

Kongsberg Maritime Limited

Annual Report and Financial Statements for the year ended 31 December 2018



Contents

	Page
Officers and professional advisers	1
Strategic Report	2 – 5
Directors' Report	6 – 8
Independent Auditor's report	9 – 11
Income statement	12
Balance sheet	13
Statement of Changes in Equity	14
Notes to the financial statements	15 - 27

Kongsberg Maritime Limited

Annual Report and Financial Statements for the year ended 31 December 2018

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

H Sagdahl
T Skovlyst

SECRETARY

D Mather - appointed 5 December 2018

REGISTERED OFFICE

Thermopylae House
Prospect Road
Arnhall Business Park
Westhill
Aberdeen AB32 6FE

BANKERS

JP Morgan Chase & Co.
25 Bank Street,
Canary Wharf
London E14 5JP

SOLICITORS

Brodies LLP
31-33 Union Grove
Aberdeen AB10 6SD

AUDITORS

Ernst & Young LLP
Blenheim House
Fountainhall Road
Aberdeen
AB15 4DT

Kongsberg Maritime Limited

Strategic Report for the year ended 31 December 2018

The Directors present their Strategic Report for the year ended 31 December 2018.

Principal activities and review of the business

The principal business activities during the year continued to be the resale of Kongsberg Maritime sister company products and systems within the UK, sale of in-house manufactured equipment worldwide, provision of customer support, including service and training and the rental of a broad range of marine instrumentation. Primary market areas addressed included the offshore oilfield related sector, marine and vessel markets, oceanographic, scientific, government and military naval markets.

The Company's key financial and performance indicators during the year were as follows:

	2018 £'000	2017 £'000	Change %
Turnover	23,688	29,591	-20%
Operating Profit	989	1,086	-9%
Profit after Tax	1,546	1,012	+53%
Shareholders' Funds	10,080	13,534	-26%
Current assets/current liabilities ratio	2.6	2.4	+6%
Average number of employees	90	118	-24%

Turnover decreased by 20% compared with the previous year. This drop was mainly due to 2 reasons; firstly, the camera business was sold in July 2018, which meant that there was only 7 months of revenues attributable to the camera business in 2018, compared to 12 months for the previous year. Secondly, a change in Group Policy during 2018 resulted in a greater number of revenue contracts being invoiced from the parent company, as this is where the entrepreneurial control of the project, and the risks associated with the project, reside. In such cases, the Company receives a "handling fee" to cover any costs incurred with the project.

The Company ended the year with a reasonable order backlog, however it expects that offshore oilfield related market conditions will remain challenging in the coming year.

Kongsberg Maritime Limited

Strategic Report (continued) for the year ended 31 December 2018

The operating profit in 2018 has decreased by 9% when compared to the previous year. This is linked to the fall in turnover described above. The handling fee received from the parent company is generally not as profitable for the Company as the previous invoicing model, as risks with the projects tend to be borne by the parent company.

The Company incurred a 26% decrease in shareholder's funds, due to the dividend payment.

The average number of employees in the Company decreased by 24% from 118 to 90 over the course of the year. This decrease was mainly due to the sale of the camera business halfway during 2018, which resulted in 63 employees leaving the Company at the end of July.

The Company has continued to develop its business management systems. During 2018, there were no lost time injuries sustained. Environmental targets broadly show year on year improvements including reduced energy consumption compared with 2017. The organisation continued to develop and align processes with global systems and practices. This includes development of improved Enterprise Risk Managed (ERM) tools used to identify and mitigate business threats and promote business opportunities. In 2018 a new ERP system (Microsoft Dynamics AX 2012) has been implemented successfully.

Principal risks and uncertainties

Market risks

The main business of the Company is the sale and rental of marine equipment and the provision of support services including repair, maintenance and training. The primary market driving this business activity relates both directly and indirectly to the offshore oil and gas industry. In general, market activity in this area correlates with the price of oil, and with the level of exploration and drilling activity, which is outside the Company's direct control or influence. The medium and long-term prospects for the offshore oil and gas market sector continuing to be challenging, although there are signs that the market is starting to pick up. The Company is also addressing emerging markets for the supply of equipment and services related to renewable energy supplies.

Customers in this market purchase globally and there are a number of competitors of various sizes in Europe, North America and Asia. The Company seeks to minimise the competitive risk by being a leader in product design and development, redesigning business processes to improve efficiency, managing information and providing dependable and innovative products, services and solutions that deliver a competitive advantage to our customers.

Kongsberg Maritime Limited

Strategic Report (continued) for the year ended 31 December 2018

The Company also endeavours to utilise the strengths of being part of a large, prominent and successful multinational company.

Other risks and uncertainties

When designing a new product or system the Company ensures that the legislative and contractual requirements of the end user are met fully.

When renting products to the client the Company ensures that the equipment has been properly configured and fully tested and is accompanied with any necessary certification before being sent to the customer.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of foreign exchange movements, interest rate risk, liquidity risk, credit risk and price risk.

Foreign exchange risk

The Company is exposed to foreign currency exchange rate fluctuations, mainly between sterling and the Norwegian kroner, the US dollar, and the Euro. Where applicable, the Company uses forward foreign currency contracts to reduce this exposure. A large percentage of the Company's foreign currency transactions are with its parent and sister companies, thereby retaining the risk within the group.

Interest rate risk

The Company has no external debt, and its exposure to interest rate risk is considered low.

Liquidity risk

The Company has high levels of cash reserves and no external debt. As such the directors consider the Company's exposure to liquidity risk to be low.

Kongsberg Maritime Limited

Strategic Report (continued) for the year ended 31 December 2018

Credit risk

The Company does have an element of credit risk attributable to its trade receivables, however there are procedures in place to review the financial position of potential customers before entering into sales contracts. The Company has a large number of contracts where the credit risk lies with its parent company, which also mitigates the potential exposure on receivables. A number of the Company's key customers are government and military organisations which do not pose a significant credit risk. The amounts presented in the balance sheet are shown net of provisions for doubtful receivables. An allowance for impairment has been made where there is an identifiable loss event, or the likelihood of failure to be able to collect amounts based on previous experience and the current business situation for specific customers.

Price risk

The Company has an element of risk attached to commodity price movements, in particular the fluctuation in the price of oil.

Events since the Balance Sheet date

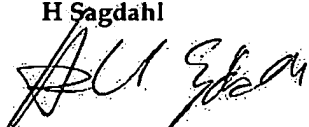
On 1 April 2019 the Company acquired the Commercial Marine business from Rolls Royce by way of an asset purchase agreement. All purchased assets will be consolidated by the Company from this date.

On behalf of the Board,

Name: H Sagdahl

Director:

Date:


28/06/2019

Kongsberg Maritime Limited

Directors Report for the year ended 31 December 2018

The Directors present their annual report and the financial statements for the year ended 31 December 2018.

Future developments

The Company has continued to experience challenging market conditions in 2018, however will provide continued scope to enhance and expand its range of systems and product offerings, allowing diversification into new and related business sectors within the renewable energy production market area. The acquisition of Rolls Royce Commercial Marine in April 2019 will position the Company as a strategic supplier of complete solutions for the future maritime industry.

Results and dividends

The profit after taxation of £1.5m (2017: £1.0m) has been transferred to reserves. The directors approved an interim dividend of £5.0m during the year. The directors recommend no future payment of any dividends for the year ended 31 December 2018 (2017: £ nil).

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2-5. The cash position of the Company remained strong during 2018.

The financial statements have been prepared on a going concern basis and the Directors are satisfied that the financial needs of the company should be met within its current facility.

Directors

The directors of the company who served during the year and to the date of this report (unless otherwise specified) are listed below:

T Skovlyst
H Sagdahl

Kongsberg Maritime Limited

Directors Report (continued) for the year ended 31 December 2018

Disclosure of information to auditors

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with Applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures as disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Kongsberg Maritime Limited

Directors Report (continued) for the year ended 31 December 2018

Directors' Responsibilities Statement (continued)

The directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

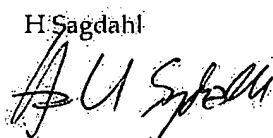
Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board,

Name: H. Sagdahl

Director

Date:


28/06/2019

Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KONGSBERG MARITIME LIMITED

Opinion

We have audited the financial statements of Kongsberg Maritime Limited for the year ended 31 December 2018, which comprise the Income Statement, Balance Sheet, Statement of changes in equity and the related notes 1 to 18, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

Auditor's Report

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 7-8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Auditor's Report

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Clarke Cooper (Senior Statutory Auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Aberdeen

Date: 3 JULY 2019

Kongsberg Maritime Limited

Income statement for the year ended 31 December 2018

	Notes	2018 £ '000	2017 £ '000
Turnover	3	23,688	29,591
Cost of sales		(14,954)	(21,467)
Gross profit		8,734	8,124
Administration expenses		(6,332)	(5,800)
Distribution expenses		(1,413)	(1,238)
Operating profit	4	989	1,086
Gain on sale of tangible fixed assets	10	648	290
Interest Received	8	50	52
Interest Expense		-	(220)
Profit on ordinary activities before taxation		1,687	1,208
Tax on ordinary activities	9	(141)	(196)
Retained Profit for the year		1,546	1,012
Retained Profit arising from continued operations		1,741	1,576
Retained Profit/(Loss) arising from discontinued operations		(195)	(564)
Retained Profit for the year		1,546	1,012

The result for the current year and the prior year are equal to the total comprehensive income and accordingly a statement of comprehensive income has not been presented.

Kongsberg Maritime Limited

Balance Sheet

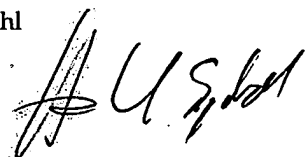
for the year ended 31 December 2018

	Notes	2018 £ '000	2017 £ '000
Fixed assets			
Tangible assets	10	1,645	2,160
Tangible assets held for sale		-	1,153
Current assets			
Stocks	11	607	1,733
Debtors	12	8,074	8,463
Cash at bank and in hand		5,062	5,211
Current assets held for sale		-	1,917
		<u>13,743</u>	<u>17,324</u>
Creditors: Amounts falling due within one year	13	(5,308)	(7,103)
Net current assets		<u>8,435</u>	<u>10,221</u>
Net assets		<u>10,080</u>	<u>13,534</u>
Capital and reserves			
Called-up share capital	14	2,773	2,773
Profit and loss account		<u>7,307</u>	<u>10,761</u>
Equity shareholders' funds		<u>10,080</u>	<u>13,534</u>

The financial statements were approved by the board of directors on 28 June 2019 and were signed on its behalf by:

H Sagdahl

Director



Kongsberg Maritime Limited

Statement of changes in equity

	Share Capital £'000	Retained Earnings £'000	Total Equity £'000
At 1 January 2017	2,773	16,832	19,605
Profit for the year	-	1,012	1,012
Total comprehensive profit for the year	-	1,012	1,012
Dividends paid	-	(7,083)	(7,083)
At 31 December 2017	2,773	10,761	13,534
Profit for the year	-	1,546	1,546
Total comprehensive profit for the year	-	1,546	1,546
Dividends paid	-	(5,000)	(5,000)
At 31 December 2018	2,773	7,307	10,080

Kongsberg Maritime Limited

Notes to the financial statements

for the year ended 31 December 2018

1. AUTHORISATION OF FINANCIAL STATEMENTS AND STATEMENT OF COMPLIANCE WITH FRS 101

The financial statements of Kongsberg Maritime Limited (the “Company”) for the year ended 31 December 2018 were authorised for issue by the board of directors on 28 June 2019 and the balance sheet was signed on the board’s behalf by H Sagdahl. The Company is incorporated and domiciled in Scotland.

These financial statements were prepared in accordance with Financial Reporting Standard 101 - Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company’s functional and presentation currency is Sterling and all values are rounded to the nearest thousand pounds (£’000) except when otherwise indicated.

The principal accounting policies adopted by the company are set out in note 2.

2. ACCOUNTING POLICIES

2.1 Basis of preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2018.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- a) the requirements of IFRS 7 *Financial Instruments: Disclosures*
- b) the requirement in paragraph 38 of IAS 1 ‘Presentation of Financial Statements’ to present comparative information in respect of:
 - i. paragraph 79(a)(iv) of IAS 1;
 - ii. paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
- c) the requirements of paragraphs 10(d), 10(f), 39(c) and 134-136 of IAS 1 *Presentation of Financial Statements*;
- d) the requirements of IAS 7 *Statement of Cash Flows*;
- e) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- f) the requirements of paragraph 17 of IAS 24 *Related Party Disclosures*;
- g) the requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- h) the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 *Impairment of Assets*,

2.2 Basis of measurement

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Kongsberg Maritime Limited

Notes to the financial statements (continued)

for the year ended 31 December 2018

2.3 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following estimates are dependent upon assumptions which could change in the next financial year and have a material effect on the carrying amounts of assets and liabilities recognised at the balance sheet date:

IFRS 16 leases

IFRS 16 Leases, issued in January 2016, sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessors and lessees. It replaces the previous leases standard IAS 17 Leases and is effective from 1 January 2019. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligation to make lease payments. Lessees will be required to recognise separately the interest expense on the lease liability and the depreciation expense on the right-of-use asset. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current accounting under IAS 17 i.e. lessors continue to classify leases as finance or operating leases.

During 2018, the Company has performed an impact assessment for the application of IFRS 16. This assessment is based on currently available information and will be subject to changes arising from further reasonable and supportable information being made available to the company in 2019.

The Company will adopt the new standard on the required effective date using the modified retrospective method. The Company will apply the practical expedient to grandfather the definition of a lease on transition. It will therefore apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17. Contracts which have not been considered or identified as a lease will continue to be accounted for in line with their historical treatment. The Company will also elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application and lease contracts for which the underlying asset is of low value.

The Company has identified leases which will be recognised as finance leases under IFRS 16. On the implementation of IFRS 16 on 1 January 2019, the Company expects to recognise right-of-use assets and corresponding lease liabilities of approximately £4.2m. The preliminary estimated impact on the Company's statement of comprehensive income results is an increase in net profit of approximately £48k; a result of the replacement of operating lease payments previously accounted under IAS 17 by increased depreciation and finance charges under IFRS 16. The estimated 2019 financial statements impact is computed based on the information available to date and the actual impact of IFRS 16 on the Companies 2019 consolidated financial statements may differ from the estimates provided above.

Kongsberg Maritime Limited

Notes to the financial statements (continued)

for the year ended 31 December 2018

2.4 Significant accounting policies

Tangible fixed assets

The cost of tangible fixed assets is the purchase cost, together with any incidental costs of acquisition.

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment.

Depreciation is calculated so as to write off the cost of tangible fixed assets less their estimated residual values, on a straight-line basis over the expected useful life of the assets concerned. The principal annual rates used for this purpose are:

Leasehold property	4 – 5%
Plant and equipment	10 - 33%
Motor vehicles	25%

Stocks and work in progress

Stocks are stated at the lower of cost and net realisable value. In the case of manufactured products, cost includes all direct materials, direct labour and appropriate production overheads. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Trade and other payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date.

Translation differences are dealt with in the profit and loss account.

Kongsberg Maritime Limited

Notes to the financial statements (continued)

for the year ended 31 December 2018

Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Research and Development

Research and development expenditure is written off as incurred.

Revenue Recognition

The Company recognises revenue in accordance with IFRS 15, using a 5-step process as follows:

Step 1: Identifying customer contracts.

Step 2: Identifying separate performance obligations.

Step 3: Stipulating the transaction price.

Step 4: Allocating the transaction price.

Step 5: Recognition when the performance obligation is fulfilled.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing difference are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Pension costs

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. The charge for pension contributions for the year was £345,719 (2017: £460,159). The outstanding pension contributions at 31 December 2018 were £44,878 (2017: £57,981).

Kongsberg Maritime Limited

Notes to the financial statements (continued)

for the year ended 31 December 2018

New standards and interpretations

The company applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 15 Revenue from contracts with customers

The company has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policy. In accordance with the transition provisions in IFRS 15, the company has adopted the new rules retrospectively for the 2017 financial year.

There is no impact on the income statement or requirement to restate opening reserves following the implementation of IFRS 15.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The company applied IFRS 9 retrospectively, with an initial application date of 1 January 2018. The company has not restated the comparative information, which continues to be reported under IAS 39.

There is no impact on the income statement or requirement to restate opening reserves following the implementation of IFRS 9.

Kongsberg Maritime Limited

Notes to the financial statements (continued)

for the year ended 31 December 2018

3 TURNOVER

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

	2018 £ '000	2017 £ '000
Geographical analysis of turnover (by destination):		
- United Kingdom	19,799	19,136
- Rest of the world	3,889	10,455
	<u>23,688</u>	<u>29,591</u>

Turnover includes £3,365k (2017: £5,915 arising from discontinued operations due to the sale of the Camera Business in July 2018).

4 OPERATING PROFIT

	2018 £ '000	2017 £ '000
This is stated after charging:		
Loss on foreign exchange	11	200
Rentals under operating leases:		
- Motor Vehicles	9	4
- Buildings	730	498
Depreciation of tangible fixed assets	1,064	1,307
Auditors remuneration (note 5)	<u>46</u>	<u>46</u>

5 AUDITOR'S REMUNERATION

The remuneration of the auditors is further analysed as follows:

	2018 £ '000	2017 £ '000
Audit of the financial statements	32	32
Other fees to auditors		
- taxation services	<u>14</u>	<u>14</u>
	<u>46</u>	<u>46</u>

Kongsberg Maritime Limited

Notes to the financial statements (continued)

for the year ended 31 December 2018

6 DIRECTORS' EMOLUMENTS

The directors' emoluments refers to the total salaries, other emoluments and benefits paid to directors of the Company by the Kongsberg Group. The remuneration is borne by other group entities and not recharged to the company.

The directors of the Company are also directors of other group companies and received remuneration directly from them. The directors do not believe it is practical to apportion their remuneration between their services as directors of Kongsberg Maritime Limited and their services as directors of other group companies.

7 EMPLOYEE INFORMATION

The average monthly number of persons (including executive directors) employed by the company during the year was:

	2018	2017
By activity:	Number	Number
- Management	16	17
- Administration	19	26
- Technical	55	75
	<u>90</u>	<u>118</u>

	2018	2017
	£ '000	£ '000
Staff costs (for the above persons):		
- Wages and salaries	4,992	6,381
- Social Security costs	586	720
- Pension costs	346	459
	<u>5,924</u>	<u>7,560</u>

8 INTEREST RECEIVABLE

	2018	2017
	£ '000	£ '000
Bank interest receivable	<u>50</u>	<u>52</u>

Kongsberg Maritime Limited

Notes to the financial statements (continued)

for the year ended 31 December 2018

9 TAXATION

	2018	2017
	£ '000	£ '000
(a) Tax charged in the Income Statement;		
UK corporation tax		
UK corporation tax on profits of the year	(271)	(196)
Adjustments in respect of previous periods	130	-
Total current tax	(141)	(196)
Deferred tax		
Originating and reversal of timing differences	-	-
Adjustment in respect of prior periods	-	-
Effect of changes in tax rate	-	-
Total Deferred tax	-	-
Tax on profit on ordinary activities	(141)	(196)

The tax assessed on the profit on ordinary activities for the period differs from the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are reconciled below:

Kongsberg Maritime Limited

Notes to the financial statements (continued)

for the year ended 31 December 2018

9 TAXATION (continued)

(b) Reconciliation of the total tax charge	2018 £ '000	2017 £ '000
Profit on ordinary activities before taxation	<u>1,687</u>	<u>1,208</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	(320)	(233)
Effects of:		
Adjustments in respect of prior periods	130	2
Expenses not deductible	(22)	(24)
Effects of group relief / other relief	91	2
Amounts of tax not recognised	(20)	61
Total tax charge for the period	<u>(141)</u>	<u>(196)</u>

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020.

A change to the UK corporation tax rate was announced in the Chancellor's Budget on 16 March 2016 reducing the main rate to 17% from 1 April 2020. As both changes were substantively enacted at the balance sheet date the effects are included in these financial statements.

Kongsberg Maritime Limited
Notes to the financial statements (continued)
for the year ended 31 December 2018

9 TAXATION (continued)

	2018	2017
(c) Deferred Tax		
The deferred tax asset included in the balance sheet is as follows:	£ '000	£ '000
Included in debtors (note 12)	-	-
Decelerated capital allowances	-	-
Other timing differences	-	-
	-	-

	2018
	£ '000
At 1 January 2018	-
Deferred tax credit in P&L	-
Adjustment in respect of prior period	-
	-

The company has an unrecognised deferred tax asset in respect of deductible temporary differences of £379k (2017: £412k). The deferred tax assets have not been recognised as there is not sufficient evidence to support suitable future taxable profits which the deferred tax assets could be set against.

Kongsberg Maritime Limited

Notes to the financial statements (continued)

for the year ended 31 December 2018

10 TANGIBLE FIXED ASSETS

	Leasehold Property £ '000	Motor vehicles £ '000	Plant and Equipment £ '000	Total £ '000
Cost				
At 1 January 2018	2,240	52	18,637	20,929
Additions	-	-	833	833
Disposals	(2,240)	(9)	(6,975)	(9,224)
At 31 December 2018	-	43	12,495	12,538
Depreciation				
At 1 January 2018	1,779	46	15,791	17,616
Charge for the year	43	5	1,016	1,064
Disposals	(1,822)	(9)	(5,956)	(7,787)
At 31 December 2018	-	42	10,851	10,893
Net book value				
At 31 December 2018	-	1	1,644	1,645
At 31 December 2017	461	6	2,846	3,313 ¹

During the current and prior year the company disposed of a number of transponders. The gain of disposal was £648k (2017: £236k).

¹ Included within fixed assets at 31 December 2017 were assets associated with the Camera division of Kongsberg Maritime Limited which were held for sale at the year end. The sale was completed in July 2018.

11 STOCKS

	2018 £ '000	2017 £ '000
Raw materials	-	1,534
Work in progress	-	1,232
Finished goods	607	884
	<u>607</u>	<u>3,650</u>

Long-term contract balances included within work in progress at net cost less foreseeable losses, amounted to £nil (2017: £247k).

There is no material difference between the balance sheet value of stocks and their replacement cost.

Kongsberg Maritime Limited

Notes to the financial statements (continued)

for the year ended 31 December 2018

12 TRADE AND OTHER RECEIVABLES

	2018 £ '000	2017 £ '000
Amounts falling due within one year:		
Trade debtors	5,575	6,309
Amounts owed by group undertakings	1,274	1,581
Other debtors	1,134	-
Prepayments and accrued income	91	572
	<u>8,074</u>	<u>8,463</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed repayment date, and are repayable on demand.

13 TRADE AND OTHER PAYABLES

	2018 £ '000	2017 £ '000
Trade creditors	398	1,237
Amounts owed to group undertakings	2,970	3,993
Other taxation and social security	717	142
Other creditors	232	-
Accruals and deferred income	654	1,535
Corporation Tax	337	196
	<u>5,308</u>	<u>7,103</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed repayment date, and are repayable on demand.

14 CALLED-UP SHARE CAPITAL

	2018 £ '000	2017 £ '000
2,772,681 ordinary shares of £ 1 each	<u>2,773</u>	<u>2,773</u>

Kongsberg Maritime Limited

Notes to the financial statements (continued)

for the year ended 31 December 2018

15 CONTINGENT LIABILITY

The Company has an agreement with HM Revenue & Customs, whereby HMRC holds a deferred duty bond with a value of £1 million (2017: £1 million). This allows goods from outside the EU to be imported without having to immediately pay VAT and import duty at the ports or point of entry to the UK. Payments of VAT and import duty are then made to HMRC monthly.

16 CAPITAL COMMITMENTS

	2018 £ '000	2017 £ '000
Capital expenditure contracted for but not provided in the financial statements	<u>164</u>	<u>826</u>

17 OPERATING LEASE COMMITMENTS

At 31 December the company had total commitments under non-cancellable operating leases as follows:

	2018 £ '000	2017 £ '000
Not later than one year	587	498
After one year but not more than five	2,491	1,982
After five years	2,838	2,529
	<u>5,916</u>	<u>5,009</u>

18 ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The company's immediate parent company is Kongsberg Maritime Holding Limited.

The company's ultimate parent company and ultimate controlling party is Kongsberg Gruppen ASA, a company registered in Norway.

The only group which prepares consolidated financial statements (including those of the company) is Kongsberg Gruppen ASA. Copies of these financial statements can be obtained from Kongsberg Gruppen ASA, PO Boks 1003, N-3601 Kongsberg, Norway.