) and the Burst Adjustable Tactical Ranging Aiming Module (BATRAM 1550), the latest generation laser range finder from Kongsberg. The Penguin missile became the first anti-ship cruise missile developed in the western world and the world's leading anti-ship missile on naval helicopters.

Aerostructures

The Aerostructure division is a centre of excellence for complex structures in composites and high-alloy metals (titanium). The core capabilities range from design, prototyping and industrialisation, to large-volume manufacturing for aerospace and other high-performing markets. Activities range from the manufacture of parts for the F-35 and helicopters to the mechanical production and maintenance of helicopter gear boxes.

Defence Communications

The Defence Communications division designs and manufactures high-quality ruggedised radios and radio links used in advanced tactical communication systems (K-TaCS). Typical applications for K-TaCS are Air Defence Systems, Wide Area Networks for Army and C4I networks. K-TaCS are used in more than 30 countries.

Protech Systems

The Protech Systems division is a supplier of remote weapon stations. The system allows the soldiers to operate from a protected position inside the vehicle. Protech Systems has since 2001 delivered more than 19,000 systems to 19 nations. The Protector Remote Weapon Station is a platform-mounted system for remote operation of light, medium and heavy machine guns. Through innovation, program execution and customer understanding, Kongsberg aims to provide high-tech systems for enhanced situational awareness and protection of personnel and property in high-risk areas. In 2017, the deliveries of the MCT-30 started. MCT-30 is a medium calibre turret based on the same technologies as the Protector RWS with highly accurate firepower.

Patria

Kongsberg holds 49.9% of the shares in Patria, which is Finland's provider of technology solutions and life-cycle support services within defence, security and aviation. The company has an international organisation with some 2,800 employees, and holds 50% of the shares in the international aerospace and defence company Nammo AS which is headquartered in Norway. See Section 4.6 "Agreements concerning Kongsberg's most important joint ventures and holding interests" for further information.

4.4.3 Kongsberg Maritime

Kongsberg Maritime develops and delivers integrated vessel concepts to a wide range of vessels within the offshore, seaborne, passenger, offshore production, LNG, research and fishery vessel segments and specialised solutions for oil and gas offshore installations. Kongsberg Maritime supplies products and systems for advanced mapping surveying, sonars, underwater communication and marine robotics (Unmanned Surface Vessel (USV) and Autonomous Underwater Vehicle (AUV)) for, among other things, research, fishing and defence vessels, as well as aquaculture installations. Kongsberg Maritime has a large network of global customers and installations of over 18,000 vessels. The high-end technology and integration enables Kongsberg Maritime to offer increased operability, productivity, efficiency and safety for all applications ranging from marine subsea to all floating vessel types. Kongsberg Maritime's markets are classified as oil & gas, seaborne transportation and marine. The main portfolios and products of Kongsberg Maritime have been set out below.

Vessel systems

Kongsberg Maritime's vessel systems portfolio is a wide range of products, systems and solutions that include systems such as automation systems, bridge systems, energy systems, handling equipment’s and digital performance. The solution portfolio includes advanced integration of operational, energy and handling equipment. Other areas of expertise include in digital performance with information management solutions, integration and interface engineering within various electro, instrument and telecom disciplines with EPC delivery models. The vessel systems portfolio for all vessel segments is designed with state of art technologies to provide enhanced benefits to vessel owners and operators in operational, energy and handling solutions. Kongsberg Maritime's vessel system portfolio is positioned as the key supplier to major operators, owners and shipyards in all merchant, offshore and oil and gas markets globally.

Oil & gas process automation

Kongsberg Maritime's main competence in automation, added with information systems and process simulators, gives Kongsberg Maritime an unique position in the oil and gas offshore process industry. Delivering automation systems in combination with marine operations, riser management and total integrated electro-instrumentation-telecom solutions are some of the value added solutions for this segment. The traditional integrated control and safety system (ICSS) are modernized with new operator and communication platform with enhanced connectivity for data exchange and interface with engineering databases. Extensive use of simulation by use of LedaFlow, K-Spice and information management with DigitalTwin philosophy enhances the digital offerings that aim to be the need of the industry such as Johan Sverdrup digitalization and other oil majors digital flagship programs.

Marine robotics and underwater systems

Kongsberg Maritime's marine robotics and underwater systems technology is applied predominantly in the offshore, oil and gas, surveying (seabed mapping, surveying and investigations), defence, fisheries & aquaculture, subsea construction and oceanography industries. Kongsberg Maritime's products and systems are based on highly innovative pioneering hydroacoustic technology and sensors, advanced signal processing and expert knowledge in underwater engineering. The portfolio includes single and multibeam echo sounders, sonars, autonomous underwater vehicles/marine robots and subsea transponders, in addition to advanced software for data processing, products for search and rescue, and defence applications.

Instrumentation, communication and advanced sensing solutions

Kongsberg Maritime's advanced instrument and sensing portfolio includes for higher levels of technology specializing in precision position and motion sensing systems. Kongsberg Maritime offers a range of solutions for tank gauging, custody transfer, measuring instrumentation, cargo handling systems, condition monitoring, marine broadband communications, automatic identification systems, GPS tracking system, motion monitoring systems, seismic cable control and many more advanced sensing solutions. Delivering higher levels of autonomy in novel operations driving the need for a suite of sensing solutions both for unmanned ships and better decision support on a traditional bridge that includes a high end technology with improved integration and sensor fusion technology. Kongsberg Maritime's strong digital connectivity, sensing solutions, measurement devices and instrumentation are the key drivers for the autonomous vessel operations with safe navigation and operations at sea in commercial offshore, maritime, hydrographics and defence industries.

Remote services and operations

Kongsberg Maritime has an installed base of over 18,000 vessels and some offshore production platforms. The maritime segment is serviced through a "24/7 – Follow the Sun" concept that provides a strong aftermarket support to its customers. Within autonomy, Kongsberg Maritime has taken a strategic customer facing position through its joint venture, Massterly with Wilh. Wilhelmsen, where Kongsberg Maritime and Wilh. Wilhelmsen complement each other and enables complete offerings towards new customer groups, cargo owners, logistic companies and shipowners. Some of the main offerings to the after sales market include global service and support (GSS), aftermarket projects (AMP) and analytics & operational services (AOS).

Emerging business

Kongsberg Maritime is dedicated to supporting important emerging growth markets in maritime, offshore and offshore wind industry such as autonomy, satellite positioning, hybrid solutions and on-deck handling equipment. These areas, and other emerging interests, have significant synergies with Kongsberg Maritime's core profile and are generating major technology development and sales opportunities.

4.4.4 Kongsberg Digital

Kongsberg Digital delivers software and digital solutions to customers within the maritime, oil and gas, renewable energy and power supply industries. Kongsberg has expertise in the internet of things, smart data, artificial intelligence, digital twins and other areas supporting automation and autonomous operation. In Kongsberg Digital, Kongsberg's long and extensive industrial experience is combined with innovative digital skills.

"Kognifai" is Kongsberg's cloud-based digital platform. It is based on open standards and allows flexibility and scaling. In an open ecosystem, Kongsberg gives external and internal developers access to development frameworks to develop applications on the platform. Kongsberg existing applications are becoming available as services and, through a network of partners, this is expected to contribute to innovation and digital transformation within its industries.

Some of the most important trends in the industrial transformation are digital twins and digital threads. A digital twin is a digital representation either in the form of single components, such as a diesel engine, or all components in a device such as a whole ship. A digital thread is a chain of information about components which extends throughout the life cycle, from design and production to maintenance. This information is then connected to the digital twin. Within digital twins, Kongsberg is focusing on dynamic models that facilitate autonomous operations for oil and gas, renewable energy, and the maritime industry. Kognifai is specially designed to support these trends.

Within the energy market, Kongsberg Digital offers innovative technology and software solutions aimed at both the oil and gas industry and renewable energies:

- *Oil and gas:* during drilling operations, Kongsberg can combine data collection and visualisation in real time with well safety and performance optimisation, as well as applications for operational analysis and decision support. Kongsberg also has solutions that increase production efficiency and safety, reduce costs and save time using real-time simulators for design, multi-phase flow and training. These solutions have already been on the market for many years. During 2018, they will become available as applications on Kognifai. In addition, Kongsberg uses a unique integrated rig management software solution called Rig Manager®, which is developed to meet challenges in managing offshore installations. Rig Manager® provides a single standardised system for data input, reporting and analysis. It can control a wide range of drilling- and rig-related assets and activities such as daily drilling and marine operations.

- *Renewable energy and power supply:* Kongsberg has extensive experience in automation, analysis and sensors. This is how Kongsberg can provide the energy industry with applications and features for smart data and decision support. Kognifai integrates all important operational information about the wind farms in the portfolio into one unified system, and empowers the user to take full control of the production, operation and maintenance planning in each farm. Kognifai comprises four modules of which the customer can select individually to meet their specific requirements; Performance Monitoring, Condition Monitoring, Production Forecasting and Wind Farm Control.

Kongsberg Digital has simulator solutions that ensure the authentic and thorough training of personnel and students in the maritime, marine and offshore markets. This provides them with important skills and knowledge that make real-life operations safer and more cost-effective. These simulator solutions are also used for verification and decision support, for example, in preliminary studies and research projects within design, security and cost optimisation. The Maritime Simulation comprises simulator solutions such as Ships bridge simulators (K-Sim® Polaris and K-Sim® Navigation), a Fishery Simulator (K-Sim® Fishery), an Engine Room Simulator (K-Sim® Engine) and a Liquid Cargo Handling Simulator (K-Sim Cargo).

4.5 Legal structure

4.5.1 Legal Structure of Kongsberg

Kongsberg consists of Kongsberg Gruppen ASA (which is an operating entity) and its 85 subsidiaries (as per 31 December 2017) in more than 25 countries, as well as Kongsberg's investments in associates and jointly controlled entities. Subsidiaries are all entities over which Kongsberg has control.

4.5.2 Description of significant companies in Kongsberg

The following table sets forth the Company's most significant subsidiaries.

Company name	Country of incorporation	Ownership percentage (%)
Kongsberg Maritime AS	Norway	100
Kongsberg Defence & Aerospace AS	Norway	100
Kongsberg Digital AS	Norway	100
Kongsberg Maritime Korea LTD	South Korea	96.9
Hydroid Inc	USA	100
Kongsberg Maritime Pte. Ltd	Singapore	100
Kongsberg Maritime GmbH	Germany	100
Kongsberg Maritime Inc	USA	100
Kongsberg Underwater Technology Inc	USA	100
Kongsberg Seatex AS	Norway	100
Kongsberg Norspace AS	Norway	100
Simrad Spain S.L.	Spain	100
Kongsberg Mesotech Ltd	Canada	100
Kongsberg Maritime S.R.L	Italy	100
Kongsberg Evotec AS	Norway	100
Kongsberg Maritime Holland BV	The Netherlands	100
Kongsberg Teknologipark	Norway	100
Kongsberg Maritime Ltd	Great Britain	100
Kongsberg Maritime do Brazil Ltda	Brazil	100

Company name	Country of incorporation	Ownership percentage (%)
Kongsberg Næringsparkutvikling AS	Norway	100
Kongsberg Spacetec AS	Norway	100
Kongsberg Maritime Middle East DMCCO	UAE	70
Kongsberg Geospetial Ltd	Canada	100
Kongsberg Norcontrol AS	Norway	100
Kongsberg Norcontrol Ltd	Great Britain	100
Kongsberg Digital Inc	USA	100
Kongsberg Maritime China Shanghai Ltd	China	100
Kongsberg Maritime Malaysia Sdn. Bhd.	Malaysia	100
Kongsberg Maritime China Jiangsu Ltd	China	100
Kongsberg Maritime Hellas SA	Greece	100
Kongsberg Digital Simulation Ltd	Canada	100
Kongsberg Maritime Mexico S.A. DE C.V	Mexico	100
Kongsberg Maritime Australia Pty. Ltd	Australia	100

Kongsberg is of the opinion that its holdings in the entities specified above are likely to have a significant effect on the assessment of its own assets and liabilities, financial condition and profits and losses.

4.5.3 Legal structure chart

A chart setting out Kongsberg's legal group structure at the date of this Information Memorandum is attached to this Information Memorandum as Appendix B. Legal entities within the Group without any current activity have not been included in the legal structure chart.

4.6 Agreements concerning Kongsberg's most important joint ventures and holding interests

Below is a description of the agreements concerning the most important joint ventures and holding interests of Kongsberg.

- **Kongsberg Satellite Services AS ("KSAT")**: KSAT is a 50% owned subsidiary owned together with Space Norway AS (previously Norsk Romsenter AS), a state-owned enterprise of the Norwegian Ministry of Trade, Industry and Fisheries. KSAT is a provider of ground station services for polar orbiting satellites from its uniquely located global ground network, and provides advanced monitoring services with rapid delivery based on multiple satellite missions. Kongsberg has entered into a shareholders' agreement with Space Norway AS regarding its 50/50 ownership in KSAT. The shareholders' agreement contains provisions regarding, inter alia, corporate governance, composition of and procedures for the board of directors, restrictions on transfer of shares, matters which require the consent of both shareholders and mechanisms in case a resolution cannot be reached by the shareholders.

- **Patria Oyj ("Patria")**: In 2016, Kongsberg acquired 49.9% of the shares in Patria. The remaining 50.1% of the shares are owned by the State of Finland. Patria is Finland's premier provider of technology solutions and life-cycle support services within defence, security and aviation, and owns 50% of the shares in the Norwegian company Nammo AS (the remaining 50% of the shares in Nammo AS are owned by the Norwegian Government). The agreement entered into between the parties comprises the establishment of a Missile Competence Center in Finland, Open Tactical Framework (OTF) core technologies and system architecture software for missile programs in Finland and international opportunities linked to these capabilities. The shareholders' agreement further contains provisions regarding, inter alia, business cooperation, corporate governance, composition of and procedures for the board of directors, restrictions on transfer of shares and matters which require the consent of both shareholders.

- **KTA Naval Systems AS ("KTA")**: KTA is a joint venture established with tkMS and Atlas Elektronikk GmbH in 2017 to provide submarine combat systems on all future submarines from tkMS. The shareholders' agreement contains provisions regarding, inter alia, financing, corporate governance, composition of and procedures for the board of directors, restrictions on transfer of shares, matters which require the consent of either two-thirds or all of the shareholders and mechanisms in case a resolution cannot be reached by the shareholders.

4.7 Board of Directors

4.7.1 Overview

Kongsberg Gruppen's articles of association ("**Articles of Association**") provide that the Board of Directors shall consist of five to eight board members. Up to five board members and up to two deputy board members shall be elected by the general meeting. According to regulations laid down in the Norwegian Public Companies Act regarding employee representation, three board members and their deputies shall be elected by and among the employees of the Group.

The names and positions and current term of office of the board members, as at the date of this Information Memorandum, are presented in the table below. The Company's registered business address, Kirkegårdsveien 45, 3616 Kongsberg, Norway, serves as c/o address for the members of the Board of Directors in relation to their directorship in the Company.

Name	Position	Served since	Term expires
Eivind Kristofer Reiten	Chairman	2017	2019
Irene Waage Basili	Deputy chair	2011	2019
Morten Henriksen	Board member	2013	2019
Anne Grete Hjelle Strøm-Erichsen	Board member	2015	2019
Martha Kold Bakkevig.........................	Board member	2017	2019
Helge Lintvedt	Board member (employee representative)	2009	2019
Elisabeth Fossan	Board member (employee representative)	2017	2019
Sigmund Ivar Bakke	Board member (employee representative)	2017	2019

There will not be any changes to the Board of Directors as a result of the Transaction.

All board members are independent of the majority shareholder and all board members are independent of the Company's executive management ("**Management**").

The composition of the Board of Directors is in compliance with the independence requirements of the Corporate Governance Code (as defined below), meaning that (i) the majority of the shareholder-elected members of the Board of Directors are independent of the Company's executive management and material business contacts, (ii) at least two of the shareholder-elected board members are independent of the Company's main shareholders (shareholders holding more than 10% of the Shares), and (iii) no member of the Company's management serves on the Board of Directors.

4.7.2 Brief biographies of the Board members

Set out below are brief biographies of the board members of the Company, including their relevant management expertise and experience and an indication of any significant principal activities performed by them outside Kongsberg Gruppen.

Eivind Reiten, Chairman

Eivind Reiten, born in 1954, has 30 years of experience from business and politics, including the position as State Secretary, Minister for Fisheries and Minister for Petroleum and Energy. He has broad experience in board-work, strategy and analysis. Mr. Reiten has worked 23 years in Norsk Hydro ASA, the last nine years as CEO. He is also member of the board in several other companies. Mr. Reiten holds a Master in Economics (Cand.oecon) from the University of Oslo. Mr. Reiten is a Norwegian citizen and resides in Oslo, Norway.

Irene Waage Basili, Deputy chair

Irene Waage Basili, born in 1967, has been a member of the Board of Directors since 2011. Mrs. Basili is also a board member of Pacific Basin Shipping Limited (Hong Kong) and Wilh. Wilhelmsen Holding ASA (Norway). She is the chief executive officer of Shearewater Geoservices AS, and has held the position as chief executive officer of GC Rieber Shipping ASA. She holds a degree in business administration (international management) from Boston University (1990), and attended Solstrand management programme in Bergen, Norway

(2002/2003) and management programmes at IMD in Lausanne, Switzerland (2005/2006). Mrs. Basili is a Norwegian citizen and resides in Bergen, Norway.

Morten Henriksen, Board member

Morten Henriksen, born in 1968, has been a member of the Board of Directors since 2013 and is also chair of Kongsberg's audit committee. Mr. Henriksen also serves on the board of directors of Arendals Water Resources Usage Community, Markedskraft (chair), Wattsight (chair), Tekna Plasma Systems (chair), Powel, SIVA and Flumill, and holds the position as executive director technology in Arendals Fossekompani ASA. He holds a degree in electric power from the Norwegian Institute of Technology (1991). Mr. Henriksen is a Norwegian citizen and resides in Arendal, Norway.

Anne Grete Hjelle Strøm-Erichsen, Board member

Anne Grete Hjelle Strøm-Erichsen, born in 1951, has been a member of the Board of Directors since 2015 and is also a member of Kongsberg's compensation committee. Mrs. Strøm-Erichsen also serves on various boards such as Dips AS (chair), The Norwegian Atlantic Committee (chair), ASVL (chair), Samhallsbyggnadsbolaget i Norden AB and Bergen Havn. She holds the position as Senior Advisor Norway at Rud Pedersen Public Affairs Company AS. Mrs. Strøm-Erichsen has 20 years of experience from the IT business, served eight years as Cabinet Minister, City Chief Commissioner and Mayor in Bergen. She holds a degree in IT studies from South Dakota School of Mines & Technology, US (1980/1981) and engineer exam from the University of Bergen (1974). Mrs. Strøm-Erichsen is a Norwegian citizen and resides in Oslo, Norway.

Martha Kold Bakkevig, Board member

Martha Kold Bakkevig, born in 1963, has been a members of the Board of Directors since 2017. Mrs. Bakkevig also serves on the board of directors of BW LPG Limited. She has 20 years' experience in management and business development and broad academic background with doctor's degree in both technical and business strategical subjects. She holds a master degree in science from the University of Trondheim (1990), Nordic Industrial Research Education (1995), Dr. scient./PhD from the Norwegian University of Science and Technology (1995), attended the Solstrand Programme (2000) and the Board of Directors Program at NHO (2004), in addition to a Dr, Oecon./PhD from BI (2007). She currently serves as the CEO of Steinsvik Group and is the owner of Kold Invest AS. Mrs. Bakkevig is a Norwegian citizen and resides in Oslo, Norway.

Helge Lintvedt, Board member (employee representative)

Helge Lintvedt, born in 1957, has been a member of the Board of Directors since 2009 and is also a member of Kongsberg's audit committee. Mr. Lintvedt holds the position as senior project engineer at Kongsberg Defence Systems, and has been with Kongsberg since 1979. He holds an engineering degree from Kongsberg Ingeniørskole, and also serves on the board of directors of the Norwegian Society of Engineers and Technologists (NITO). Mr. Lintvedt is a Norwegian citizen and resides in Kongsberg, Norway.

Elisabeth Fossan, Board member (employee representative)

Elisabeth Fossan, born in 1967, has been a member of the Board of Directors since 2017 and has been with Kongsberg since 2005. Mrs. Fossan also serves as chairman on the board of directors of Blefjellhytter.no Ltd., a company that she also owns. Her education comprises commerce and office, as well as a certificate in security. She currently holds the position as security in Kongsberg Teknologipark. Mrs. Fossan is a Norwegian citizen and resides in Flesberg, Norway.

Sigmund Ivar Bakke, Board member (employee representative)

Sigmund Ivar Bakke, born in 1958, has been a member of the Board of Directors since 2017 and has been with Kongsberg since 1987. Mr. Bakke experience comprises employee representative in Tekna Bekkajordet for approximately 25 years, as well a management group for pension and active participation in the pension projects in Kongsberg in 2002, 2007 and 2016. Mr. Bakke's current position is senior engineer R&D, simulation in Kongsberg Digital. He holds a degree in civil engineering from NTH (1981). Mr. Bakke is a Norwegian citizen and resides in Horten, Norway.

4.7.3 Shares held by board members

As of 16 August 2018, the board members have the following shareholdings in the Company:

Name	Position	Number of Shares
Martha Kold Bakkevig[1]	Board member	1,400
Morten Henriksen	Board member	1,309
Elisabeth Fossan	Board member (employee representative)	3,240
Sigmund Ivar Bakke	Board member (employee representative)	3,078

1) Shares held through Kold Invest AS, owned 50% by Martha Kold Bakkevig.

As of the date of this Information Memorandum, none of the board members hold any options for Shares.

4.7.4 Benefits upon termination

There are no agreements with any members of the Board of Directors which provide for benefits upon termination of their directorship.

4.8 Management

4.8.1 Overview

The Company's senior management team consists of eight individuals. The names of the members of the Management as at the date of this Information Memorandum, and their respective positions, are presented in the table below:

Name	Current position within Kongsberg	Employed with Kongsberg since
Geir Håøy	President & Chief Executive Officer	1993
Gyrid Skalleberg Ingerø	Group Executive Vice President and Chief Financial Officer	2017
Egil Haugsdal	Executive Vice President. President, Kongsberg Maritime	1996
Eirik Lie	Executive Vice President. President, Kongsberg Defence & Aerospace	1990
Hege Skryseth	Executive Vice President. President Kongsberg Digital	2013
Even Aas	Group Executive Vice President Public Affairs	1998
Harald Aarø	Group Executive Vice President Business Development and Strategy	2010
Hans Petter Blokkum	Group Executive Vice President, Chief HR and Security Officer	2010

The Company's registered business address, Kirkegårdsveien 45, 3616 Kongsberg, serves as the business address for the members of the Management in relation to their employment with the Company.

4.8.2 Brief biographies of the members of Management

Geir Håøy, President & Chief Executive Officer

Geir Håøy, born in 1966, has been President and CEO of Kongsberg since June 2016. Håøy has worked for Kongsberg since June 1993, holding various management positions since 1996. Before assuming the position of CEO and President of Kongsberg, Håøy was President of Kongsberg Maritime, a position he held since 2010. As President of Kongsberg Maritime, Håøy has been part of the Group's corporate management team. Håøy has broad international experience from different positions in Kongsberg. He has, among other positions, been head of Kongsberg Maritime's activities in South Korea and Singapore. Before assuming the position of President of Kongsberg Maritime, Håøy has served as Executive Vice President for Global Customer Support at Kongsberg Maritime, with responsibility for the business area’s worldwide customer support activities. Mr. Håøy is a Norwegian citizen and resides in Stokke, Norway.

Gyrid Skalleberg Ingerø, Group Executive Vice President and Chief Financial Officer

Gyrid Skalleberg Ingerø, born in 1967, has been with Kongsberg since 2017. Her former experience includes CFO of Telenor Digital Business, CFO of Telenor Norway, CFO and head of investor relations at Komplett ASA, and auditor at Nordea and KPMG. She has also served as acting CFO and board member in different turnaround cases over the last ten years. Her education comprises a degree as Certified Public Accountant from the Norwegian School of Economics (NHH)/Master in Accounting and Auditing. Mrs. Ingerø also serves on the board of directors of Sporveien AS, Flytoget AS, 1881 AS and Itera ASA. Mrs. Ingerø is a Norwegian citizen and resides in Oslo, Norway.

Egil Haugsdal, Executive Vice President. President, Kongsberg Maritime

Egil Haugsdal, born in 1961, has been with Kongsberg since 1996 and has been a member of the corporate management team since 2009. His former experience includes president of Kongsberg Protech Systems and group executive vice president business development and strategy. Mr. Haugsdal is educated as a mechanical engineer from Gjøvik University College, and began his professional career in Kongsberg Våpenfabrikk, followed by ten years of managerial positions within logistics and production in ABB. Mr. Haugsdal is a Norwegian citizen and resides in Kongsberg, Norway.

Eirik Lie, Executive Vice President. President, Kongsberg Defence & Aerospace (KDA)

Eirik Lie, born in 1966, has been with Kongsberg since 1990. Since joining Kongsberg in 1990, Mr. Lie has held different positions, including Software Development, Systems Engineering and several Projects and Departmental Management Positions. He has also been head of the Kongsberg Defence Communication division. From 2006 and until Mr. Lie took on his current position, he was Executive Vice President for the Integrated Defence Systems Division in Kongsberg Defence & Aerospace. His education includes Kongsberg College of Engineering, Data Engineering, a Bachelor's degree in Computer Science and the Royal Norwegian Navy Officer Candidate School. Mr. Lie also serves as chairman of the board of directors of Kongsberg Geospatial Ltd (100% owned by Kongsberg), chairman of the board of directors of Kongsberg Satellite Services AS (50.0% owned by Kongsberg), deputy chairman of the board of directors of Capena AS, and is a member of the board of directors of Patria (49.9% owned by Kongsberg). Mr. Lie is a Norwegian citizen and resides in Kongsberg, Norway.

Hege Skryseth, Executive Vice President, President Kongsberg Digital

Hege Skryseth, born in 1967, has been with Kongsberg since 2013. Her former experience includes managing positions in several leading international technology companies, including the position as chief executive officer of Microsoft Norway and Geodata. She currently also serves on the board of directors of NHO and as chairman of the board of directors of Analyse. Mrs. Skryseth holds an eMBA from NHH, a bachelor from BI and college graduate from NITH. Mrs. Skryseth is a Norwegian citizen and resides in Asker, Norway.

Even Aas, Group Executive Vice President Public Affairs

Even Aas, born in 1961, has been with Kongsberg since 1998. He was formerly employed by the Norwegian Confederation of Trade Unions, political advisor and later state secretary for commerce and shipping in the Ministry of Foreign Affairs. Mr. Aas has also worked for Telenor. He currently serves as chairman on the board of directors of Maritime Forum. Aas currently also serves on the board of directors of Norsk industry, FAFO and Toppindustrisenteret/DigitaleNorway. He is an economist educated from the University of Oslo (1988). Mr. Aas is a Norwegian citizen and resides in Oslo, Norway.

Harald Aarø, Group Executive Vice President Business Development and Strategy

Harald Aarø, born in 1969, has been with Kongsberg since 2010. He has formerly held the position as Executive Vice President Marketing and Sales at Kongsberg Defence Systems, and has broad management experience from Navico, McKinsey, HSD Shipping and the Royal Norwegian Navy. Mr. Aarø is also a member of the board of directors of Patria (49.9% owned by Kongsberg). He holds an Executive MBA, business, from Duke University, and a Naval Executive Officer degree with major in science from the Royal Norwegian Naval Academy. Mr. Aarø is a Norwegian citizen and resides in Bærum, Norway.

Hans Petter Blokkum, Group Executive Vice President, Chief HR and Security Officer

Hans Petter Blokkum, born in 1962, has been with Kongsberg since 2010. Mr. Blokkum's former experience includes the positions as EVP business support in Kongsberg Defence Systems and group VP and chief HR officer in Kongsberg. He has more than 30 years of experience within the HR area and broad international experience. Prior to joining Kongsberg in 2010, he held the position of HR director of Dresser Rand, responsible for Europe, Middle-East and Africa. Mr Blokkum has studied Strategic Management at the Norwegian School of Economics (NHHK) and Human Resources at the University of Stavanger. Mr. Blokkum is a member of Arbeidspolitisk utvalg of the Federation of Norwegian Industries. Mr. Blokkum is a Norwegian citizen and resides in Kongsberg, Norway.

4.8.3 Shares held by member of Management

As of 16 August 2018, the members of the Management had the following shareholdings in the Company:

Name	Position	Number of Shares
Geir Håøy	President and Chief Executive Officer	15,882
Gyrid Skalleberg Ingerø...........	Group Executive Vice President and Chief Financial Officer	4,393
Egil Haugsdal	Executive Vice President. President, Kongsberg Maritime	20,371
Eirik Lie	Executive Vice President. President, Kongsberg Defence & Aerospace	2,524
Hege Skryseth........................	Executive Vice President. President Kongsberg Digital	6,473
Even Aas	Group Executive Vice President Public Affairs	17,794
Harald Aarø	Group Executive Vice President Business Development and Strategy	3,575
Hans Petter Blokkum...............	Group Executive Vice President, Chief HR and Security Officer	1,050

As of the date of this Information Memorandum, none of the members of the Management holds any options for Shares.

4.8.4 Benefits upon termination of employment

Severance pay

Termination by the Company of Geir Håøy, CEO and before age 65 gives the employee a contractual right to a notice period of six months and up to six months with severance pay. Even Aas, VP Public Affairs, has a notice period of six months and up to 12 months with severance pay if the employment is terminated before age 60. Egil Haugsdal, VP Kongsberg Maritime, has a notice period of six months and up to six months with severance pay before age 62. The other members of the Management have notice periods of six months and up to six months with severance pay if the employment is terminated before normal retirement age. Severance pay does not include LTI, bonus and other benefits.

If the Company terminates the employment due to breach of duty, none of the members of the corporate management team will receive any severance pay after the termination date.

Pension scheme

The CEO, Geir Håøy, has a pension scheme with pay from age 63/65 until age 67, dependent on 15 years of membership in the scheme. This scheme is capped based on his previous position. Even Aas, VP Public Affairs, has a scheme with pay from age 60, Egil Haugsdal, VP Kongsberg Maritime, from age 62 and Harald Aarø, VP Business Development and Strategy from age 63/65, all until age 67. Hege Skryseth, VP Kongsberg Digital, has an additional 12% contribution to the standard pension plan. Hans Petter Blokkum, VP Chief HR and Security Officer, Eirik Lie, VP Kongsberg Defence & Aerospace, and Gyrid Skalleberg Ingerø, CFO, do not have any special pension scheme above the normal 12G limitation.

The current policy for potential new hires to the corporate management team related to severance pay and top hat is limited to a maximum of six months' notice period and six months' severance pay (excluding LTI, bonus and other benefits). Maximum pension income is capped at 12G in accordance with the Governments guidelines (White Paper no. 27 (2013-2014) – "A diverse and value creating ownership") (*Nw: Eierskapsmeldingen*).

Except for the above, none of the members of the Management have entered into employment agreements which provide for special benefits upon termination. None of the board members or the members of the nomination committee have service contracts which entitles them to any benefits upon termination and none will be entitled to any benefits upon termination of office.

4.9 Corporate governance

The Company endeavours to comply with the Norwegian Code of Practice for Corporate Governance published on 30 October 2014 by the Norwegian Corporate Governance Board (the "**Corporate Governance Code**"). The Company is in compliance with the Corporate Governance Code with the following two exceptions:

- **Item 6 – General Meeting:**
    - The entire board of directors has not attended the general meetings as this has not been deemed required by the items on the agenda for the general meetings. The chairman of the board of directors is always present in the general meetings to respond to questions, and other board members participate on an ad hoc basis. From the Company's perspective, this is considered to be sufficient.

    - Article 8 of the Articles of Association specifies that the general meetings shall be chaired by the chairman of the board of directors. If the chairman is absent, the general meeting shall be chaired by the deputy chairman of the board of directors. In absence of both, the chair person shall be elected by the general meeting. This is a deviation from the recommendation regarding an independent chair. The arrangement has been adopted by the shareholders through a unanimous resolution of the general meeting and has worked satisfactorily.

As the Norwegian state holds an ownership share of 50.001%, Kongsberg also conducts its activities in accordance with the Storting White Paper no. 13 (2006-2007) – "Ownership report", White Paper no. 27 (2013-2014) – "A diverse and value creating ownership", the Norwegian government's 10 ownership principles for good corporate governance and the OECD guidelines regarding state ownership and corporate governance.

4.10 Capital resources

4.10.1 Cash flow and sources of liquidity

As of 31 March 2018, Kongsberg had cash and cash equivalents of NOK 2,739 million and current financial investments of NOK 0 million. As of the same date, Kongsberg had a total equity of NOK 7,307 million, interest bearing debt of NOK 3,329 million and an equity ratio of 35.9%.

Kongsberg primary source of liquidity on a daily basis is the operational cash flow from its operating companies, which in turn is largely dependent on the underlying market for Kongsberg's and its joint ventures' systems and solutions.

Kongsberg funds its investments and operations from several capital sources, but the primary source is cash from operations and bond loans.

Hedging strategies have been established to manage the exposure from changes in currencies and interest rates. For more detailed information please refer to note 5 "Management of capital and financial risk" in Kongsberg's annual report for 2017.

The figures in the table below is derived from the selected financial information as presented in Section 8 "Selected financial information for Kongsberg" and incorporated by reference in this Information Memorandum.

Amounts in NOK million	**Three months ended 31 March**		**Year ended 31 December**		
	2018 *(unaudited)*	**2017** *(unaudited)*	**2017**	**2016**	**2015**
Net cash provided by/(used in) operating activities	(5)	520	2,899	809	(1,087)
Net cash flow provided by/(used in) investing activities	(66)	(144)	(528)	(3,343)	(99)
Net cash flow provided by/(used in) financing activities	(113)	(95)	(1,319)	2,668	(1,139)
Effect of changes in exchange rates on cash and cash equivalents	(33)	23	16	(53)	(108)
Total cash movement	**(217)**	**304**	**1,068**	**81**	**(2,617)**

Liquidity ratio and Equity ratio	Three months ended 31 March		Year ended 31 December		
	2018 *(unaudited)*	2017 *(unaudited)*	2017 *(unaudited)*	2016 *(unaudited)*	2015 *(unaudited)*
Liquidity ratio[1]	1.51	1.33	1.48	1.39	1.26
Equity ratio[2]	35.9%	35.6%	35.4%	31.7%	32.0%

[1] Current assets divided by current liabilities

[2] Equity in percent of total assets

4.10.2 Existing borrowing arrangements

Total loan balances of Kongsberg as of 31 March 2018 were as follows:

Amounts in NOK million	**31 March 2018**
Mortgages/Bank loans	79
Bonds	3,250
Total interest-bearing debt	**3,329**

The maturity profile for the interest-bearing debt as of 31 March 2018 was as follows:

Amounts in NOK million	**31 March 2018**
Due in year 1	0
Due in year 2	800
Due in year 3	1,000
Due in year 4	0
Due in year 5 and later	1,529
Total interest-bearing debt	**3,329**

As of 31 March 2018, the Company had five long-term interest-bearing bond loans (KOG07, KOG08, KOG09, KOG10 and KOG11) with a total outstanding amount of NOK 3,250 million maturing in the period between September 2019 and June 2026. All bonds are issued in NOK and listed on the Oslo Stock Exchange. The interest rate terms on loans with floating rates are 3-month NIBOR with a margin of + 1.25% for KOG08 and 0.9% for KOG10. The fixed interest rate is 4.8% for KOG07, 3.20% for KOG09 and 2.9% for KOG11. KOG07 matures in the third quarter of 2019. All bond loans are unsecured. All bonds include cross default clauses.

Kongsberg also has an undrawn revolving credit facility with Danske Bank, DNB, JP Morgan Chase, Nordea and SEB of NOK 2.3 billion (the "**RCF**") which matures on 15 March 2023, with an extension option of one year. The facility is for general business purposes. The interest rate is NIBOR + a margin that depends on the ratio between net interest-bearing debt/EBITDA and can vary from 0.55% to 2.00%. The RCF agreement requires that net-interest-bearing liabilities shall not exceed four times the EBITDA, but can go up to 4.5 times the EBITDA for four quarters at the most, of which three may be consecutive quarters. The RCF agreement further contain covenants which provide that pledge assets cannot exceed 5% of the tangible assets of the Group, that sale of real estate cannot exceed NOK 1 billion, that the financial indebtedness in subsidiaries not exceeds NOK 600 million or NOK 1 billion related to real estate, that financial support to third parties does not exceed 2,5% of tangible assets of the Group, that the Group not can dispose of assets exceeding NOK 1 billion or enter into mergers which will be regarded as creating a material adverse effect on the Group.

Kongsberg Gruppen ASA also established a one year cash credit of NOK 500 million in 2017 with Danske Bank. As of 31 March 2018, this credit facility was undrawn.

4.10.3 Restrictions on use of capital

There are not any restrictions on the use of capital resources that have materially affected, or could materially affect, directly or indirectly, the Company's operations as of the date of this Information Memorandum.

4.11 Significant changes in the financial or trading position of Kongsberg since 31 December 2017

Except for the Transaction, there have been no significant changes in the financial or trading position of Kongsberg since 31 December 2017.

4.12 Recent developments and significant trends

Since the oil price bottomed at around USD 30/bbl in early 2016, it has been steadily improving to levels around USD 60-65/bbl at the end of 2017. Since year end 2017 and through the first half of 2018, the oil price has further improved to levels around USD 70-75 /bbl, and although there is still volatility, the underlying trend is positive based on shrinking inventories and a prolonged period with reserve replacement at unsustainable levels. This oil price improvement has together with industry efficiency improvements led to a significant improvement in free cash flow for the oil companies which is expected to translate into increased E&P spending and increased activity within the offshore market. There is no strong turnaround, but throughout the first half of 2018 several companies in the offshore market have reported on increased activity and improved outlook. However, with the high number of drilling rigs and offshore vessels in lay-up newbuild activity is not expected to pick up in the near term, while activity within the services aftermarket is seen to increase somewhat as stacked rigs and vessels are brought back into operation. Within the merchant market newbuild activity has seen a steady growth over the last year driven by worldwide GDP growth and continued growth in seaborn trade. This trend has continued also into the first half of 2018. The Company has seen that the activity level for Kongsberg Maritime has somewhat improved in the global customer support segment. The first six months of 2018 have also showed increased order intake within certain traditional merchant segments, such as bulk and LNG. After a period with market decline and price pressure, Kongsberg Maritime experiences that the offshore and maritime segment has stabilized the last quarters. The high focus on cost and project efficiency during the downturn has been crucial to maintain margins, and strengthen the competitiveness. As communicated in the stock exchange announcement dated 10 August 2018, excess costs of NOK 50 million in a single project delivery in Kongsberg Maritime have incurred. This project is an ongoing integrated solution project that is in line with Kongsberg Maritime's "triangle strategy", and the excess costs refer to delays in the project in addition to higher customization and development costs than expected.

Within the global defence market, the current global defence procurement predictions show modest growth for the coming years after several years of negative or low growth, with the Eastern nations growing more aggressively than the Western nations. Growing global instability on both political and military fronts, with Russia and China having increased their military spending significantly while also demonstrating willingness to use military means to achieve political goals – e.g. in Russia's case in Ukraine and Syria, has resulted in defence budgets moderately increasing also in Western nations. The U.S. defence budgets again see growth after multi-year declines following troop pullbacks from the wars in Afghanistan and Iraq. The U.S. has recently put an increased pressure on other NATO nations to increase their defence budgets as a share of GDP. Even though the general growth rates in Kongsberg Defence & Aerospace's accessible defence markets are moderate, there is increased demand in certain segments that match its portfolio very well. Kongsberg Defence & Aerospace's home market in Norway is very important for product development and as reference for export sales, while the international markets for its products are significantly larger. Due to long budget processes for military programs in most countries, however, the timelines from identified requirements to delivery contracts will in most cases be significant. Kongsberg Defence & Aerospace actively seeks to develop market access for its products in other countries through cooperation with the defence industry in the respective countries, particularly through requirements from the Norwegian government for industrial offset or reciprocal purchases when Norway purchases defence products from foreign companies.

See Section 7 "Industry overview" for further information on the markets in which the Group operates.

4.13 Working capital statement

While the Company is of the opinion that the working capital available to Kongsberg would be sufficient in order for Kongsberg to carry out its general business activities in ordinary course during the next twelve months, the Transaction entails that Kongsberg does not have sufficient working capital for its present requirements. In order to finance the purchase price for Rolls-Royce Commercial Marine as set out in Section 3.5 "Total consideration and transaction costs", the Company is dependent on both new equity and debt, and more specifically on a successful completion of the Rights Issue and Bond Issue as described in Section 3.10 "Financing of the Transaction".

As further described in Section 3.10 "Financing of the Transaction", the share capital increase pertaining to the Rights Issue is conditional upon being resolved by the Company's EGM with the support from at least two-thirds of the share capital represented and the votes cast. The Norwegian Government has announced that it, subject to certain conditions, is positive to the Norwegian Government, represented by the Ministry of Trade, Industry and Fisheries, participates in the Rights Issue on a pro rata basis (50.001%), pending formal parliamentary approval which is expected to be given following the Parliament being convened for the autumn sessions in early October 2018. Shareholders that as of the date of this Information Memorandum represented 21.99% of the shares in the Company have undertaken to vote in favour of the share capital increase pertaining to the Rights Issue at the EGM. Together with the Ministry of Trade, Industry and Fisheries, these shareholders represented 71.99% of the total number of shares in the Company as of the date of this Information memorandum. The 50% of the Rights Issue that does not relate to shares owned by the Norwegian Government is underwritten by the Bank Underwriters and the Pre-committing Shareholders. On this basis, the Company is confident of a successful completion of the Rights Issue which will result in gross proceeds for the Company in the amount of NOK 5 billion.

As Nordea has undertaken to provide the Bridge Loan of up to NOK 2 billion in the event that the Bond Issue has not been completed prior to Completion, the Company is confident that it will have both sufficient equity and debt in place in order to finance the purchase price for Rolls-Royce Commercial Marine upon Completion, as further described in Section 3.12 "Timeline to Completion".

4.14 Corporate information and share capital

4.14.1 Share capital and share capital history

At the date of this Information Memorandum, the Company's share capital is NOK 150,000,000 divided into 120,000,000 shares, each with a par value of NOK 1.25. Other than a 1:4 share split in 2009, there has been no change to the Company's share capital since 1999. All the Shares have been created under the Norwegian Public Companies Act and are validly issued and fully paid. The Shares are registered in the VPS under ISIN NO 0003043309. The Shares have been listed on the Oslo Stock Exchange since 1993.

4.14.2 Authorisation to increase the share capital and to issue Shares

As at the date of this Information Memorandum, the Board of Directors has not been authorised to increase the share capital or to issue Shares.

4.14.3 Authorisation to acquire treasury shares

As of 16 August 2018, the Company held a total of 19,869 treasury shares. On 16 May 2018, the general meeting of the Company granted the Board of Directors an authorisation to acquire treasury shares with a nominal value of up to NOK 7,500,000. The authorization is valid until 30 June 2019.

4.14.4 Other financial instruments

Neither the Company nor any of its subsidiaries has issued any options, warrants, convertible loans or other instruments that would entitle a holder of any such instrument to subscribe for any shares in the Company or its subsidiaries.

4.14.5 Shareholder rights

The Company has only one class of Shares in issue, and in accordance with the Norwegian Public Companies Act, all Shares in that class will provide equal rights in the Company. Each of the Shares carries one vote. The shares are freely transferable.

4.15 Ownership structure

The Norwegian state, represented by the Norwegian Ministry of Trade, Industry and Fisheries, is the largest shareholder with 50.001% of the Shares. As of 10 August 2018, the Company had approximately 10,845 shareholders. The Company's 20 largest shareholders as of 10 August 2018 are set out in the table below:

No	Name of shareholder	Type of account	Number of Shares	Percentage of Shares
1	Nærings- og fiskeridepartementet		60,001,600	50.00%
2	Folketrygdfondet		7,838,890	6.53%
3	MP Pensjon Pk		3,682,109	3.07%
4	Must Invest AS		2,862,429	2.39%
5	State Street Bank an A/C Client Omnibus F	NOM	2,646,852	2.21%
6	Ulfoss Invest AS		2,567,803	2.14%
7	Havfonn AS		2,543,021	2.12%
8	Danske Invest Norske c/o Danske Capital A		1,782,952	1.49%
9	Odin Norge		1,620,908	1.35%
10	Nordea Nordic Small		1,304,820	1.09%
11	State Street Bank an S/A SSB Client Omni	NOM	1,023,810	0.85%
12	JPMorgan Chase Bank, A/C Bbh Intl Explore	NOM	993,319	0.83%
13	Danske Invest Norske		965,421	0.80%
14	State Street Bank an A/C Client Omnibus D	NOM	789,676	0.66%
15	JPMorgan Chase Bank, A/C Vanguard Bbh Len	NOM	746,436	0.62%
16	The Northern Trust C Non-Treaty Account	NOM	719,251	0.60%
17	Arctic Funds Plc Bny Mellon SA/NV		717,964	0.60%
18	State Street Bank an A/C Client Fund Numb	NOM	654,486	0.55%
19	State Street Bank an A/C Client Fund Numb	NOM	528,923	0.44%
20	Fidelity Funds		518,073	0.43%
	Top 20 shareholders		94,508,743	78.77
	Other		25,491,257	21.23
	Total		**120,000,000**	**100.00**

4.16 Major shareholders

Shareholders owning 5% or more of the Shares have an interest in the Company's share capital which is notifiable pursuant to the Securities Trading Act of 29 June 2007 no. 75 (Nw. Verdipapirhandelloven), as amended (the "**Norwegian Securities Trading Act**"). The Norwegian Ministry of Trade, Industry and Fisheries and Folketrygdfondet will accordingly have a notifiable shareholding and the ability to significantly influence the outcome submitted for the vote of the shareholders of the Company. Other than this, the Company is not aware of any persons or entities which would have a shareholding in the Company which is notifiable pursuant to the Norwegian Securities Trading Act.

As the Norwegian Ministry of Trade, Industry and Fisheries holds 50.001% of the shares and votes in the Company, the Norwegian Ministry of Trade, Industry and Fisheries has the ability to in a material way control and affect the decisions made by the general meeting in the Company. Other than this, the Company is not aware of any persons or entities that, directly or indirectly, jointly or severally, will exercise or could exercise control over Kongsberg Gruppen. The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company. The Shares have not been subject to any public takeover bids.

4.17 Material contracts and dependency on patents and licenses

Other than the Purchase Agreement, neither the Company nor any member of the Group has entered into any material contracts outside the ordinary course of business of the Group for the two years immediately preceding the date of this Information Memorandum, and no member of the Group has entered into any contracts outside the ordinary course of business of the Group containing obligations or entitlements that are, or may be, material to the Group as of the date of this Information Memorandum.

Kongsberg has a broad intellectual property portfolio protecting its technology and innovation, but is not dependent on any patents or licenses, industrial, commercial or financial contracts or new manufacturing processes.

4.18 Legal proceedings

From time to time, the Group is involved in litigation, disputes and other legal proceedings arising in the normal course of its business. However, neither the Company nor any other company in the Group has been involved in any legal, governmental or arbitration proceeding during the course of the preceding twelve months, which may have, or have had in the recent past, significant effects on the Company or Kongsberg's financial position or profitability, and the Company is not aware of any such proceedings which are pending or threatened.

4.19 Independent auditor

The Company's statutory auditor is Ernst & Young AS ("**EY**"). EY's registration number is 976 389 387, and its address is Dronning Eufemias gate 6, 0191 Oslo, Norway. EY is a member of the Norwegian Institute of Public Accountants (Nw. *Den Norske Revisorforening*). EY has been the Company's statutory auditor for the historical financial periods covered by this Information Memorandum and has audited the Company's consolidated financial statements as of, and for the years ended, 31 December 2017, 2016 and 2015 and their reports thereon are incorporated by reference in this Information Memorandum as described in Section 10.4 "Incorporation by reference".

In addition, EY has issued a report prepared in accordance with ISAE 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information included in a Prospectus" on the unaudited pro forma financial information included in Section 9 "Unaudited pro forma financial information" of this Information Memorandum.

5 PRESENTATION OF ROLLS-ROYCE COMMERCIAL MARINE

This Section provides an overview of Rolls-Royce Commercial Marine as of the date of this Information Memorandum. This Section should be read in conjunction with the other parts of this Information Memorandum, in particular Section 1 "Risk Factors" and Section 6 "The Group Following Completion of the Transaction".

5.1 Introduction

Rolls-Royce's Commercial Marine business was first established in 2000, following the acquisition by of the core of Vickers' commercial business in 1999. Over the next decade, Rolls-Royce Commercial Marine more than tripled in size, before the downturn in the offshore market caused a significant decline. At the beginning of 2018, Rolls-Royce announced a corporate simplification which reduced its number of segments from five to three. As part of the simplification, Rolls-Royce decided to undertake a strategic review of its commercial marine business to explore if the business would be better served under new ownership. This process concluded with the Purchase Agreement regarding Kongsberg's acquisition of the Rolls-Royce Commercial Marine business.

Rolls-Royce Commercial Marine manufactures and services propulsion and handling solutions for the maritime offshore, merchant and naval markets. Rolls-Royce Commercial Marine's range of capabilities in the marine market encompasses vessel design, integration of complex systems and supply and support of power and propulsion equipment and deck machinery. Rolls-Royce Commercial Marine is also a provider in the emerging ship intelligence market of digital solutions and remote and autonomous operations.

Rolls-Royce Commercial Marine operates a global service network, focused on local customer support, spares distribution and 24/7 technical support, via more than 700 service engineers. Rolls-Royce Commercial Marine also operates advanced customer training facilities in Norway, Singapore and Brazil. Rolls-Royce Commercial Marine serves more than 4,000 customers, with more than 25,000 commercial vessels using Rolls-Royce Commercial Marine' equipment today.

5.2 Industry and business overview

Rolls-Royce Commercial Marine supplies complex propulsion and handling systems to the maritime market, across two distinct segments: Offshore and Merchant. Historically, offshore has been the most important segment with large product and system deliveries to offshore newbuilds. However, offshore newbuild contracting halted following the oil price drop from late 2014 which has also impacted Rolls-Royce Commercial Marine financially. Rolls-Royce Commercial Marine technology can account for around 40% of the total value of a typical offshore vessel. Share of revenue generated from the offshore segment has therefore decreased from 68% in 2015 to 49% in 2017.

As illustrated below, Rolls-Royce Commercial Marine offers a broad portfolio of marine products:

Propulsion is the most significant product group followed by Deck Machinery and Motion Control. Engines is not part of the business to be sold, but Rolls-Royce will enter into a partnering agreement with Kongsberg to sell and service engines to the maritime market.

The systems part consists of Ship Design and Electrical, Automation & Control. Ship Design in itself has a relatively limited revenue contribution, but ensures early engagement with clients in the design stage which provides a valuable window for the company in which to showcase its broader products and systems portfolio.

Ship Intelligence is Rolls-Royce Commercial Marine's investments in innovation and digital technology within intelligent asset management and remote and autonomous vessels. These efforts are currently contributing with limited revenue.

Rolls-Royce Commercial Marine also offers a global service network with more than 700 service engineers in 30 service locations worldwide. Service constituted 43% of the revenue in 2017. Rolls-Royce Commercial Marine's product range includes a large share of rotating and moving machinery (e.g. thrusters, gears, deck machinery). This is equipment with relatively high maintenance requirements, leading to a significant share of revenue being generated from service.

5.3 Board of directors and management

Rolls-Royce Commercial Marine does not have a separate board of directors. The Management of Rolls-Royce Commercial Marine consists of the following persons:

- Mikael Makinen, President
- Rick Curtis, CFO
- Alistair Mackenzie, Director Services, Operations and Transformation
- Asbjørn Skaro, Director Deck Machinery & Systems
- Gary Nutter, Director Customer Propulsion & Engines
- Kevin Daffey, Director Engineering, Technology & Ship Intelligence
- Kim Kersey, Director Human Resources

5.4 Employees

Rolls-Royce Commercial Marine had as of July 2018 approximately 3,600 employees in 34 countries.

5.5 Material contracts

Rolls-Royce Commercial Marine has not entered into any material contracts outside the ordinary course of business for the two years immediately preceding the date of this Information Memorandum, and Rolls-Royce Commercial Marine has not entered into any contracts outside the ordinary course of business containing obligations or entitlements that are, or may be, material to the issuer as of the date of this Information Memorandum.

5.6 Key financial figures

The following tables present selected unaudited financial information for Rolls-Royce Commercial Marine. The selected financial information has been extracted from the underlying accounting records reported as part of the audited consolidated financial statements of Rolls-Royce.

5.6.1 Unaudited profit and loss items

The table below sets out unaudited profit and loss items for Rolls-Royce Commercial Marine as of the years ended 31 December 2017, 2016 and 2015, as well as for the three months ended 31 March 2018 and 2017.

	Three months ended 31 March *(unaudited)*		**Year ended 31 December** *(unaudited)*		
GBP million	**2018**	**2017**	**2017**	**2016**	**2015**
Revenue	156	188	819	889	1 096
Cost of goods sold	(127)	(156)	(653)	(719)	(906)
Operating expenses	(45)	(52)	(196)	(200)	(196)
EBITDA	**(16)**	**(21)**	**(30)**	**(30)**	**(5)**

5.6.2 Unaudited balance sheet items

The table below sets out unaudited balance sheet items for Rolls-Royce Commercial Marine as at 31 December 2017, 2016 and 2015.

	As of 31 December *(unaudited)*		
GBP million	**2017**	**2016**	**2015**
Fixed assets	155	140	173
Reported working capital (excl. cash)	57	81	76
Other liabilities	-123	-169	-262
Cash	167	204	165
Net assets	**254**	**256**	**153**

5.7 Legal proceedings

From time to time, Rolls-Royce Commercial Marine is involved in litigation, disputes and other legal proceedings arising in the normal course of its business. However, Rolls-Royce Commercial Marine is not, nor have during the course of the last 12 months, been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), which may have, or have had in the recent past significant effects on the Company and/or the Group's financial position or profitability.

6 THE GROUP FOLLOWING COMPLETION OF THE TRANSACTION

This Section provides information about the prospects of the results of the Transaction and its expected implications on the Group following Completion and should be read in conjunction with other parts of the Information Memorandum, in particular Section 5 "Presentation of Rolls-Royce Commercial Marine" and Section 9 "Unaudited Pro Forma Financial Information". The following discussion contains Forward-looking Statements that reflect the Company's plans and estimates. Factors that could cause or contribute to differences for these Forward-Looking Statements include, but are not limited to, those discussed in Section 1 "Risk Factors" and Section 10.3 "Cautionary note regarding forward-looking statements".

6.1 The Group following Completion of the Transaction

Rolls-Royce Commercial Marine will be acquired by Kongsberg and Rolls-Royce Commercial Marine will be integrated into Kongsberg's maritime operations. The Transaction will accordingly not materially affect the Group's other business areas, Kongsberg Defence & Aerospace and Kongsberg Digital. See Section 4.4.2 "Kongsberg Defence & Aerospace" and 4.4.4 "Kongsberg Digital" for a description of these business areas.

Kongsberg and Rolls-Royce Commercial Marine have, to a large degree, complementary products, solutions and competence, and the acquisition is in line with Kongsberg's ambition to be a world leading technology supplier. The Transaction is expected to strengthen Kongsberg's competitive power in the global maritime industry and will further strengthen Kongsberg's global presence. See further information in Section 6.3 "Strengths and strategies following Completion of the Transaction" below.

6.2 Legal structure following Completion the Transaction

Detailed plans for the integration and organization of the new maritime unit of Kongsberg will be developed through a carve-out and integration project, in close co-operation with Rolls-Royce, prior to Completion of the Transaction which is expected to take place in the first quarter or early in the second quarter of 2019.

6.3 Strengths and strategies following Completion of the Transaction

The maritime industry is changing and currently, several key players are considering their position in the industry. This is expected to change the competitive landscape going forward. Some traditional competitors are expected to leave the industry and new competitors are expected to emerge. The industry change is driven by a combination of (i) an intensified focus on cost and operational efficiency and (ii) an accelerated pace of technology development and adaption. These changes are driven by a historically weak market where "survival" has been more important than "performance" in several key market segments. At the same time, innovations are being pushed to the industry by general technology break-throughs and by a stronger environmental focus. This is moving focus from products to complete value chain offerings, new technologies in smart electrification and a "fit to purpose" approach for cost effective solutions.

It appears increasingly clear that the future winning maritime solutions require investments in integrated solutions – "bridge to propulsion", electrification, digitalization, remote services; and autonomy in the longer term. However, the market has currently limited willingness and financial capacity to pay for such new developments. Hence, the maritime supplier companies need to assess whether to make investments in taking future leading positions, in a time when many are not profitable, or to fall back and let others take the lead. This is expected to open significant opportunities for companies that take their positions and will change the competitive landscape.

Recent developments in the market place have been challenging. Over the last four years, the market has dropped and Kongsberg Maritime's ship volume has declined by some 40%. Several cost reduction programs have been executed, reducing costs substantially. Still, Kongsberg sees that profit margins are under pressure and in such circumstances additional scale through adding the operations of Kongsberg Maritime and Rolls-Royce Commercial Marine is expected to improve Kongsberg's ability over time to simultaneously maintain:

- a strong global sales and service network;
- investments in future competitive technologies and products; and
- a healthy profitable operation.

Hence, the Transaction is expected to give Kongsberg scale and additions to its world leading global sales and service network. Furthermore, the Transaction will also give Kongsberg a complementary range of world leading core maritime products and technologies in propulsion and deck machinery equipment. A prioritized strategic initiative for the Group has been the "Triangle Initiative", which aims to expand the Kongsberg Maritime product portfolio and develop integrated solutions across operations (Operational), deck machinery (Handling) and power distribution (Energy). This is expected to make advanced ship operations more efficient, productive and operable. The Triangle Initiative includes vessel based Concepts and Solutions which Kongsberg sees as key to take the future leading positions within the maritime market. The acquisition of Rolls-Royce Commercial Marine fits very well into the strategic Triangle Initiative. Rolls-Royce Commercial Marine will substantially strengthen Kongsberg's portfolio with their complementary world leading products in propulsion, power and deck machinery solutions. Furthermore, their leading capabilities within ship design, integration of complex maritime systems and ship intelligence solutions will give further strength to Kongsberg's combined integrated solutions.

On this basis, Kongsberg expects to provide the customers with better integrated and more efficient solutions following the Transaction. This is in turn expected to give Kongsberg a significantly increased customer value. Kongsberg's ambition is to become the global leader of delivering the most modern and advanced portfolio across most vessel segments, and expects to be the natural point of contact for customers seeking new and better vessel solutions.

Both Kongsberg and Rolls-Royce Commercial Marine are recognized with high quality technology and product ranges. They have strong brand positions and a strong dedication to service their customers. Their core competency is mostly located in Norway and Northern Europe, and represents a good cultural and geographic match.

6.4 The Transaction's significance for the earnings, assets and liabilities of Kongsberg

The Transaction and the effects of the Transaction-related financing, including the Rights Issue and the Bond Issue (or the Bridge Loan), as described in Section 3.10 "Financing of the Transaction", are expected to have a significant impact on the Group's earnings, assets and liabilities.

On a pro forma basis, revenue would have increased from NOK 14,490 million historically to NOK 23,234 million on a pro forma basis and profit for the year of NOK 559 million for the year ended 31 December 2017 historically would have been a pro forma loss of NOK 207 million for the same period, after adjustment for the impact of the acquired business and related pro forma adjustments, including increased amortization charges and, financing and acquisition expenses.

With respect to the balance sheet, the Transaction and the Transaction-related financing is expected to considerably increase Kongsberg's total assets, total equity, and, total liabilities and provisions. As of 31 December 2017, the Company's total assets were NOK 20,843 million, total equity was NOK 7,365 million, and total liabilities and provisions was NOK 13,478 million, which on a pro forma basis would have increased to NOK 31,468 million, NOK 12,280 million and NOK 19,188 million, respectively.

For a further description of the pro forma figures and the basis for such figures, see Section 9 "Unaudited pro forma financial information".

The Company estimates that the financing of the Transaction will be achieved through the Rights Issue of NOK 5,000 million and the remaining through up to a NOK 2,000 million loan (Bond Issue or the Bridge Loan) which will have a corresponding impact on the balance sheet and the capital structure of the Group.

7 INDUSTRY OVERVIEW

This Section discusses the industry and markets in which Kongsberg operates. Certain of the information in this Section relating to market environment, market developments, growth rates, market trends, industry trends, competition and similar information are estimates based on data compiled by professional organisations, consultants and analysts in addition to market data from other external and publicly available sources, and the Company's knowledge of the markets. There are different views related to market developments reflecting the overall uncertainties. Any forecast information and other Forward-looking Statements in this Section are not guarantees of future outcomes and these future outcomes could differ materially from current expectations. Numerous factors could cause or contribute to such differences, see Section 1 "Risk Factors" for further details.

7.1 Introduction

Kongsberg is an international, knowledge-based group delivering high technology systems and solutions to customers within the oil and gas industry, merchant marine, defence and aerospace.

7.2 Offshore market

7.2.1 Oil supply and demand

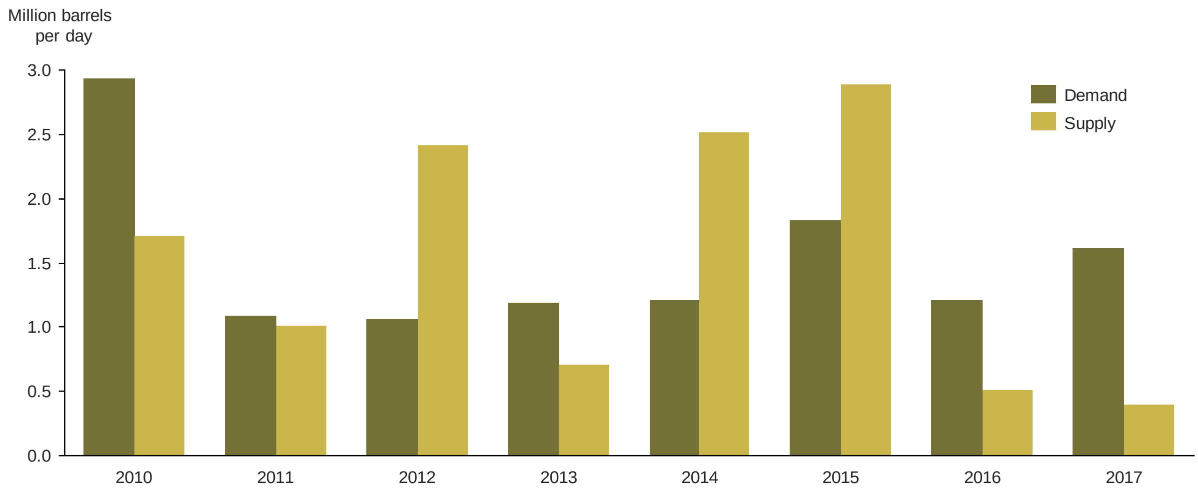
The oil price plunged from levels around USD 110 per barrel to below USD 30 per barrel at the beginning of 2016. The reasons for this change were twofold with weak demand in many countries due to declining economic growth, coupled with surging U.S. oil production. U.S. oil import demand reduced significantly because of increased domestic production and the shale industry. China's economic slowdown and deflation in Japan and European countries, which signified slowdown, reduced oil import. Global oil exporting countries maintained previous supply levels, which led to a supply surplus.

2017 was a turning point for the oil market. Oil demand strengthened markedly while supply growth lagged, as the Organisation of the Petroleum Exporting Countries ("**OPEC"**) and Russia cut supplies. The result was the first quarterly back-to-back draws in inventories since 2011, and the inventory surplus was cut by some 60% since the beginning of 2017.

During the first half of 2018, oil price expectations have shifted markedly. The market has demonstrated the sensitivity of oil demand to economic activity, while OPEC has been over-complying with its own oil supply deal, helped by lower output from Venezuela. The result has been four quarterly declines in oil inventories.

The International Energy Agency ("**IEA**") estimates that the global oil demand will grow by 1.4 million barrels per day in both 2018 and 2019. A solid economic backdrop and an assumption of more stable prices are key factors. Risks include possibly higher prices and trade disruptions. Global oil supply rose to 98.7 million barrels per day in May 2018, as both OPEC and non-OPEC production increased.

Figure 1 - Annual change in oil market fundamentals



Source: Arctic Securities' Research, based on data from IEA (July 2018). Data from IEA database is not freely available, and can only be accessed through a valid account.

7.2.2 Offshore segments

Kongsberg Maritime delivers products and services to various offshore vessels serving the exploration, production and field development services. The offshore exploration and production vessels include floating drilling units, FPSOs, FPUs, FLNG vessels and similar vessels. The offshore service vessel market can be divided into three main categories: supply vessels ("**OSV**"), subsea vessels and seismic vessels. OSVs are further divided into Platform Supply Vessels ("**PSV**") and Anchor Handling Tug Supply Vessels ("**AHTS**").

7.2.3 Subsea vessels

Subsea vessels are used for installation, maintenance and inspection of subsea equipment, as well as related offshore structures, e.g. platforms and buoys. Subsea vessels perform work related to installation of mooring systems, laying of pipe and construction of offshore structures as well as removal of such equipment. The subsea vessels are also engaged in work related to other offshore installations such as electrical cables and offshore windmills.

The global fleet of subsea vessels consist of approximately 500 vessels. Following the drop in oil prices over the last two years, ship newbuilding activity has decreased. The subsea vessel order book consists of approximately 130 vessels which are expected to be delivered over the next years.[1]

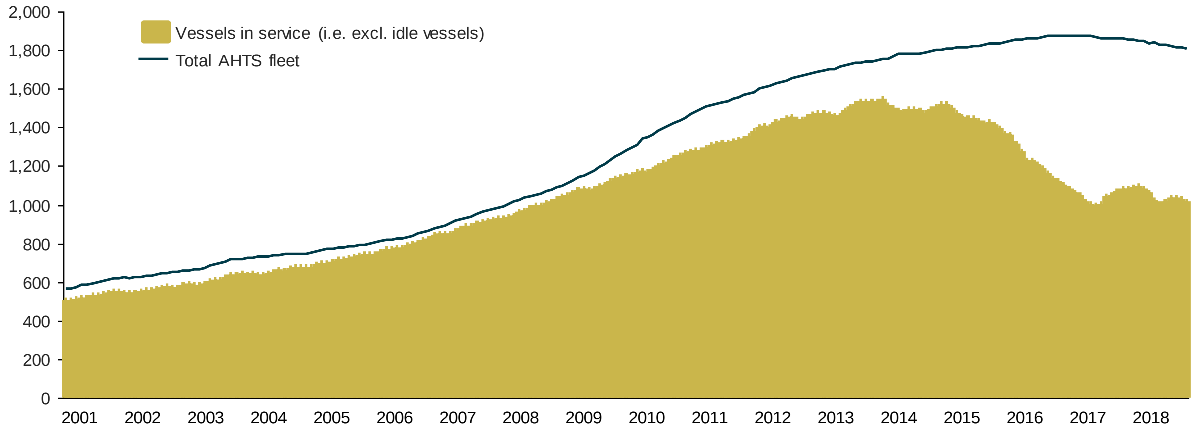
7.2.4 Anchor Handling Tug Supply Vessels

AHTS vessels are specially designed vessels for anchor handling and towing offshore platforms, barges and production modules/vessels. Furthermore, AHTS vessels are often equipped for firefighting, rescue operations and oil recovery. The vessels also have supply capacities like the PSVs but with less capacity, e.g. in terms of free deck space and number of tanks.

The figure below summarizes the development in the global AHTS fleet. The total AHTS fleet consists of approximately 1,800 vessels, of which approximately 800 vessels are idle.

[1] Source: Arctic Securities' Research, based on data from IHS Petrodata (July 2018). Data from IHS Petrodata database is not freely available, and can only be accessed through a valid account.

Figure 2 - Development in size of global AHTS fleet



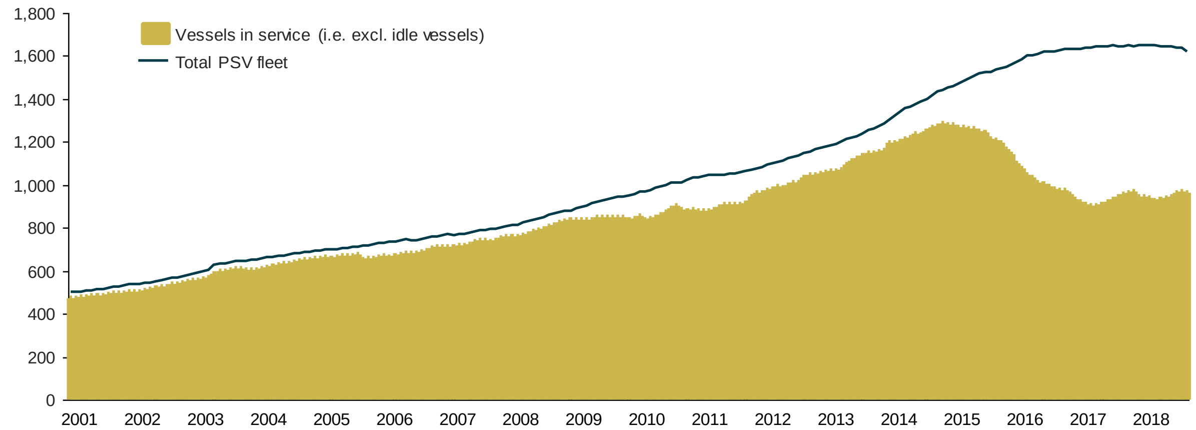
Source: Arctic Securities' Research, based on data from IHS Petrodata (July 2018). Data from IHS Petrodata database is not freely available, and can only be accessed through a valid account.

7.2.5 Platform Supply Vessels

PSVs are specially designed for transport of supplies to and from offshore installations. On deck the vessels carry containers, equipment and pipes (the latter applies mostly for larger PSVs). Under deck the vessels transport a variety of different fluids in separate tanks, like mud & brine, cements or other dry bulk, water, fuel and drill-cut. Furthermore, some vessels have tanks for special fluids like methanol as well.

The figure below summarizes the development in the global PSV fleet. The total PSV fleet consists of approximately 1,600 vessels, of which approximately 650 vessels are idle.

Figure 3 - Development in size of global PSV fleet



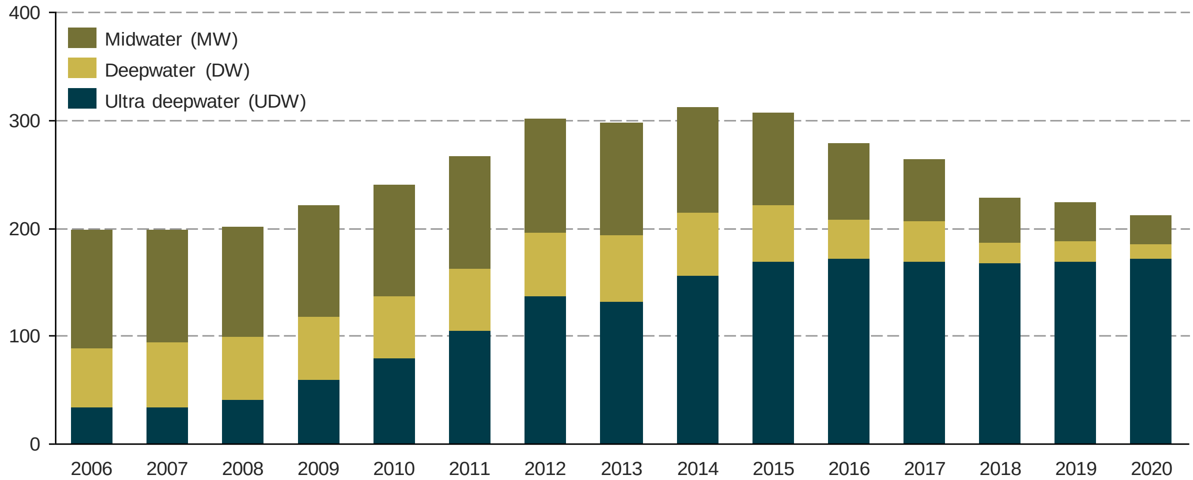
Source: Arctic Securities' Research, based on data from IHS Petrodata (July 2018). Data from IHS Petrodata database is not freely available, and can only be accessed through a valid account.

7.2.6 Floater rigs

Mobile offshore drilling units are used for drilling offshore exploration and development wells. Main categories of offshore rigs include bottom-supported units (jack-ups) and floating units (semisubmersibles and drillships), of which the latter category is relevant to KM. Semisubmersibles are suitable for drilling in rough waters due to their stability, and can be used in water depths up to 10,000 feet. Drillships are purpose-built seagoing vessels that drill in waters as deep as 12,000 feet, and are especially useful for drilling exploratory wells due to their mobility and cargo-carrying capacity.

The figure below summarizes the development in the global floater fleet. It is expected that the total fleet will consist of approximately 210 rigs at the end of 2020, decreasing from approximately 260 rigs as of year-end 2017.

Figure 4 - Development in global floater fleet



Source: Arctic Securities' Research, based on data from IHS Petrodata (July 2018). Data from IHS Petrodata database is not freely available, and can only be accessed through a valid account.

7.2.7 Market cycles and current sentiment

Offshore markets are cyclical by nature. Following cost improvements and recent increase in the oil price, the offshore segment is now showing firm signs of recovery after the downturn. The activity level has started to increase, exemplified by an increase in floater rig utilization from levels of ~60% in 2017 to ~70% today. However, offshore newbuild contracting levels are still low, as the vessel overcapacity continues to be significant.

7.2.8 Underlying market drivers

Underlying drivers in the offshore market are favourable, with consensus on continued oil demand growth to 2030, improvements in offshore breakeven economics relative to shale and significant scrapping of cold stacked vessels. Most analysts therefore expect continued growth in activity level across offshore vessel segments. The range of views is nevertheless wide, and reflects uncertainty related to both underlying offshore oil and gas supply need and vessel efficiency.

Despite an expected healthy vessel demand growth, a significant newbuild need will take time to materialise given current overcapacity, reactivation of some of the cold stacked vessels and deliveries of some of the vessels still in order book. While the number of cold stacked vessels is significant, it is expected that only a share of these will be reactivated given old age, lack of competitiveness and high reactivation costs. Using OSVs as an example, the number of cold stacked vessels is ~1,075 (~30% of total fleet), but only ~450 are expected to be reactivated towards 2021 (<15% of total fleet). Similarly, while the remaining OSV order book is ~250 vessels, only ~75 are expected to be delivered. In summary, reactivations will hamper the newbuild need towards 2020, but the majority of cold stacked vessels are expected to be scrapped.

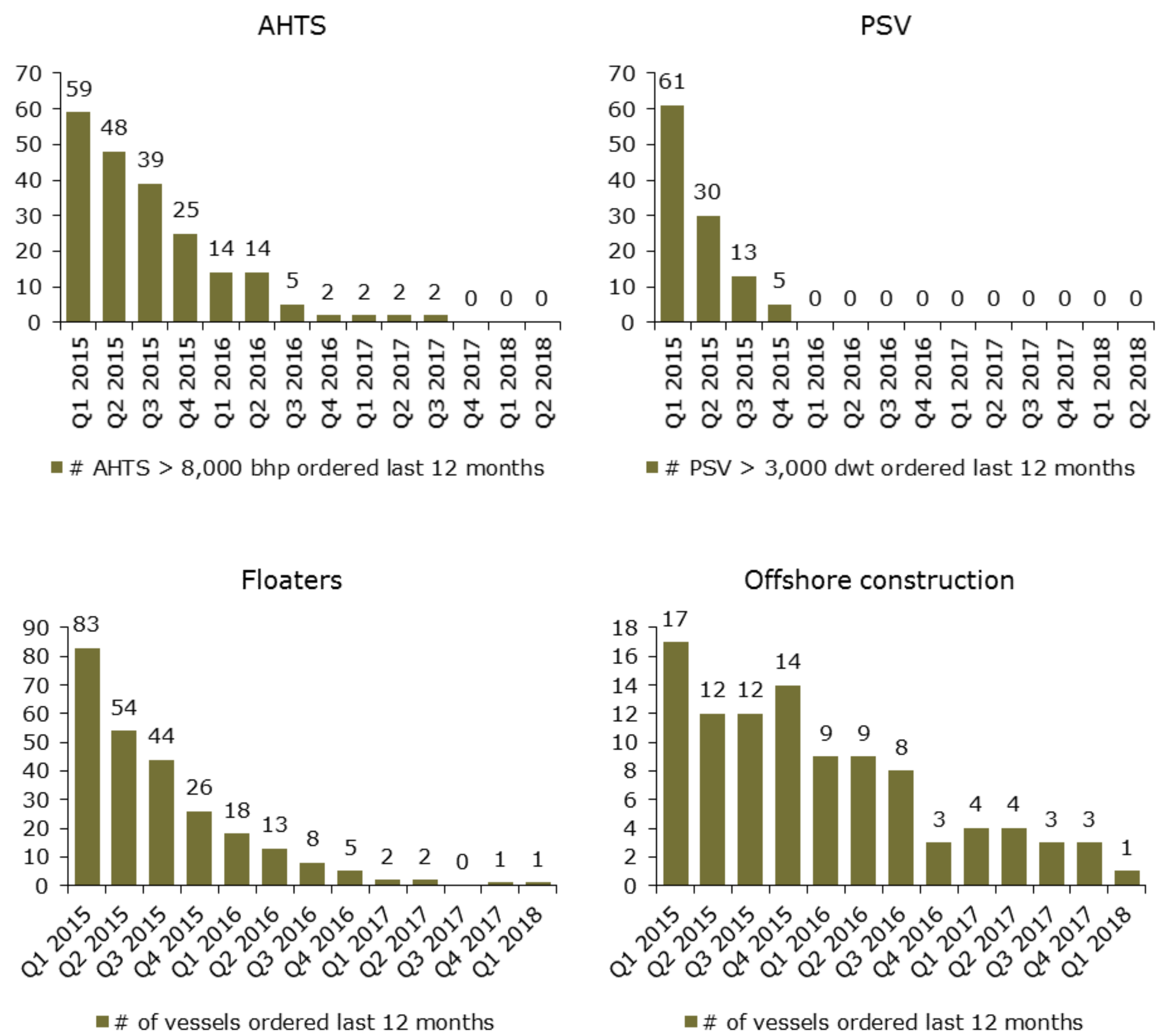
Given growing demand and net fleet reduction through scrapping of cold stacked vessels, the offshore vessel utilization is forecasted to increase. Utilization is expected to reach levels supporting significant newbuild ordering activity around 2020-22 (i.e. ~80-85% utilization), with variations dependent on vessel segment and demand growth assumptions. Before this newbuild cycle materialize, order levels will be lower, and typically represent more specialized vessels such as fit-for-purpose floater rigs.

7.2.9 Future newbuild activity

The offshore newbuild market has not yet recovered from the downturn. However, the newbuild activity should eventually converge towards a long term, steady state level. Essentially, this will be the combination of natural replacement to compensate for ageing vessels leaving the fleet and net fleet additions required due to demand growth. Historical newbuild activity will also serve as a reference for long term steady state levels.

Below is a summary of the newbuild activity in relevant segments during the last twelve months.

Figure 5 - Rolling newbuild orders last twelve months



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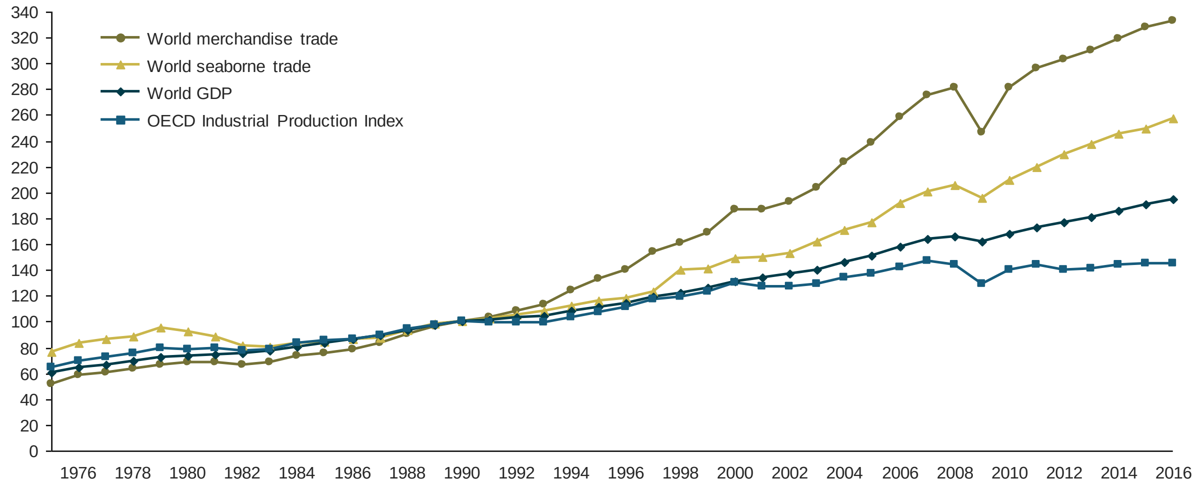
ource: Clarksons and Lloyds (subscriptions required)

7.3 Merchant marine market

7.3.1 Introduction

Ocean shipping is the most important transport mode for international merchandise trade. More than 80% of global trade by volume and more than 70% of its value are being transported by ships and handled by seaports worldwide. World seaborne trade growth is therefore heavily dependent on the performance of the world economy. As shown in Figure 6 below, industrial activity, economic output, merchandise trade and seaborne trade shipments are positively correlated.

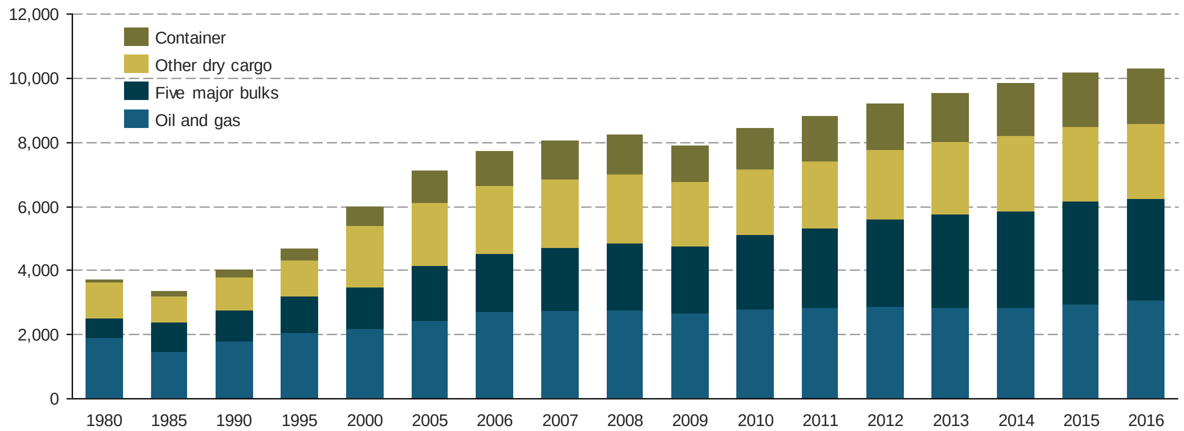
Figure 6 - Geographical distribution of the total OSV fleet (AHTS and PSVs)



Source: Review of Maritime Transport 2017 (available at: http://unctad.org/en/PublicationsLibrary/rmt2017_en.pdf)
Note: Index calculations are based on Gross Domestic Product ("**GDP**") and merchandise trade in dollars, and seaborne trade in metric tons

Demand for shipping services has in recent years, in line with the world economy, experienced a moderate growth of 2.6% in 2016 and 1.8% in 2015, supported by continued strong import demand from China. Historically, growth has been slightly higher with historical average of 3% recorded over the past four decades. In 2016, volumes reached 10.3 billion tons, of which oil and gas and the five major bulks (iron ore, coal, grain, bauxite/alumina and phosphate rock) both represented around 30% each of total volume. Other dry cargo and containerized trade represented 23% and 17% respectively of total volume.

Figure 7 - International seaborne trade, selected years (millions of tons loaded)



Source: Review of Maritime Transport 2017 (available at: http://unctad.org/en/PublicationsLibrary/rmt2017_en.pdf)

7.3.2 Marine segments

The merchant vessel market can be divided into two main categories, cargo vessels and passenger vessels, with cargo vessels as the by far largest category in terms of number of vessels. Cargo vessels can be grouped in four:

- **Tank vessels:** Tankers are ships that primarily carry huge quantities of liquid. They can carry a wide range of liquids such as oil and lots of different chemicals that need transporting. Tankers come in many different sizes but some of the larger vessels have the capacity to carry several hundred thousand tons.

- **Dry bulk vessels:** For dry cargoes with a high weight to cost ratio such as coal, grain and ore, economies of scale have produced the modern bulk carrier. These usually large vessels are divided up into several separate holds covered by hatches.

- **Other cargo vessels:** This group includes all vessels that transport dry cargo that are not transported in bulk carriers or containerized. Vessels can be further categorized into groups such as breakbulk vessels (e.g. bagged or palletised cargo), ro-ro vessels (wheeled cargo like cars, buses, trucks) and reefer vessels which are used for the carriage of frozen cargoes or temperature controlled cargoes like fruits, meat and fish.

- **Container:** Containers have become the main way of transporting manufactured goods around the world. Containers can accommodate anything from foodstuffs to electrical equipment to automobiles. Standard containers are measured as "**TEUs**" (Twenty-foot Equivalent Units), with the biggest container ships carrying as much as over 15,000 -16,000 TEUs. Because of such high capacities, some of the largest ships in the world are container ships.

Passenger vessels can in general be divided in two:

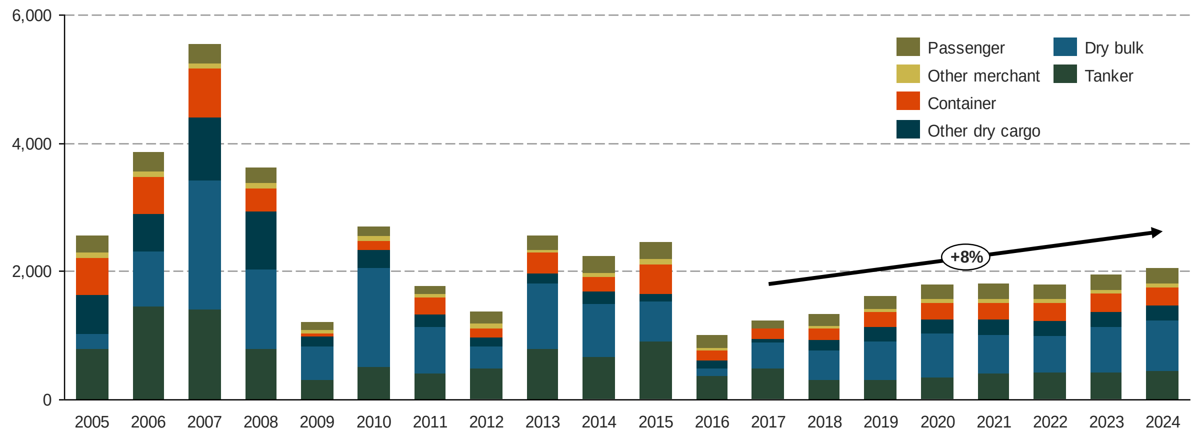
- **Cruise:** The primary purpose of cruise vessels is the entertainment and transport of passengers. Cruise vessels are basically floating hotels with some of the largest vessels having a capacity of more than 6,000 passengers. The size of the vessels and the stringent demands for comfort, e.g. in terms of noise, vibration level aboard as well as the motions of the ship during transit or anchorage makes cruise vessels the most costly vessels to build. The largest cruise vessels to day cost more than USD 1 billion to build.

- **Other passenger vessels:** This group primarily includes ferries but also includes yachts and ocean liners. Most ferries operate regular return services on relatively short distances. Therefore ferries are in the forefront when it comes to replacing fossil fuel with e.g. electrification.

7.3.3 Newbuild activity

Contracting of new vessels decreased significantly from 2015 to 2016 across all segments, primarily due to an oversupply of vessels, accompanied by low freight rates. Thus, vessel owners were not eager to invest in newbuildings during 2016.

Figure 8 - Number of vessels contracted per year



Source: Lloyds (subscription required)

While 2016 turned out to be a challenging year with the freefall in newbuilding prices and record-low newbuilding orders, 2017 brought some breathing space to the shipping community. Newbuild contracting again increased as newbuilding prices came down in order for yards to fill their capacity. Lloyds, the global provider of classification, compliance and consultancy services expects a further increase in vessel contracting towards 2024.

7.4 Defence market

7.4.1 Introduction

The defence industry has evolved significantly over the last decades, and trade in equipment is now a vital component of many countries' national security policy. Maintaining a domestic defence national base with capabilities in all the appropriate national areas is expensive, and since the cold war ended, social, political and economic pressures have been building to reduce public spending. These factors have led governments to respond in three ways: i) reducing the cost of maintaining a domestic industry, generally through privatization; ii) actively engaging in the international trade in defence equipment; iii) forming alliances and pooling resources with like-minded nations.

Off-the-shelf imports are typically cheaper than a domestic program, while the acquisition cost can be offset by securing related or even unrelated work packages from the exporter for domestic industry. Offset, or reciprocal trade, is now therefore a significant element of trade in defence products. The result is an interconnected and global market, where private companies and governments work across borders on the research, development and trade for a number of different types of defence equipment and systems.

The volume of international transfers of major weapons in 2013 to 2017 was estimated to be 10% higher than in the period 2008 to 2012. This is a continuation of the upwards trend that began in the early 2000s. The five largest exporters in 2013 to 2017 were the United States, Russia, France, Germany and China, while the five largest importers were India, Saudi Arabia, Egypt, the United Arab Emirates and China. The flow of arms to the Middle East, Asia and Oceania increased between 2008 to 2012 and 2013 to 2017, while there was a decrease in the flow to the Americas, Africa and Europe.[2]

7.4.2 Main segments

The market for military equipment and systems can be broken down into several categories.

[2] Source: Stockholm International Peace Research Institute (https://www.sipri.org/sites/default/files/2018-03/fssipri_at2017_0.pdf)

- **Aircrafts, helicopters and UAVs:** Despite the rapid increase in unmanned aerial vehicles ("**UAVs"**) numbers worldwide and future plans for unmanned combat aerial vehicles ("**UCAVs**"), the fighter market is anticipated to grow at a steady rate over the coming years. Overall, an estimated 4,000 fighters, valued at around USD 260 billion, are forecast to be procured over the next 15 years. Key national fighter programmes are planned to continue well into the 2020s, including those of the United States, Russia, China, India and Sweden. The largest fighter program is the F-35 Joint Strike Fighter, with over 3,000 planes currently planned to be acquired by 12 countries.[3] Plans for a sixth-generation fighter are also reportedly progressing in the United States, Japan, Russia and China, with an emphasis on automation, hypersonic weapon systems and new approaches to stealth. On the back of combat experience in recent conflicts, the market for unmanned aircrafts is expected to continue its rapid growth (both armed and unarmed). Though the military UAV sector is expected to become increasingly international, the United States remains the largest spender, both in terms of research and development ("**R&D**") and procurement.

- **Military vehicles:** The market for armoured vehicles has seen significant technological advancements and a rise in the use and utility of unmanned ground vehicles, artificial intelligence, virtual training and survivability equipment. Active protection systems are being developed in lighter, cheaper and more accurate forms, and are expected to be a major part of the future battlespace, especially with the threat of further enhancements to improvised explosive devices ("**IEDs**") and small ballistic arms. Meanwhile, the deployment of main battle tanks is still seen as a necessity by most countries, in spite of climbing demand for light protected mobility.

- **Naval vessels and warships:** Global naval defence budgets have historically become more and more constrained, which has put pressure on navies around the world to build-up and replace their fleets to remain powerful at sea. However, technological development and new operational concepts, together with recent world events, have led to increased focus on future fleet expansion and upgrades. China has been building up its navy over the last 20 years and expanded its presence in the South China Sea, while naval support has been crucial during many of the recent campaigns in the Middle East. The United States plans to revitalize its fleet and expand it to 355 ships by 2050, including a mix of aircraft carriers, submarines, destroyers and other vessel types. Other countries are also undertaking significant fleet programs, including Australia and Canada.

- **Missiles:** The missile market encompasses several sub-categories, including missile defence systems, surface-to-surface, surface-to-air, air-to-surface, anti-ship and anti-tank. Missile defence systems is expected to account for the largest share of spending, with China looking to close the military capabilities gap with the United States, the United States formulating long-term programs for defence systems, as well as increased tensions in the Middle East and Eastern Europe. The use of guided missiles is also steadily increasing after a period of decline, with air defence continuing to be of strategic importance, more frequent use of air strike campaigns and a recovery in anti-ship missile programs.

- **Artillery, small arms and ammunition:** The demand for artillery and systems is primarily driven by the anticipated procurement of major defence spending countries that are currently involved in conflicts or undergoing renewal programs, and emerging economies involved in territorial disputes and countering insurgencies. In addition, the need to maintain a sufficient inventory of second line of fire artillery systems for militaries across the world and the increasing demand for training systems is also anticipated to have a positive impact on demand. For small arms, overall defence spending and technological advancements are expected to drive future growth, as countries seek to deploy more modern, reliable and accurate arms to their military.

- **Electronics, gear and other equipment:** Spending on military electronics, gear and other types of equipment is closely linked to the global level of overall expenditure. Electronic systems are expected to experience strong growth, as the modern battlefield moves towards a technology-based warfare approach with network-centric capabilities.

[3] Source: Defence iQ (subscription needed)

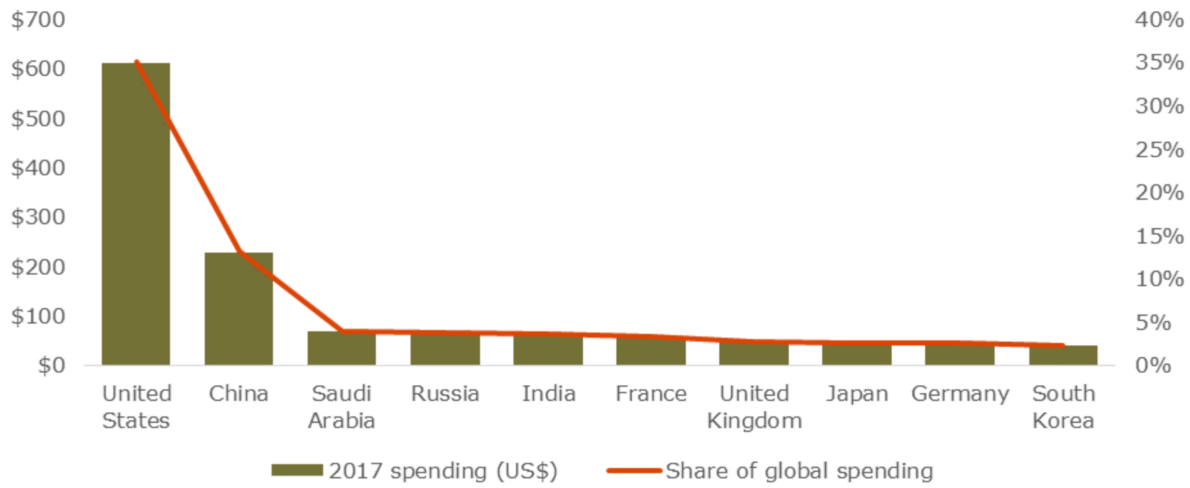
- **Space equipment and services:** If a military engages in surveillance, launching missile strikes or cyber warfare, a space defence strategy is key. Advanced militaries have a strong appetite for satellite capabilities and rely on them to provide communications, reconnaissance information, navigation, weather data and other services. This need has led to large space budgets, especially in the United States, however, other countries such as China and Russia are also ramping up their spending. Many of the modern military technologies, such as UAVs, require large amounts of satellite bandwidth, and the continued development of these is expected to drive further growth in spending on space equipment and services.

- **Services and infrastructure:** Military services, infrastructure and logistics are essential elements for armed forces, and timely delivery and supply of materials such as ration, equipment, arms and ammunition to the military bases for their sustained operation are vital factors. The global defence industry is investing significantly into research and development to ensure effective military operations around the world, and significant infrastructure spending has been undertaken by countries such as the United States, Russia, China and India to construct overseas and domestic bases.

7.4.3 Defence expenditure

World military expenditure is estimated to have reached USD 1,739 billion in 2017, the highest level since the end of the cold war. Total global expenditure was marginally higher compared to 2016, up by 1.1% in real terms. The United States remained by far the biggest spender with USD 610 billion (35% of the global total), followed by China (USD 228 billion), Saudi Arabia (USD 69 billion) and Russia (USD 66 billion). Overall, military spending is concentrated, with the top 10 countries (United States, China, Saudi Arabia, Russia, India, France, United Kingdom, Japan, Germany and South Korea) accounting for 73% of the global total. Among the 10 largest spenders, Saudi Arabia had the highest share of GDP with 10.3%, followed by Russia (4.3%) and the United States (3.1%).

Figure 9 - 2017 defence spending and percentage of global spending

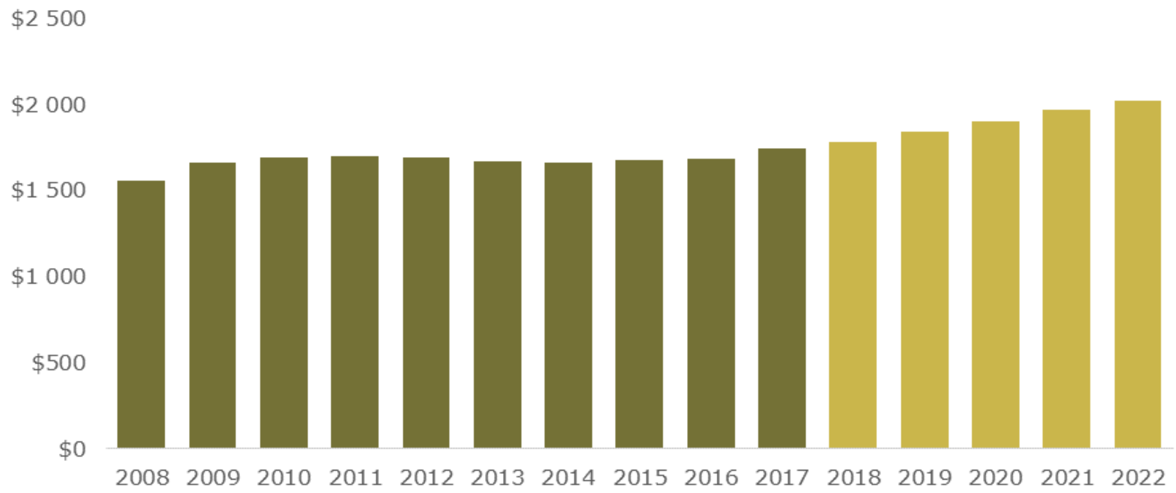


Source: Stockholm International Peace Research Institute (https://www.sipri.org/databases/milex)

Spending in North America fell for the seventh consecutive year, down by 0.2% compared to 2016. The trend of falling expenditure in the United States (down 22% from the peak in 2010) has slowed down, and in late 2017, the United States Senate approved a new military budget for 2018 of USD 700 billion, which is a substantial increase over 2017. China increased its spending by 5.6% in 2017, which is the lowest increase since 2010 but in line with GDP growth plus inflation. Saudi Arabia became the world's third largest spender in 2017 with an increase of 9.2%, however, the increase comes after a significant drop in 2016 due to low oil prices. In contrast, Russia's military spending fell by 20% in 2017 to the lowest level since 2012.

Going forward, heightened global security threats, recovery in the United States defence budgets, pressure on European countries to increase their budgets, as well as higher spending from other major regional powers such as India, China and Japan are expected to drive global sector revenue growth in 2018 and beyond. As a result, it is estimated that global military spending will reach USD 2,000 billion by 2022.

Figure 10 - Historical and forecast global defence spending



Source: Stockholm International Peace Research Institute (https://www.sipri.org/databases/milex), Deloitte (https://www2.deloitte.com/global/en/pages/manufacturing/articles/global-a-and-d-outlook.html).

8 SELECTED FINANCIAL INFORMATION FOR KONGSBERG

8.1 Introduction

The following selected financial information has been extracted from Kongsberg's audited consolidated financial statements prepared in accordance with the International Financing Reporting Standards as adopted by the EU (IFRS) as of and for the three years ended 31 December 2017, 2016 and 2015, and Kongsberg's unaudited condensed interim financial statements prepared in accordance with IAS34 for the three months ended 31 March 2018 and 2017 (the "**Interim Financial Statements**"). The consolidated financial statements are presented in Norwegian kroner (NOK), and all figures are rounded off to the nearest million unless otherwise specified.

Kongsberg has implemented two new accounting standards with effect from 1 January 2018: IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers. The interim financial statements for the three months ended 31 March 2018 are prepared according to these accounting standards. Implementation of the new standards has not had a considerable effect on the profit and loss statement or equity.

The historical results of Kongsberg are not necessarily indicative of its results for any future period. For a discussion of certain risks that could impact the business, operating results, financial condition, liquidity and prospects of Kongsberg, see Section 1 "Risk Factors". The following summary of consolidated financial information should be read in conjunction with the other information contained in this Information Memorandum, including the annual and interim financial statements of Kongsberg and the notes therein, which have been incorporated in this Information Memorandum by reference; see Section 10.4 "Incorporation by Reference". For a description of applicable accounting policies and explanatory notes; see Section 10.4 "Incorporation by Reference".

8.2 Selected consolidated income statement information

The table below sets out selected data from Kongsberg's the audited consolidated income statements for the years ended 31 December 2017, 2016 and 2015.

MNOK	Year ended 31 December		
	2017	**2016**	**2015**
Operating revenues	14,490	15,845	17,032
Total revenues	**14,490**	**15,845**	**17,032**
Material cost	(4,417)	(5,260)	(5,983)
Personnel expenses	(5,788)	(6,136)	(6,192)
Other operating expenses	(3,193)	(3,462)	(3,160)
Share of net income from joint arrangements and associated companies	187	230	87
Operating profits before depreciation and amortisation (EBITDA)	**1,279**	**1,217**	**1,784**
Depreciation	(353)	(360)	(362)
Impairment of property, plant and equipment	(40)	(22)	(17)
Operating profit before amortisation (EBITA)	**886**	**835**	**1,405**
Amortisation	(114)	(143)	(161)
Impairment intangible assets	-	(3)	(300)
Operation profit (EBIT)	**772**	**692**	**944**
Financial income	47	197	109
Financial expenses	(165)	(160)	(109)
Profit before tax	**654**	**729**	**944**
Income tax expense	(95)	(78)	(189)
Profit for the year	**559**	**651**	**755**

MNOK	**Year ended 31 December**		
	2017	**2016**	**2015**
Attributable to:			
- Equity holders of the parent	554	653	747
- Non-controlling interests	5	(2)	8
Earnings per share in NOK:			
- Ordinary earnings per share / diluted earnings per share	4.62	5.44	6.23

The table below sets out selected data from the unaudited condensed income statements for the three months ended 31 March 2018 and 2017. As the interim financial statements are condensed they should be read in context of the annual report for 2017.

MNOK	**Three months ended 31 March**	
	2018 *(unaudited)*	**2017** *(unaudited)*
Revenues	3,554	3,721
Operating expenses	(3,300)	(3,407)
Share of net income from joint arrangements and associated companies	32	25
Operating profits before depreciation and amortisation (EBITDA)	**286**	**339**
Depreciation of property, plant and equipment	(87)	(90)
Impairment of property, plant and equipment	-	-
Operating profit before amortisation (EBITA)	**199**	**249**
Amortisation of intangible assets	(24)	(29)
Operation profit (EBIT)	**175**	**220**
Net financial items	(31)	(32)
Earnings before tax (EBT)	**144**	**188**
Income tax expense	(28)	(41)
Earnings after tax	**116**	**147**
Attributable to:		
Equity holders of the parent	115	147
Non-controlling interests	1	-
Earnings per share in NOK:		
Earnings per share (EPS)/EPS diluted in NOK	0.96	1.23

8.3 Selected consolidated comprehensive income information

The table below sets out selected data from Kongsberg's audited consolidated statements of comprehensive income as of the three years ended 31 December 2017, 2016 and 2015.

MNOK	Year ended 31 December		
	2017	**2016**	**2015**
Profit for the year	559	651	755
Specification of other comprehensive income			
Items that will be reclassified to profit and loss in subsequent periods			
Change in fair value:			
- Cash flow hedges, currency	598	1,029	(428)
- Interest rate swap / basis swaps	(89)	34	3
- Available-for-sale shares	-	(104)	101
Income tax effect in cash flow hedges and interest rate swaps	(124)	(273)	80
Translation differences, currency	211	(266)	268
Total items to be reclassified to profit or loss in subsequent periods	**596**	**420**	**24**
Items not to be reclassified to profit or loss			
Actuarial gain/loss on pension expense	(76)	20	254
Tax effect on actuarial gain/loss on pension	18	(5)	(69)
Total items not to be reclassified to profit or loss	**(58)**	**15**	**185**
Other comprehensive income for the period	**538**	**435**	**209**
Comprehensive income for the period[1]	**1,097**	**1,086**	**964**
Attributable to			
- Equity owners of the parent	1,092	1,088	956
- Non-controlling interests	5	(2)	8

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

The table below sets out selected data from the unaudited condensed statements of comprehensive income as of the three months ended 31 March 2018 and 2017.

MNOK	Three months ended 31 March	
	2018 *(unaudited)*	**2017** *(unaudited)*
Earnings after tax	116	147
Comprehensive income for the period:		
Items to be reclassified to profit or loss in subsequent period:		
Change in fair value, financial instruments:		
- Cash flow hedges (currency futures and interest rate swaps)	110	(16)
Tax effect cash flow hedges (currency futures and interest rate swaps)	(25)	4
Translation differences and hedge of net investments (currency)	(172)	94
Total items to be reclassified to profit or loss in subsequent periods	**(87)**	**82**
Comprehensive income for the period	**29**	**229**

8.4 Selected consolidated balance sheet information

The table below sets out selected data from Kongsberg's audited consolidated balance sheet as of 31 December 2017, 2016 and 2015.

MNOK	As of 31 December		
	2017	**2016**	**2015**
ASSETS			
Fixed assets			
Property, plant and equipment	2,658	2,723	2,542
Goodwill	1,981	1,998	2,012
Other intangible assets	822	748	644
Shares in joint arrangements and associated companies	3,358	3,174	366
Available-for-sale-shares	29	35	233
Other non-current assets	175	229	106
Total non-current assets	**9,023**	**8,907**	**5,903**
Current assets			
Inventories	3,961	4,666	4,136
Receivables	2,672	3,354	4,056
Construction contracts in progress, asset	2,018	2,049	2,935
Derivatives	213	332	284
Cash and cash equivalents	2,956	1,888	1,807
Total current assets	**11,820**	**12,289**	**13,218**
TOTAL ASSETS	**20,843**	**21,196**	**19,121**
EQUITY, LIABILITIES AND PROVISIONS			
Equity			
Issued capital	982	982	982
Other reserves	435	(160)	(580)
Retained earnings	5,914	5,869	5,684
Equity attributable to owners of the parent	**7,331**	**6,691**	**6,086**
Non-controlling interests	34	34	41
Total equity	**7,365**	**6,725**	**6,127**
Non-current liabilities and provisions			
Long-term interest-bearing loans	3,340	3,820	866
Pension liabilities	647	467	497
Provisions	140	165	166
Deferred tax liability	1,272	1,174	983
Other non-current liabilities	21	24	13
Total non-current liabilities and provisions	**5,420**	**5,650**	**2,525**
Current liabilities and provisions			
Construction contracts in progress, liability	3,389	2,848	2,736
Derivatives	645	1,277	3,069
Provisions	543	803	811
Short-term interest-bearing loans	-	263	-
Other current liabilities	3,481	3,630	3,853
Total current liabilities and provisions	**8,058**	**8,821**	**10,469**
Total liabilities and provisions	**13,478**	**14,471**	**12,994**
TOTAL EQUITY, LIABILITIES AND PROVISIONS	**20,843**	**21,196**	**19,121**

The table below sets out selected data from Kongsberg's unaudited consolidated balance sheet as of 31 March 2018 and 31 December 2017. In connection with the implementation of IFRS 15 from 1 January 2018 some of the lines in are restated. See note 2 "New standards as from 1.1.2018" to the Interim Financial Statements for more information.

MNOK	**As of 31 March 2018**	**As of 31 December 2017**
ASSETS		
Property, plant and equipment	2,585	2,658
Intangible assets	2,778	2,803
Shares in joint arrangements and associated companies	3,326	3,358
Other non-current assets	195	204
Total non-current assets	**8,884**	**9,023**
Inventories	1,976	1,873
Trade receivables	2,621	2,755
Customer contracts, asset	3,496	3,498
Other current assets	634	571
Cash and cash equivalents	2,739	2,956
Total current assets	**11,466**	**11,653**
TOTAL ASSETS	**20,350**	**20,676**
Issued capital	982	982
Retained earnings	6,332	6,473
Fair value of financial instruments	(39)	(124)
Non-controlling interests	32	34
Total equity	**7,307**	**7,365**
Long-term interest-bearing loans	3,340	3,340
Other non-current liabilities and provisions	2,088	2,080
Total non-current liabilities and provisions	**5,428**	**5,420**
Customer contracts, liabilities	4,256	4,128
Other current liabilities and provisions	3,359	3,763
Total current liabilities and provisions	**7,615**	**7,891**
TOTAL EQUITY, LIABILITIES AND PROVISIONS	**20,350**	**20,676**
Equity ratio (%)	35.9%	35.6%
Net interest-bearing liabilities	601	384

8.5 Selected consolidated cash flow information

The table below sets out selected data from Kongsberg's audited consolidated statements of cash flows for the three years ended 31 December 2017

MNOK	**Year ended 31 December**		
	2017	**2016**	**2015**
Profit for the period	**559**	**651**	**755**
Depreciation/impairment of property, plant and equipment	393	382	379
Amortisation/impairment of intangible assets	114	143	461
Net finance items	118	(37)	-
Income tax expense	95	78	189
Operating profit before depreciation and amortisation	**1,279**	**1,217**	**1,784**
Adjusted for			
Changes in construction contracts in progress, asset	48	516	(302)

MNOK	Year ended 31 December		
	2017	**2016**	**2015**
Changes in construction contracts in progress, liability	541	112	(854)
Changes in other current liabilities	240	(664)	(529)
Changes in inventories	705	(530)	(409)
Changes in receivables	303	716	(393)
Changes in provisions and other accruals	(114)	(440)	(257)
Income tax paid	(103)	(118)	(127)
Net cash flow from operating activities	**2,899**	**809**	**(1,087)**
Cash flow from investing activities			
Proceeds from property, plant and equipment	11	28	14
Purchase of property, plant and equipment	(339)	(641)	(363)
Capitalised internal developed intangible assets (R&D)	(187)	(266)	(103)
Proceeds of sale/purchase of intangible assets	(2)	5	(2)
Proceeds from acquiring subsidiaries and associated companies	(11)	(2,786)	(45)
Sale of shares held for sale	-	317	-
Net cash flow from investing activities	**(528)**	**(3,343)**	**(499)**
Cash flow from financing activities			
Proceeds from interest bearing loans	-	3,252	-
Repayment of interest bearing loans	(740)	-	40
Interest paid	(110)	(60)	(37)
Transactions with treasury shares	(18)	(12)	(12)
Transactions with non-controlling interests	(3)	(3)	(23)
Dividends paid	(448)	(509)	(1,107)
Net cash flow from financing activities	**(1,319)**	**2,668**	**(1,139)**
Effect of changes in exchange rates on cash and cash equivalents	16	(53)	108
Net change in cash and cash equivalents	**1,068**	**81**	**(2,617)**
Cash and cash equivalents at the beginning of the period	**1,888**	**1,807**	**4,424**
Cash and cash equivalents at the end of the period	**2,956**	**1,888**	**1,807**

The table below sets out selected data from Kongsberg's unaudited condensed statements of cash flows for the three months ended 31 March 2018 and 2017.

MNOK	Three months ended 31 March	
	2018 *(unaudited)*	**2017** *(unaudited)*
Earnings before depreciation and amortisation	286	339
Change in net current assets and other operating related items	(291)	181
Net cash flow from operating activities	**(5)**	**520**
Acquisition/disposal of property, plant and equipment	(46)	(90)
Other investing activities including capitalised internally financed development	(20)	(54)
Net cash flow from investing activities	**(66)**	**(144)**
Net new loans raised	(1)	-
Net interest received (paid)	(28)	(29)
Net payments for the acquisition /disposal of treasury shares	(84)	(66)
Net cash flow from financing activities	**(113)**	**(95)**

Effect of changes in exchange rates on cash and cash equivalents	(33)	23
Net change in cash and cash equivalents	**(217)**	**304**
Cash and cash equivalents at the beginning of the period	**2,956**	**1,888**
Cash and cash equivalents at the end of the period	**2,739**	**2,192**

8.6 Selected changes in equity information

The table below sets out selected data from Kongsberg's audited consolidated statements of changes in equity for the three years ended 31 December 2017, 2016 and 2015.

MNOK	Share capital	Other issued capital	Hedging reserve	Available for-sale reserve	Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
Equity at 1 January 2017	**150**	**832**	**(509)**	**-**	**349**	**5,869**	**6,691**	**34**	**6,725**
Profit for the year						554	554	5	559
Other comprehensive income			385	-	211	(58)	538		538
Transactions with treasury shares						(2)	(2)		(2)
Dividends paid						(450)	(450)		(450)
Dividends, non-controlling interests								(3)	(3)
Translation differences, non-controlling interests								(2)	(2)
Equity at 31 December 2017	**150**	**832**	**(124)**	**-**	**560**	**5,913**	**7,331**	**34**	**7,365**

MNOK	Share capital	Other issued capital	Hedging reserve	Available for-sale reserve	Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
Equity at 1 January 2016	**150**	**832**	**(1,299)**	**104**	**615**	**5,684**	**6,086**	**41**	**6,127**
Profit for the year						653	653	(2)	651
Other comprehensive income			790	(104)	(266)	15	435		435
Trading in treasury shares						5	5		5
Dividends paid						(510)	(510)		(510)
Reversal of previous years' impairment						22	22		22
Dividends, non-controlling interests								(3)	(3)
Translation differences, non-controlling interests								(2)	(2)
Equity at 31 December 2016	**150**	**832**	**(509)**	**0**	**349**	**5,869**	**6,691**	**34**	**6,725**

MNOK	Share	Other	Hedging	Available	Translation	Retained	Total	Non-	Total

	capital	issued capital	reserve	for-sale reserve	differences	earnings		controlling interests	equity
Equity at 1 January 2015	**150**	**832**	**(954)**	**3**	**347**	**5,875**	**6,253**	**29**	**6,282**
Profit for the year						747	747	8	755
Other comprehensive income			(345)	101	268	185	209		209
Trading in treasury shares						8	8		8
Dividends paid						(1,110)	(1,110)		(1,110)
Purchase/sale, non-controlling interests						(21)	(21)		(21)
Dividends, non-controlling interests							-	(2)	(2)
Translation differences, non-controlling interests							-	6	6
Equity at 31 December 2015	**150**	**832**	**(1,299)**	**104**	**615**	**5,684**	**6,086**	**41**	**6,127**

The table below sets out selected data from Kongsberg's unaudited statements of changes in equity for the three months ended 31 March 2018 and 2017.

	Three months ended 31 March	
MNOK	**2018** *(unaudited)*	**2017** *(unaudited)*
Equity opening balance	**7,365**	**6,725**
Comprehensive income accumulated	29	229
Dividends	-	-
Treasury share	(84)	(66)
Dividends non-controlling interests	-	-
Change in non-controlling interests	(3)	(1)
Equity, closing balance	**7,307**	**6,887**

8.7 Segment information

8.7.1 Operating segment information

Kongsberg has three operating segments: KM (Kongsberg Maritime), KDA (Kongsberg Defence & Aerospace) and other. Other activities consist of Kongsberg Digital (KDI), real estate, group functions and eliminations between the business areas.

Kongsberg merged its two defence areas, and with effect from 1 October 2017, Kongsberg Protech systems (KPS) and Kongsberg Defence Systems (KDS) are being reported together as one segment, and the comparison figures have been restated.

Q1 2018 - unaudited				
MNOK	**Maritime**	**Defence & Aerospace**	**Other/non-allocated**	**Total**
Revenues	1,796	1,585	173	3,554
Operation profit before depreciation and amortization (EBITDA)	134	172	(20)	286
Operating profit (EBIT)	93	117	(35)	175

Q1 2017 - unaudited				
MNOK	**Maritime**	**Defence & Aerospace**	**Other/non-allocated**	**Total**
Revenues	1,768	1,778	175	3,721
Operation profit before depreciation and amortization (EBITDA)	140	188	11	339
Operating profit (EBIT)	92	138	(10)	220

2017[1]					
MNOK	**Maritime**	**Defence & Aerospace**	**Other**	**Eliminations**	**Consolidated**
Operating revenue from external customers	7,411	6,307	772	-	14,490
Revenue from group companies	18	26	479	(523)	-
Total revenues	**7,429**	**6,333**	**1,251**	**(523)**	**14,490**
Operation profit before depreciation and amortization (EBITDA)	**642**	**702**	**(65)**	**-**	**1,279**
Depreciation	(167)	(177)	(9)	-	(353)
Impairment of property, plant and equipment	(40)	-	-	-	(40)
Operating profit before amortization (EBITA)	**435**	**525**	**(74)**	**-**	**886**
Amortisation	(32)	(57)	(25)	-	(114)
Operating profit (EBIT)	**403**	**468**	**(99)**	**-**	**772**
Segment assets	6,715	6,599	667	(147)	13,834
Segment investments	141	340	44	-	525
Current segment liabilities and provisions	2,533	4,423	560	(119)	7,397

1 From Q1 2018, profit from real estate intercompany rental is no longer distributed to the business areas. Historical figures in this document do not reflect these changes.

2016[1]					
MNOK	**Maritime**	**Defence & Aerospace[2]**	**Other**	**Eliminations**	**Consolidated**
Operating revenue from external customers	8,588	6,297	960	-	15,845
Revenue from group companies	9	19	478	(506)	-
Total revenues	**8,597**	**6,316**	**1,438**	**(506)**	**15,845**
Operation profit before depreciation and amortization (EBITDA)	**280**	**928**	**9**	**-**	**1,217**
Depreciation	(178)	(169)	(13)	-	(360)
Impairment of property, plant and equipment	(7)	-	(15)	-	(22)
Operating profit before amortization (EBITA)	**95**	**759**	**(19)**	**-**	**835**
Amortisation	(43)	(62)	(38)	-	(143)
Operating profit (EBIT)	**52**	**697**	**(57)**	**-**	**692**
Segment assets	7,477	6,874	714	(167)	14,898
Segment investments	364	521	24	-	909
Current segment liabilities and	2,711	3,803	540	(168)	6,886

provisions					

1 From Q1 2018, profit from real estate intercompany rental is no longer distributed to the business areas. Historical figures in this document do not reflect these changes.

2 Kongsberg Defence Systems and Kongsberg Protech Systems were merged to Kongsberg Defence & Aerospace on 1 October 2017. For the 2016 financials of Kongsberg Defence Systems and Kongsberg Protech Systems, please refer to the annual report for 2016.

2015[1]					
MNOK	**Maritime**	**Defence & Aerospace**[2]	**Other**	**Eliminations**	**Consolidated**
Revenue from external customers	10,141	5,786	1,105	-	17,032
Revenue from group companies	56	140	450	(646)	-
Total revenues	**10,197**	**5,926**	**1,555**	**(646)**	**17,032**
Operation profit before depreciation and amortization (EBITDA)	**1,109**	**919**	**(244)**	**-**	**1,784**
Depreciation	(191)	(155)	(16)	-	(362)
Impairment of property, plant and equipment	(9)	0	(8)	-	(17)
Operating profit before amortization (EBITA)	**909**	**764**	**(268)**	**-**	**1,405**
Amortisation	(48)	(63)	(50)	-	(161)
Impairment of intangible assets	**-**	**0**	**(300)**	**-**	**(300)**
Operating profit (EBIT)	**861**	**701**	**(618)**	**-**	**944**
Segment assets	8,762	5,960	829	(222)	15,329

1 From Q1 2018, profit from real estate intercompany rental is no longer distributed to the business areas. Historical figures in this document do not reflect these changes.

2 Kongsberg Defence Systems and Kongsberg Protech Systems were merged to Kongsberg Defence & Aerospace on 1 October 2017. For the 2015 financials of Kongsberg Defence Systems and Kongsberg Protech Systems, please refer to the annual report for 2015.

8.7.2 *Geographical segment information*

Kongsberg's activities are generally divided into Norway, the rest of Europe, America and Asia. Earnings are distributed based on the customers' geographical location, while the data on fixed assets are based on the location of the physical investment or relationship to the relevant acquisition.

Amounts in NOK million	**Year ended 31 December**		
Operating revenues from external customers	**2017**	**2016**	**2015**
Norway	2,772	2,764	2,904
Europe	3,569	3,506	3,609
America	4,448	4,723	4,602
South-America	194	175	196
Asia	2,974	4,344	5,310
Australia	159	182	258
Africa	374	151	153
Total operating revenues	**14,490**	**15,845**	**17,032**

9 UNAUDITED PRO FORMA FINANCIAL INFORMATION

9.1 The Transaction

On 6 July 2018, the Company announced that it had entered into the Purchase Agreement with the Seller in relation to the acquisition of Rolls-Royce Commercial Marine (the Transaction). For further details, see Section 3 "The Transaction". The Completion of the Transaction is subject to the Condition as described in Section 3.7 "Condition for completion of the Transaction".

The following tables set out unaudited pro forma financial information for the Group as of and for the year ended 31 December 2017, and is prepared under the assumption that the Transaction will be completed as described in Section 3 "The Transaction". It should be noted that the unaudited pro forma financial information reflects the effects of the Transaction as well as the effects of the financing of the Transaction, i.e. the Rights Issue and the Bond Issue (or the Bridge Loan), as described in Section 3.10 "Financing of the Transaction". For the purpose of this Section 9 "Unaudited pro forma financial information", the term "Transaction" shall be read as to include the financing of the Transaction.

9.2 Cautionary note regarding the Unaudited Pro Forma Financial Information

The unaudited pro forma financial information has been prepared solely for illustrative purposes to show how the Transaction might have affected the Group's consolidated income statement for the year ended 31 December 2017, had the Transaction occurred on 1 January 2017, and the consolidated statement of financial position as of 31 December 2017, had the Transaction occurred on 31 December 2017.

The unaudited pro forma financial information is based on certain management assumptions and adjustments made to illustrate what the financial results of the Group might have been, had the Company completed the Transaction at an earlier point in time.

Because of its nature, the unaudited pro forma financial information addresses a hypothetical situation, and therefore, does not represent the Group's actual financial position or results if the Transaction had in fact occurred on those dates, and is not representative of the results of operations for any future periods. It should be noted that greater uncertainty is attached to the unaudited pro forma financial information than historical financial information. Investors are cautioned against placing undue reliance on this unaudited pro forma financial information.

The assumptions underlying IFRS adjustments applied to the historical financial information of Rolls-Royce Commercial Marine and the pro forma adjustments are described in the notes to the unaudited pro forma financial information. Neither these adjustments nor the resulting unaudited pro forma financial information have been audited in accordance with Norwegian or United States generally accepted auditing standards. In evaluating the unaudited pro forma financial information, each reader should carefully consider the historical financial statements of the Group and the notes thereto and the notes to the unaudited pro forma financial information.

9.3 Basis for preparation

The unaudited pro forma income statements are prepared in a manner consistent with the accounting policies of the Company (IFRS as adopted by EU) applied in 2017. The Company will not adopt any new policies in 2018 as a result of the acquisition or otherwise, with the exception of IFRS 15, Revenue from Contracts with Customers, and IFRS 9, Financial Instruments, which were adopted 1 January 2018. Please refer to note 2 and 3 of the financial statements for the year ended 31 December 2017 for a description of the accounting policies.

The Transaction is accounted for as an acquisition under IFRS 3, Business Combinations.

The unaudited pro forma income statement and balance sheet for the year ended 31 December 2017 has been compiled based on the audited consolidated financial statements of the Group for the year ended 31 December 2017 which were prepared in accordance with IFRS as adopted by EU.

Furthermore, for the purpose of compiling the unaudited pro forma financial information the historical IFRS financial information of Rolls-Royce Commercial Marine has been extracted from the underlying accounting records reported as part of the audited consolidated financial statements for the year ended 31 December 2017 of Rolls-Royce Holdings plc prepared under IFRS as adopted by EU. Rolls-Royce Commercial Marine was previously reported within the "Marine" segment as presented in Note 2 "Segmental Analysis" in the Rolls-Royce Holding plc financial statements, and has been extracted from the "Marine" segment after making adjustments to remove those parts of the "Marine" segment not comprising part of Rolls-Royce Commercial Marine and for certain adjustments to conform the accounting treatment to the Company's IFRS presentation.

The unaudited pro forma financial information does not include all information required for financial statements under IFRS and should be read in connection with the historical information of the Company. The unaudited pro forma financial information has been prepared under the assumption of going concern.

Although the pro forma financial information is based on estimates and assumptions based on current circumstances believed to be reasonable, actual results could materially differ from those presented herein. There is a greater degree of uncertainty associated with pro forma financial information than with historical financial information. Because of its nature, the unaudited pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or results if the Transaction had in fact occurred on those dates and is not representative of the results of operations for any future periods. Investors are cautioned not to place undue reliance on this unaudited pro forma financial information.

The unaudited pro forma financial information has been compiled to comply with the requirements set forth in Section 3.5.2.6 of the Continuing Obligations by reference to Annex II of Commission Regulation (EC) 809/2004 implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 regarding information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, which pursuant to the Continuing Obligations apply correspondingly to information memorandums such as this Information Memorandum.

It should be noted that the unaudited pro forma financial information was not prepared in connection with an offering registered with the U.S. Securities and Exchange Commission ("**SEC**") under the U.S. Securities Act and consequently is not compliant with the SEC's rules on presentation of pro forma financial information (SEC Regulation S-X) and had the securities been registered under the U.S. Securities Act of 1933, this unaudited pro forma financial information, including the report by the auditor, would have been amended and / or removed from the Information Memorandum. As such, a U.S. investor should not place reliance on the unaudited pro forma financial information included in this Information Memorandum.

9.4 Independent Practitioner's Assurance Report on the compilation of Pro Forma Financial Information included in an Information Memorandum

With respect to the unaudited pro forma financial information included in this Information Memorandum, EY applied assurance procedures in accordance with ISAE 3420 "Assurance Engagement to Report Compilation of Pro Forma Financial Information Included in a Prospectus" in order to express an opinion as to whether the unaudited pro forma financial information has been properly compiled on the basis stated, and that such basis is consistent with the accounting policies of the Company. EY has issued an independent assurance report on the unaudited pro forma financial information included as Appendix A to this Information Memorandum. There are no qualifications to this assurance report.

9.5 Unaudited pro forma income statement

The table below sets out the unaudited pro forma income statement for the year ended 31 December 2017, as if the acquisition had occurred on 1 January 2017.

NOK million	**Company IFRS**	**RRCM IFRS (unaudited)**	**IFRS adjustments (unaudited)**	**Note**	**Pro forma adjustments (unaudited)**	**Note**	**Company Pro forma (unaudited)**
Revenues	14,490	8,744					23,234
Material cost	(4,417)	(4,954)			(24)	1	(9,395)
Personnel expenses	(5,788)	(3,062)					(8,850)
Other operating expenses	(3,193)	(1,138)	128	A	(52)	1	(4,256)
Share of net income							187

NOK million	**Company IFRS**	**RRCM IFRS (unaudited)**	**IFRS adjustments (unaudited)**	**Note**	**Pro forma adjustments (unaudited)**	**Note**	**Company Pro forma (unaudited)**
from joint arrangements and associated companies	187	0					
Operating profit before depreciation and amortisation (EBITDA)	**1,279**	**(410)**	**128**		**(76)**		**920**
Depreciation	(353)	(131)					(484)
Impairment of property, plant and equipment	(40)	(53)					(93)
Operating profit before amortisation (EBITA)	**886**	**(593)**	**128**		**(76)**	**-**	**344**
Amortisation	(114)	(65)			(138)	1	(318)
Operating profit (EBIT)	**772**	**(659)**	**128**	**-**	**(215)**		**26**
Financial Income	47	135	(135)	A			47
Financial expenses	(165)	(17)	7	A	(17)	2	(191)
Profit before tax	**654**	**(541)**	**-**		**(231)**	**2**	**(118)**
Income tax expense	(95)	(39)			43	3	(91)
Profit for the year	**559**	**(579)**	**-**	**-**	**(189)**		**(209)**

In connection with the preparation of the pro forma income statement, the following pro forma adjustments have been made:

Pro forma P&L adjustment 1 - Amortising of value adjustments and acquisition costs

The inventory step up has been allocated as material expense, with a one year economic life, providing a NOK 24 million material cost pro forma adjustment, with no contuing impact.

The order backlog amortisation, assuming a five economic year, is NOK 20 million, having a continuing impact, and estimated acquisition costs of NOK 32 million, having no continuing impact, give a pro forma adjustment to other operating expenses of NOK 52 million.

The customer relationships, the acquired brands and the technology related assets have been amortised over their respective remaining useful economic lives of seven years, ten years and ten years, giving pro forma adjustments of NOK 81 million, NOK 6 millon and NOK 52 million, respectively, totalling an amortisation expense of NOK 138 million, having a continuing impact.

Pro forma P&L adjustment 2 - Financing

The Company estimates that the financing of the Transaction will be achieved through the NOK 5,000 million Rights Issue and the remaining through use of NOK 645 million from the Bridge Loan. The Bridge Loan will have an expected interest rate of 1.64%, and this interest cost together with related other transaction costs gives a pro forma expense totaling NOK 17 million. This adjustment is expected to have a continuing impact.

Pro forma P&L adjustment 3 - Tax

The Company has estimated an effective tax rate for Rolls-Royce Commercial Marine of 18.4% which it has applied to the pro forma P&L adjustments in the P&L at that effective rate, giving an adjustment of NOK 42 million. The adjustments having a continuing impact are estimated to impact the income tax expense at the same effective rate.

IFRS adjustment A - Classification of financial costs and income

Rolls-Royce Commercial Marine has in accordance with IFRS recorded the effect of certain fair value adjustments of derivative instruments in its P&L for 2017; whereby Rolls-Royce Commercial Marine has elected to include these adjustments within financial income and expence. The Company has as an IFRS accounting policy to include such amounts as an operating expense. This adjustment therefore reclassifies these amounts to confirm to the Company's presentation.

9.6 Unaudited pro forma statement of financial position

The table below sets out the unaudited pro forma statement of financial position as of 31 December 2017, as if the acquisition had occurred on 31 December 2017.

NOK million	**Company IFRS**	**RRCM IFRS (unaudited)**	**IFRS adjustments (unaudited)**	**Note**	**Pro forma adjustments (unaudited)**	**Note**	**Company Pro forma (unaudited)**
Assets							
Fixed assets							
Property, plant and equipment	2,658	1,382					4,040
Goodwill	1,981	-			1,253	1	3,234
Other intangible assets	822	169			1,282	1	2,273
Shares in joint arrangements and associated companies	3,358	-					3,358
Available-for-sale shares	29	-					29
Other non-current assets	175	1,242					1,417
Total non-curent assets	**9,023**	**2,794**	**-**	**-**	**2,535**		**14,352**
Current assets							
Inventories	3,961	1,948			25	1	5,934
Receivables	2,672	1,815					4,487
Construction contracts in progress, asset	2,018	21					2,039
Derivatives	213	-					213
Cash and cash equivalents	2,956	1,832					4,788
Total current assets	**11,820**	**5,616**	**-**	**-**	**25**		**17,461**
Total assets	**20,843**	**8,410**	**-**	**-**	**2,560**		**31,813**
Equity, liabilities and provisions							
Issued capital	982	6,655			(1,741)	23	5,897
Other reserves	435	(4,895)			4,895	3	435
Retained earnings	5,914	1,017			(1,017)	3	5,914
Equity attributable to owners of the parent	**7,331**	**2,777**	**-**	**-**	**2,138**		**12,246**
Non-controlling interest	34	18			(18)	3	34
Total equity	**7,365**	**2,795**	**-**	**-**	**2,120**		**12,280**
Non-current liabilities and provisions							
Long-term-interest-bearing loans	3,340	-			645	2	3,985
Pension liabilities	647	274					921
Provisions	140	-					140
Deferred tax liabilities	1,272	(66)			(290)	4	916
Other non-current liabilities	21	138					159
Total non-current liabilities and provisions	**5,420**	**346**	**-**	**-**	**355**		**6,120**
Current liabilities and provisions							
Construction contracts in progress, lia	3,389	-					3,389
Derivatives	645	32					677
Provisions	543	523					1,066
Short-term interest-bearing loans	-	327					327
Other current liabilities	3,481	4,387			85	5	7,953

NOK million	Company IFRS	RRCM IFRS (unaudited)	IFRS adjustments (unaudited)	Note	Pro forma adjustments (unaudited)	Note	Company Pro forma (unaudited)
Total current liabilities and provisions	**8,058**	**5,269**	**-**	**-**	**85**		**13,412**
Total liabilities and provisions	**13,478**	**5,615**	**-**	**-**	**440**		**19,533**
Total equity, liabilities and provisions	**20,843**	**8,410**	**-**	**-**	**2,560**		**31,813**

In connection with the preparation of the pro forma statement of financial position the following pro forma adjustments have been made:

Pro forma balance sheet adjustment 1 - Allocation of fair value adjustments and acquisition costs:

In connection with the acquisition the Company has identified and recognised intangible assets with an acquisition date fair value totalling NOK 1,282 million for customer relationships, brand, technology and order backlog. Inventory also attracts an identified value adjustment totalling NOK 25 million. After allocation the identified values of the underlying assets and liabilities the acquisition gives rise to goodwill totalling NOK 1,253 million. In addition, the transaction contributes net deferred tax assets NOK 290 million.

Pro forma balance sheet adjustment 2 - Financing

The Company estimates that the financing of the Transaction will be achieved through the NOK 5,000 million Rights Issue and the remaining through use of NOK 645 million from the Bridge Loan. The Bridge Loan will have an expected rate of 1.64%, and this interest cost together with related other transaction costs gives a pro forma expense totalling NOK 17 million. The Rights Issue is adjusted for the expected net issuance and underwriting expenses totalling NOK 53 million. Whilst the Company anticipates a successful Rights Issue, as discussed in Section 1 "Risk Factors", the Rights Issue is contingent upon both approval at the general meeting of the Company and the approval by the Norwegian parliament. Furthermore, whilst the Company has assumed for purposes of preparing the unaudited pro forma financial information that Bridge Loan will be utilised for the entire pro forma period, the Bridge Loan may be refinanced or replaced by use of a Bond Issue within that period on terms different to those assumed.

Pro forma balance sheet adjustment 3 - Consolidation adjustment

The Company will account for the Transaction as an acquisition. The existing reserves of Rolls-Royce Commercial Marine will therefore no longer appear in the consolidated results of the group following the acquisition and are reversed out as the balancing adjustments against the financing of the acquisition, the identified fair values and the existing net assets of Rolls-Royce Commercial Marine as of 31 December 2017 in the unaudited proforma financial information.

Pro forma balance sheet adjustment 4 - Tax

The net deferred tax asset adjustment of NOK 290 million comprises a deferred tax asset valued at NOK 591 million, arising from losses carried forward in Rolls-Royce Commercial Marine, and a net deferred asset liability of NOK 301 million, arising from the value of temporary differences in connection with the fair value acquisition-related adjustments.

Pro forma balance sheet adjustment 5 - Accrued expenses

The adjustment for accrued expenses totalling NOK 85 million is the expected net issuance and underwriting expenses totalling NOK 53 million, and the estimated acquisition costs of NOK 32 million, giving a pro forma adjustment to other current liabilities of NOK 85 million.

9.7 Additional notes to the unaudited pro forma financial information

The notes to the unaudited pro forma financial information form an integral part of the unaudited pro forma statement information.

Foreign exchange rates

For purposes of converting the Pound Sterling (GBP) information relating to the Commercial Marine Business to the Company's reporting currency of Norwegian Crowns (NOK) the Company has extracted the following rates from the Norwegian National Bank's (Norges Bank): for the year ended 31 December 2017: 10.6386; and as of 31 December 2017: 10.9887.

Purchase price allocation

The Company has for the purposes of the pro forma financial information performed a preliminary purchase price allocation. This allocation has formed the basis for the amortization and depreciation charges in the pro forma income statement and the presentation in the pro forma balance sheet. The final allocation may significantly differ from this allocation and this could materially have affected the depreciation and amortization of excess values in the pro forma income statement and the presentation in the pro forma balance sheet.

The purchase price allocation including the remaining useful economic life (UEL) is presented in the table below:

GBP in millions		**UEL**	**Annual amort.**
Value adjustments			
Customer Relationships	53,3	7,0	7,6
Brand	5,2	10,0	0,5
Technology	48,7	10,0	4,9
Order backlog	9,5	5,0	1,9
Inventory	2,3	1,0	2,3
Deferred tax assets	53,8	n.a.	n.a.
Net deferred tax	(27,4)	n.a.	n.a.
Net of above	**145,4**		
Goodwill	114,0	n.a.	n.a.
Total value adjustment	**259,4**		

And upon conversion at the exchange rates shown above the NOK amounts used for purposes of the unaudited pro forma information are shown below:

	Balance sheet (GBP)	**Profit & loss (BGP)**	**Balance sheet (NOK)**	**Profit & loss (NOK)**
CMB Balance sheet	254,3		2,795	
Customer Relationships	53,3	7,6	586	81
Brand	5,2	0,5	57	6
Technology	48,7	4,9	535	52
Order backlog	9,5	1,9	104	20
Inventory	2,3	2,3	25	24
Deferred tax asset	53,8	n.a	591	-
Net deferred tax asset	(27,4)	n.a	(301)	-
Goodwill	114,0	n.a	1,253	-
Purchase price	513,7	17	5,645	183
Financing				
Equity			5,000	-
Loan			645	14
Acquisition costs			-	32
			5,645	228

10 ADDITIONAL INFORMATION

10.1 Documents on display

For a period of twelve months following the date of this Information Memorandum, copies of the following documents will be available for inspection at the Company's registered office during normal business hours on any business day:

- the Company's certificate of incorporation and Articles of Association;
- all report, letters, and other documents, historical financial information, valuations and statements prepared by any expert at the Company's request any part of which is included or referred to in the Information Memorandum;
- the historical financial information of the Company and its subsidiary undertakings for each of the two financial years preceding the publication of this Information Memorandum; and
- this Information Memorandum.

10.2 Sources of industry and market data

In this Information Memorandum, the Company has used industry and market data obtained from independent industry publications, market research and other publicly available information. The information in this Information Memorandum that has been sourced from third parties has been accurately reproduced and, as far as the Company is aware and able to ascertain, from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. While the Company has compiled, extracted and reproduced industry and market data from external sources, the Company has not independently verified the correctness of such data. The Company cautions prospective investors not to place undue reliance on the abovementioned data.

Unless otherwise indicated in the Information Memorandum, the basis for any statements regarding the Company's competitive position is based on the Company's own assessment and knowledge of the market in which it operates.

10.3 Cautionary note regarding forward-looking statements

This Information Memorandum contains forward-looking statements that reflect the Company's current views with respect to future events and financial and operational performance. All statements other than statements of historical facts included in this Information Memorandum, including, but not limited to, statements relating to Kongsberg's financial position, the risks specific to Kongsberg's business, the strengths of Kongsberg, business strategy and the implementation of strategic initiatives, as well as other statements relating to Kongsberg's future business development and financial performance, are forward-looking statements. These forward-looking statements can often, but not necessarily, be identified by the use of forward-looking terminology, including the terms "assumes", "projects", "forecasts", "estimates", "expects", "anticipates", "believes", "plans", "intends", "may", "might", "will", "would", "can", "could", "should" or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements are not historic facts. They appear in a number of places throughout this Information Memorandum and include statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, financial position, operating results, liquidity, prospects, growth, strategies and the industry in which Kongsberg operates.

Readers are cautioned that forward-looking statements are not guarantees of future performance and that Kongsberg's actual financial position, operating results and liquidity, and the development of the industry in which Kongsberg operates, may differ materially from those made in, or suggested, by the forward-looking statements contained in this Information Memorandum. The Company cannot guarantee that the intentions, beliefs or current expectations upon which its forward-looking statements are based will occur.

By their nature, forward-looking statements involve, and are subject to, known and unknown risks, uncertainties and assumptions as they relate to events and depend on circumstances that may or may not occur in the future. Because of these known and unknown risks, uncertainties and assumptions, the outcome may differ materially from those set out in the forward-looking statements.

Some of the risks that could affect Kongsberg's future results and could cause results to differ materially from those expressed in the forward-looking statements are discussed in Section 1 "Risk factors".

The information contained in this Information Memorandum, including the information set out under Section 1 "Risk factors", identifies additional factors that could affect Kongsberg's financial position, operating results, liquidity and performance. Readers are urged to read all Sections of this Information Memorandum and, in particular, Section 1 "Risk factors" for a more complete discussion of the factors that could affect Kongsberg's future performance and the industry in which Kongsberg operates.

These forward-looking statements speak only as of the date on which they are made. The Company undertakes no obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Company or to persons acting on the Company's behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Information Memorandum.

10.4 Incorporation by reference

The information incorporated by reference in this Information Memorandum shall be read in connection with the cross-reference list as set out in the table below. Reference in this Information Memorandum should be read in connection with the following cross reference table. References in the table to "Annex" and "Items" are references to the disclosure requirements as set forth in the Norwegian Securities Trading Act cf. the Norwegian Securities Trading Regulations by reference to such Annex (and Item therein) of Commission Regulation (EC) no. 809/2004. Except as provided in this Section, no other information is incorporated by reference into this Information Memorandum.

Section in the Information Memorandum	Disclosure requirement	Reference document and link	Page (P) in reference document
Section 8	Audited historical financial information (Annex XXIII, section 15.1 and 15.3)	**Financial statements 2017:** https://newsweb.oslobors.no/message/447517	P 107-160
		Financial statements 2016: https://newsweb.oslobors.no/message/423562	P 31-82
		Financial statements 2015: https://newsweb.oslobors.no/message/398648	P 30-77
Section 8	Auditing of historical annual financial information (Annex XXIII, section 15.4)	**Auditor's report 2017:** https://newsweb.oslobors.no/message/447517	P 175-179
		Auditor's report 2016: https://newsweb.oslobors.no/message/423562	P 96-99
		Auditor's report 2015: https://newsweb.oslobors.no/message/398648	P 90-91
Section 8	Interim and other financial information (Annex XXIII, section 15.6)	**Interim report Q1 2018:** https://newsweb.oslobors.no/message/451373	P 17-27
		Interim report Q1 2017: https://newsweb.oslobors.no/message/427265	P 17-23

11 DEFINITIONS

In the Information Memorandum, the following defined terms have the following meanings:

AHTS	Anchor Handling Tug Supply Vessels.
Articles of Association	Kongsberg Gruppen's articles of association.
Bank Underwriters	Danske Bank and DNB.
Board of Directors or Board	The Board of Directors of Kongsberg Gruppen.
Bond Issue	One or more new bond loans of up to NOK 2 billion.
Bridge Loan	The bridge loan of up to NOK 2 billion of which Nordea Bank AB (publ) filial i Norge has undertaken to provide in the event that the Bond Issue has not been completed prior to Completion.
Business Assets and Liabilities	Has the meaning ascribed to such term in Section 3.4.
Business Licenses	Has the meaning ascribed to such term in Section 3.4.
Business Properties	Has the meaning ascribed to such term in Section 3.4.
Business Sellers	Has the meaning ascribed to such term in Section 3.4.
CEO	Chief Executive Officer.
Completion	Has the meaning ascribed to such term on page 1.
Condition	Has the meaning ascribed to such term in Section 3.7.
Company or Kongsberg Gruppen	Kongsberg Gruppen ASA.
Continuing Obligations	Continuing Obligations for Stock Exchange Listed Companies.
Corporate Governance Code	The Norwegian Code of Practice for Corporate Governance published on 30 October 2014 by the Norwegian Corporate Governance Board.
Danske Bank	Danske Bank A/S, Norwegian Branch.
DNB	DNB Bank ASA.
EBIT	Earnings Before Interest and Tax.
EBITA	Earnings Before Interest, Taxes and Amortization.
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation.
EGM	The general meeting that shall vote on the share capital increase pertaining to the Rights Issue.
EU	The European Union.
Euro or EUR	The lawful common currency of the EU member states who have adopted the Euro as their sole national currency.
EY	Ernst & Young AS.
GBP	The lawful currency of the United Kingdom.
GDP	Gross domestic product.
Group	Kongsberg Gruppen and its consolidated subsidiaries.
IEA	International Energy Agency.
IED	Improvised explosive device.
IFRS	International Financing Reporting Standards as adopted by the EU.
Information Memorandum	This Information Memorandum dated 16 August 2018.
Interim Financial Statements	The unaudited historical financial statements for Kongsberg as of and for the three months ended 31 March 2018 and 2017.
IT	Information technology.
Kongsberg	Kongsberg Gruppen and its consolidated subsidiaries.
Kongsberg Gruppen	Kongsberg Gruppen ASA.
KSAT	Kongsberg Satellite Services AS.

KTA	KTA Naval Systems AS.
Long Stop Date	Has the meaning ascribed to such term in Section 3.11.
Management	The members of the Company's executive management.
NASAMS	Norwegian Advanced Surface-to-Air Missile System.
NOK	The lawful currency of Norway.
Norwegian Public Companies Act	The Norwegian Public Limited Liability Companies Act of 13 June 1997 no. 45 (Nw. *Allmennaksjeloven*), as amended.
Norwegian Securities Trading Act.......	The Securities Trading Act of 29 June 2007 no. 75 (Nw. *Verdipapirhandelloven*), as amended.
OPEC	Organisation of the Petroleum Exporting Countries.
Oslo Stock Exchange	Oslo Børs (a stock exchange operated by Oslo Børs ASA).
OSV	Supply vessels.
Patria	Patria Oyj.
Pre-committing Shareholders	Has the meaning ascribed to such term in Section 3.10.
PSV	Platform Supply Vessels.
Purchase Agreement	The sale and share purchase agreement entered into on 6 July 2018 between Kongsberg Gruppen and Rolls-Royce plc.
Rights Issue	The underwritten rights issue of NOK 5 billion which is expected to take place in the fourth quarter of 2018.
R&D	Research and development.
RCF	Kongsberg's undrawn revolving credit facility with Danske Bank, DNB, JP Morgan Chase, Nordea and SEB of NOK 2.3 billion.
Rolls-Royce or the Seller...........................	Rolls-Royce plc.
Rolls-Royce Commercial Marine	Rolls-Royce's commercial marine business.
Rolls-Royce Reorganisation	Has the meaning ascribed to such term in Section 3.8.
SEC	The U.S. Securities and Exchange Commission.
Securities Act	U.S. Securities Act of 1933, as amended.
Share(s)	The shares of the Company, each with a nominal value of NOK 1.25.
Target Companies....................................	Has the meaning ascribed to such term in Section 3.4.
TEU	Twenty-foot Equivalent Unit.
tkMS	thyssenkrupp Marine Systems.
Transaction	The acquisition of 100% of Rolls-Royce Commercial Marine by Kongsberg.
UAV	Unmanned aerial vehicle.
UCAV	Unmanned combat aerial vehicle.
U.S. Dollars or USD	The lawful currency of the United States of America.
U.S. Securities Act	The United States Securities Act of 1933, as amended.
VPS	The Norwegian Central Securities Depository (Nw. *Verdipapirsentralen*).

APPENDIX A - INDEPENDENT ASSURANCE REPORT ON PRO FORMA FINANCIAL INFORMATION

Statsautoriserte revisorer
Ernst & Young AS

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Medlemmer av Den norske revisorforening

To the Board of Directors of Kongsberg Gruppen ASA

Independent Practitioners' Assurance Report on the compilation of unaudited pro forma financial information included in an Information Memorandum

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Kongsberg Gruppen ASA (the "Company") by the Board of Directors and Management of the Company. The unaudited pro forma condensed financial information consists of the unaudited condensed pro forma balance sheet as at 31 December 2017, the unaudited condensed pro forma income statement for the year ended 31 December 2017, and related notes as set out in section 9 of the information memorandum dated 16 August 2018 issued by the Company (the "Information Memorandum").

The unaudited pro forma condensed financial information has been compiled to comply with the requirements in section 3.5.2.6 of the "Continuing Obligations of Stock Exchange Listed Companies" issued by Oslo Børs (Oslo Stock Exchange). The applicable criteria on the basis of which the Board of Directors and Management have compiled the pro forma financial information are specified in Commission Regulation (EC) no. 809/2004 as incorporated in the Securities Trading Act section 7-13 and described in section 9 of the Information Memorandum (the "applicable criteria"). The historical financial information of Rolls-Royce Commercial Marine (the acquired entity) for the year ended 31 December 2017 used in the compilation of the Pro Forma Financial Information is unaudited and accordingly we do not accept any responsibility for that information.

The pro forma financial information has been compiled by the Board of Directors and Management to illustrate the impact of the transaction set out in section 9 of the Information Memorandum on the Company's consolidated financial position as at 31 December 2017 and its consolidated financial performance for the year ended 31 December 2017 as if the transaction had taken place at 31 December 2017 and 1 January 2017 respectively. As part of this process, information about the Company's consolidated financial position and financial performance has been extracted by the Board of Directors and Management from the Company's audited consolidated financial statements for the year ended 31 December 2017. Information about the acquired entity's financial position and financial performance has been extracted by the Board of Directors and Management from the underlying accounting records reported as a part of the audited consolidated financial statements of Roll-Royce Holdings plc prepared under IFRS as adopted by EU for the year ended 31 December 2017. The auditor's report on the Company's financial statements for the year ended 31 December 2017 has been incorporated by reference in section 10.4 of the Information Memorandum.

The Board of Directors' and Management's Responsibility for the Pro Forma Financial Information

The Board of Directors and Management are responsible for compiling the pro forma financial information on the basis of the applicable criteria.

Our Independence and Quality Control

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies International Standard on Quality Control 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's Responsibilities

Our responsibility is to express an opinion, as required by Annex II item 7 of EU Regulation No 809/2004 about whether the pro forma financial information has been compiled by the Board of Directors and Management on the basis of the applicable criteria.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the International Auditing and Assurance Standards Board. This standard requires that the practitioner plans and performs procedures to obtain reasonable assurance about whether the Board of Directors and Management have compiled the pro forma financial information on the basis of the applicable criteria and whether this basis is consistent with the accounting policies of the Company. Our work primarily consisted of comparing the unadjusted financial information with the source documents as described in section 9 of the Information Memorandum, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with Management of the Company.

The aforementioned opinion does not require an audit of historical unadjusted financial information, the adjustments to conform the accounting policies of Rolls-Royce Commercial Marine to the accounting policies of the Company, or the assumptions summarized in section 9 of the Information Memorandum. For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an information memorandum is solely to illustrate the impact of the transaction on unadjusted financial information of the Company as if the transaction occurred or had been undertaken at an earlier date selected for purposes of the illustration. Because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Company's actual financial position or performance. Accordingly, we do not provide any assurance that the actual outcome of the transaction at 31 December 2017 or for the year ended 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been compiled on the basis stated involves performing procedures to assess whether the applicable criteria used by the Board of Directors and Management in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria;
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information; and
- The pro forma financial information has been compiled on a basis consistent with the accounting policies of the Company.

The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances. The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

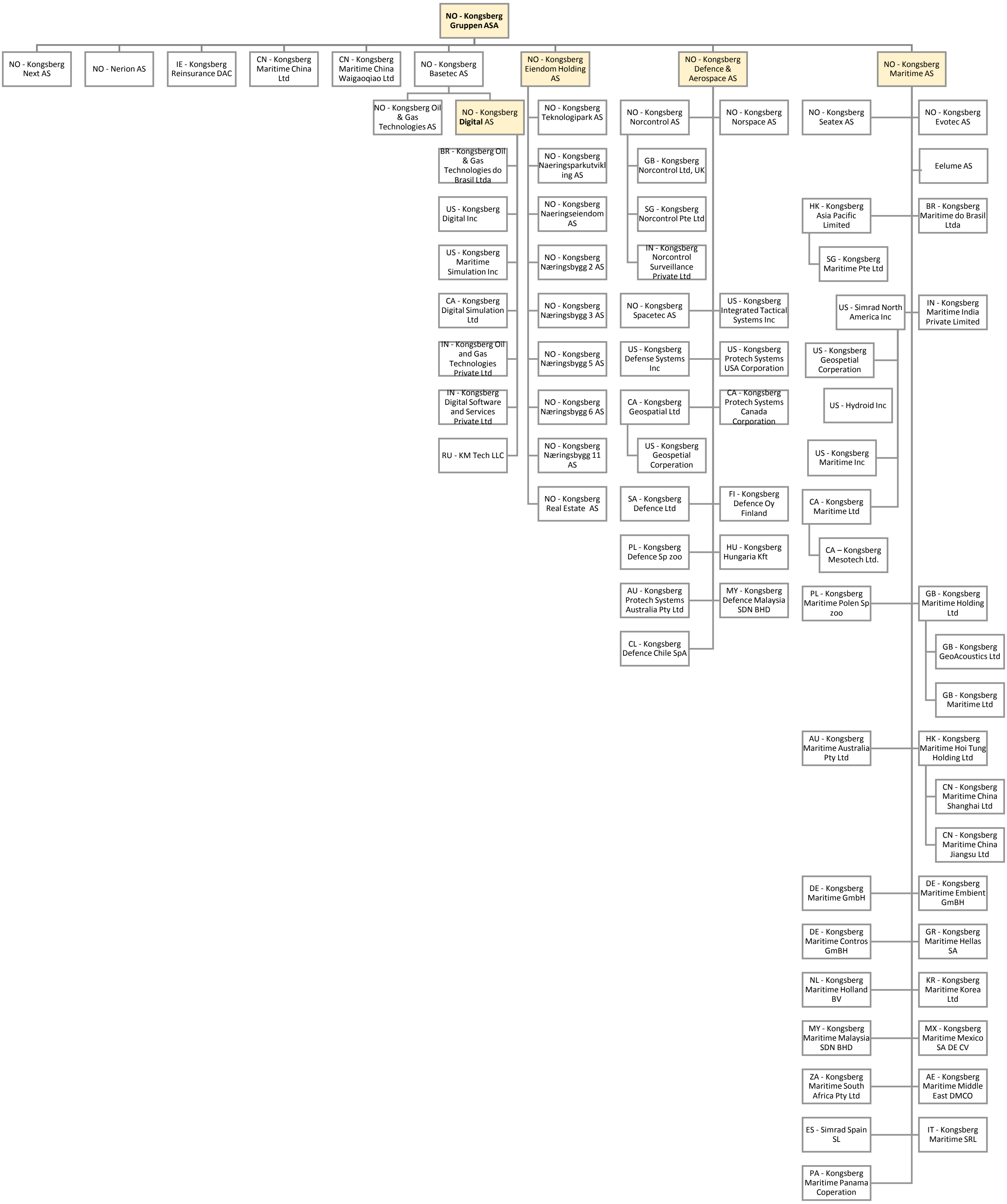
a) the pro forma financial information has been properly compiled on the basis stated in section 9 of the Information Memorandum; and
b) that basis is consistent with the accounting policies of the Company

This report is issued for the sole purpose of the acquisition of Roll-Royce Commercial Marine as set out in the Information Memorandum reviewed by Oslo Stock Exchange. Our work has not been carried out in accordance with auditing, assurance or other standards and practices generally accepted in the United States and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices. Therefore, this report is not appropriate in other jurisdictions and should not be used or relied upon for any purpose other than the transaction described above. We accept no duty or responsibility to and deny any liability to any party in respect of any use of, or reliance upon, this report in connection with any type of transaction, including the sale of securities other than the transaction, as set out in the Information Memorandum reviewed by Oslo Stock Exchange.

Oslo, 16 August 2018
ERNST & YOUNG AS

Finn Espen Sellæg
State Authorized Public Accountant (Norway)

APPENDIX B - KONGSBERG'S LEGAL GROUP STRUCTURE CHART


NO - Kongsberg Gruppen ASA
NO - Kongsberg Next AS
NO - Nerion AS
IE - Kongsberg Reinsurance DAC
CN - Kongsberg Maritime China Ltd
CN - Kongsberg Maritime China Waigaoqiao Ltd
NO - Kongsberg Basetec AS
NO - Kongsberg Oil & Gas Technologies AS
NO - Kongsberg Digital AS
BR - Kongsberg Oil & Gas Technologies do Brasil Ltda
US - Kongsberg Digital Inc
US - Kongsberg Maritime Simulation Inc
CA - Kongsberg Digital Simulation Ltd
IN - Kongsberg Oil and Gas Technologies Private Ltd
IN - Kongsberg Digital Software and Services Private Ltd
RU - KM Tech LLC
NO - Kongsberg Eiendom Holding AS
NO - Kongsberg Teknologipark AS
NO - Kongsberg Naeringsparkutvikling AS
NO - Kongsberg Naeringseiendom AS
NO - Kongsberg Næringsbygg 2 AS
NO - Kongsberg Næringsbygg 3 AS
NO - Kongsberg Næringsbygg 5 AS
NO - Kongsberg Næringsbygg 6 AS
NO - Kongsberg Næringsbygg 11 AS
NO - Kongsberg Real Estate AS
NO - Kongsberg Defence & Aerospace AS
NO - Kongsberg Norcontrol AS
GB - Kongsberg Norcontrol Ltd, UK
SG - Kongsberg Norcontrol Pte Ltd
IN - Kongsberg Norcontrol Surveillance Private Ltd
NO - Kongsberg Norspace AS
NO - Kongsberg Spacetec AS
US - Kongsberg Integrated Tactical Systems Inc
US - Kongsberg Defense Systems Inc
US - Kongsberg Protech Systems USA Corporation
CA - Kongsberg Geospatial Ltd
CA - Kongsberg Protech Systems Canada Corporation
US - Kongsberg Geospatial Corperation
SA - Kongsberg Defence Ltd
FI - Kongsberg Defence Oy Finland
PL - Kongsberg Defence Sp zoo
HU - Kongsberg Hungaria Kft
AU - Kongsberg Protech Systems Australia Pty Ltd
MY - Kongsberg Defence Malaysia SDN BHD
CL - Kongsberg Defence Chile SpA
NO - Kongsberg Maritime AS
NO - Kongsberg Seatex AS
NO - Kongsberg Evotec AS
Eelume AS
HK - Kongsberg Asia Pacific Limited
BR - Kongsberg Maritime do Brasil Ltda
SG - Kongsberg Maritime Pte Ltd
US - Simrad North America Inc
IN - Kongsberg Maritime India Private Limited
US - Kongsberg Geospetial Corperation
US - Hydroid Inc
US - Kongsberg Maritime Inc
CA - Kongsberg Maritime Ltd
CA – Kongsberg Mesotech Ltd.
PL - Kongsberg Maritime Polen Sp zoo
GB - Kongsberg Maritime Holding Ltd
GB - Kongsberg GeoAcoustics Ltd
GB - Kongsberg Maritime Ltd
AU - Kongsberg Maritime Australia Pty Ltd
HK - Kongsberg Maritime Hoi Tung Holding Ltd
CN - Kongsberg Maritime China Shanghai Ltd
CN - Kongsberg Maritime China Jiangsu Ltd
DE - Kongsberg Maritime GmbH
DE - Kongsberg Maritime Embient GmBH
DE - Kongsberg Maritime Contros GmBH
GR - Kongsberg Maritime Hellas SA
NL - Kongsberg Maritime Holland BV
KR - Kongsberg Maritime Korea Ltd
MY - Kongsberg Maritime Malaysia SDN BHD
MX - Kongsberg Maritime Mexico SA DE CV
ZA - Kongsberg Maritime South Africa Pty Ltd
AE - Kongsberg Maritime Middle East DMCO
ES - Simrad Spain SL
IT - Kongsberg Maritime SRL
PA - Kongsberg Maritime Panama Coperation