KONGSBERG

Annual Report 2003

Innovation and revitalisation –
among our most important competitive advantages

Organisation

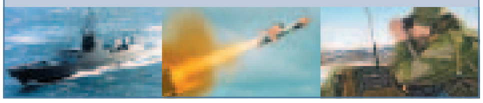
Kongsberg Gruppen ASA

Financial Affairs · Corporate Communications · Human Resources/Organisational Development · Business Development · Property

Kongsberg Maritime

- **Offshore & Merchant Marine**
  - Dynamic Positioning & Navigation
  - Marine Automation
  - Process Automation
  - Hydroacoustics
  - Satellite Positioning, AIS
  - Marine IT
- **Yachting & Fishery (SIMRAD)**
  - Marine Electronics (autosteering, hydroacoustics, navigation, communication)

Kongsberg Defence & Aerospace



- **Defence & Aerospace**
  - Missiles & Space
  - Naval Systems
  - Land Systems & Communications
  - Aircraft & Air Defence Systems
  - Dynamic Systems

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Key figures

- *Five per cent decline in operating revenues.*
- *Staff cuts in Norway, staff increases outside Norway related to market positioning.*
- *MNOK 770 increase in new orders.*

Amounts in MNOK		*2003*	*2002*	*2001*	*2000*	*1999*	*1998*
■ Operations							
Operating revenues		6 651	6 980	6 176	5 296	4 412	4 404
Operating revenues, civilian	%	54	58	63	64	73	71
Operating revenues, outside Norway	%	76	72	74	74	62	62
Earnings before interest, tax and amortisation (EBITA)		383	485	437	287	249	278
Earnings before interest and tax (EBIT)		291	404	328	225	213	189
Earnings before tax (EBT)		190	291	191	188	205	279
Net profit/(loss)		125	216	123	(56)	233	171
Backlog of orders		5 913	5 143	6 401	6 610	4 258	4 551
Number of employees		4 176	4 208	4 012	3 765	3 382	3 333
■ Profitability							
Operating margin prior to depreciation for goodwill	%	5.8	6.9	7.1	5.4	5.6	6.3
Operating margin	%	4.4	5.8	5.3	4.2	4.8	4.3
Return on total assets	%	5	7	6	5	6	9
Return on equity	%	11	18	13	13	16	26
■ Owners' values							
Market capitalisation		3 180	2 715	2 895	2 550	3 780	1 824
Earnings per share after tax in NOK		4.23	7.21	4.18	(1.86)	8.84	7.04
P/E		25.06	12.55	23.09	-	16.22	10.79
Equity ratio	%	30	31	27	26	37	28
Equity		1 830	1 741	1 538	1 406	1 490	1 106
Dividends		1.30	2.10	0.00	0.00	2.25	2.00

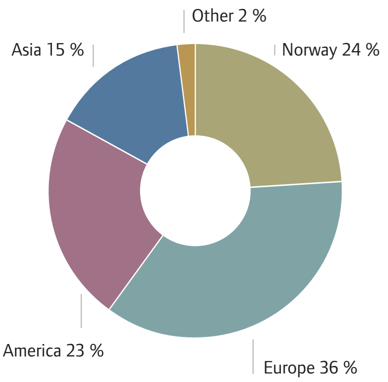
Amounts in MEUR (NOK/EUR=8.42)	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*
■ Operations						
Operating revenues	790	829	733	629	524	523
Earnings before interest, tax and amortisation (EBITA)	45	58	52	34	30	33
Earnings before tax (EBT)	23	35	23	22	24	33
■ Owners' values						
Earnings per share after tax in EUR	0.50	0.86	0.50	(0.22)	1.05	0.84

Key figures by business segment

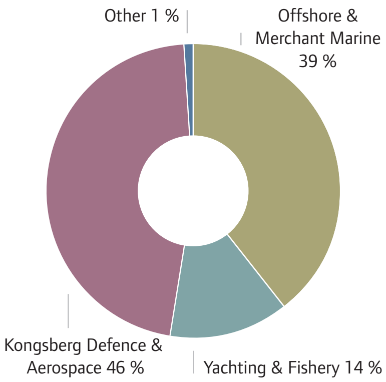
The reports have been adjusted to the new organisation, i.e. Offshore & Merchant Marine, Yachting & Fishery and Kongsberg Defence & Aerospace will be reported in this context and in future. To facilitate comparison, this report contains figures for both the previous and the new segmentations.

	Operating revenues			**EBITA**			**Operating profit**		
Amounts in MNOK	*2003*	*2002*	*2001*	*2003*	*2002*	*2001*	*2003*	*2002*	*2001*
■ Previous segmentation									
Kongsberg Maritime	3 372	3 603	3 619	307	309	303	224	237	236
Offshore & Subsea	1 660	1 835	1 852	231	233	220	191	193	183
Yachting & Fishery	896	815	940	44	44	34	31	33	22
Merchant Marine	954	995	897	32	32	49	2	11	31
Kongsberg Defence & Aerospace	3 084	3 084	2 388	99	185	138	93	179	131
Other	237	395	270	(23)	-	(11)	(26)	(3)	(46)
Elimination	(42)	(102)	(101)	-	(9)	7	-	(9)	7
Group	6 651	6 980	6 176	383	485	437	291	404	328
■ Current segmentation									
Offshore & Merchant Marine	2 622	2 963	2 819	253	254	249	180	191	192
Yachting & Fishery	896	815	940	44	44	34	31	33	22
Kongsberg Defence & Aerospace	3 084	3 084	2 388	93	178	138	87	171	131
Other/elimination	49	118	29	(7)	9	16	(7)	9	(17)
Group	6 651	6 980	6 176	383	485	437	291	404	328

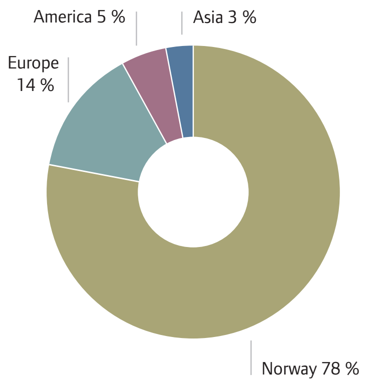
Operating revenues – geographical distribution



Operating revenues – by segment



Employees – geographical distribution



Jan Erik Korssjøen
Chief Executive Officer

Dear shareholders and other stakeholders,

2003 was a challenging year for KONGSBERG. For the first time since 1995, the company experienced a decline in operating revenues, which diminished by 5 per cent compared with 2002. The shortfall in volume in 2003 was mainly caused by a decline in new orders in the latter half of 2002, largely as a result of the war in Iraq.

Consequently, the challenges involved both taking initiatives to boost new orders and cutting costs to safeguard satisfactory profitability. The loss of an arbitration case in Q1 cost MNOK 50, drawing further attention to the need for initiatives.

To boost new orders, KONGSBERG will continue to enhance its strategic market position through acquisitions and venture creation. KONGSBERG has strengthened its international presence and developed resources and activities closer to customers, not least by setting up new offices and ventures in Europe, North Africa, North and South America and the Far East.

Initially, costs are being reduced by cutting capacity. This has impacted several enterprises in Norway, as well as some of KONGSBERG's 'old' enterprises abroad.

Costs have also been cut by reducing business activities in Norway and expanding the capacity of the Group's enterprises in South Korea, India and China. Organisational changes have been implemented in both main business areas to take better advantage of our sales and development resources.

After getting off to a relatively weak start in 2003, new orders and profits picked up during the year. The backlog of orders was MNOK 770 higher at year end than on 1 January 2003. In terms of results, Q3 and Q4 were among the best quarters KONGSBERG has ever had.

The influx of new orders was good in 2003, and the prospects in early 2004 are, in many ways, better than a year ago. Notwithstanding, there is one area of defence activities, the Missiles area, that did not receive the orders anticipated in 2003. If this situation persists, it will have an adverse impact on the product area and on KONGSBERG's overall profitability.

Our attitudes and behaviour are absolutely decisive to our profitability. Consequently, there are processes and programmes in progress to raise awareness among all employees, but specifically management, about the importance of making a conscious choice of values, then living up to them. Our values are related to the customer, quality, boldness and networking. Being a customer-centric, quality-conscious, co-operative colleague who dares to try new things seems like a good combination to me.

Innovation

Innovation is often associated with new inventions or the start-up of new ventures/activities. That is also innovation, but in the KONGSBERG world, innovation is equally associated with revitalisation and creativity within established markets, products, systems and organisations.

In 2003, KONGSBERG spent approx. 10 per cent of its turnover on developing products. Importance is also attached to developing markets and organisations. In addition to this 'everyday innovation', which is of the utmost importance for ensuring profitability in the years ahead, KONGSBERG is committed to developing and paving the way for the establishment of entirely new business opportunities, both within and outside its current core areas.

As the pace of revitalisation picks up, products have a shorter useful economic life, the markets are changing and new markets are opening. While this is challenging, it also offers opportunities. We aspire to be in the vanguard and to exploit these opportunities.

KONGSBERG is a relatively small corporation by international standards. Although being small may have some disadvantages when competing, it can also offer a competitive edge. In a world where the demands for revitalisation are growing, a small organisation with a short decision-making chain has obvious advantages. Ideas are quickly translated into decisions, and decisions are quickly translated into actions. KONGSBERG has these qualities. We are able to maintain a high pace of revitalisation in terms of products, market initiatives and organisation.

The Sustainability Report describes three different examples of innovation in KONGSBERG's activities.

The ability to revitalise is one of our most important competitive advantages, and a prerequisite for creating value in a longer term perspective.

Jan Erik Korssjøen
CEO

This is Kongsberg

Kongsberg Gruppen (Kongsberg) is an international technology corporation that earns total annual operating revenues of NOK 6.7 billion. The Group's most important markets are Europe, the USA, the Middle East and the Far East. With operations in 40 locations in 23 countries, the Group has 4 176 employees, 918 of whom work outside Norway.

Business areas

Kongsberg concentrates on two business areas (BAs):

- Kongsberg Maritime
- Kongsberg Defence & Aerospace

Kongsberg Maritime reported operating revenues of NOK 3.4 billion and 2 432 employees in 2003. The BA has developed leading positions in dynamic positioning, maritime automation, navigation, hydroacoustics, simulators, and communication and information management, as well as maritime information technology. 78 per cent of its operating revenues were earned outside Norway.

Kongsberg Defence & Aerospace earned operating revenues of NOK 3.1 billion and had 1 650 employees in 2003. The business area is Norway's premier supplier of high-technology defence systems and a niche supplier to the international market. Kongsberg Defence & Aerospace is a leader in anti-ship missiles, military communications and weapons control systems. Forming alliances with major international defence enterprises is a key element of the BA's market strategy. 76 per cent of the BA's operating revenues were earned outside Norway.

Technology and products

Kongsberg's products are based on four core competencies: signal processing, engineering cybernetics, software and systems integration. A shared knowledge-base and the re-use of technology furnish a very valuable foundation for the BA's activities. One of the goals is to exploit knowledge across company lines within the Group.

The Group's products are technologically challenging, and designed to work in demanding situations. Accordingly, product reliability is of the utmost importance to the customer. Kongsberg's products range from equipment for surveying the seabed down to depths of 11 000 metres to advanced equipment for satellites orbiting through outer space.

No less than 68 per cent of the Group's operating revenues are related to maritime activities, including products designed for both the defence and the civilian markets.

Markets

The international market accounts for an ever larger and more important share of Kongsberg's total operating revenues. This is true of the civilian and defence markets alike. In 2003, MNOK 5 055 (76 per cent) of the Group's operating revenues were earned outside Norway. The corresponding figure for 1995 was MNOK 799 (40 per cent). All defence-related exports are contingent on the approval of the Ministry of Foreign Affairs.

In 2003, Kongsberg Maritime set up new operations in Rio de Janeiro (Brazil), Shanghai (China) and Busan (South Korea), among other places.

Organisational model

The Group's organisational model attaches a great deal of importance to clear accountability for results, so authority is to a large extent delegated. 'Freedom of activity and responsibility for results' is an expression that describes this way of organising the Group. Organisational form is a significant element of the Group's profit and value creation, facilitating increased flexibility and more rapid decision-making.

Sustainability

The Group has drawn up a separate publication on 'Sustainability' this year for the first time. The report address finances (management systems, descriptions of business activities, key figures), corporate social responsibility and the environment. Moreover, considerable attention has been devoted to describing Kongsberg's intellectual capital and to providing examples of innovation based on the Group's business activities.

1) Kongsberg, Horten, Asker, Kjeller, Egersund, Bergen, Stjørdal, Trondheim, Tromsø

Highlights and development trends

Results

2003 was characterised by a cyclical low in the global economy and in the Group's main markets. The result was affected by a 5 per cent decline in operating revenues and the loss of MNOK 50 in an arbitration case. Meanwhile, considerable cost-cutting measures were implemented to improve the Group's position in 2004.

Kongsberg Maritime

- Kongsberg Maritime was reorganised, merging the companies Kongsberg Simrad AS and Kongsberg Maritime Ship Systems AS to form Kongsberg Maritime AS.
- Downsizing and cost-cutting measures were implemented in the business area. These measures were necessary to adapt to the international competitive situation and to maintain profitability.

Acquisitions and venture creation

- Kongsberg Maritime acquired the British company Brookes and Gatehouse Ltd. to strengthen activities in the Yachting and Fishery segment.
- Kongsberg Maritime acquired the majority of shares in the company Hanguk Kongsberg Maritime (HKM) of Seoul to strengthen its strategic position in the South Korean market. Along with Kongsberg Maritime's wholly-owned enterprise in Busan, HKM comprises Kongsberg Maritime Korea.
- Kongsberg Maritime acquired the distribution company Bennex Holland BV and the remaining shares in the distribution company Simrad GmbH of Germany.
- Kongsberg Maritime co-operated with its Chinese partner to establish Kongsberg Maritime China (Shanghai), in which Kongsberg Maritime owns a 65 per cent stake. The establishment strengthens the company's position in the burgeoning Chinese shipbuilding market.
- The business area established Kongsberg Maritime do Brazil as one of its initiatives on the Brazilian offshore market.

Major contracts

- Contract for five large ship simulators for the Cork Institute of Technology in Ireland. Valued at MNOK 80, the contract covers simulators of bridges, navigation and engine rooms, liquid cargo management, vessel traffic systems and emergency radio, including support and maintenance for 25 years.
- More contracts for deliveries to LNG (Liquefied Natural Gas) carriers. Among others, a contract for control systems for four tankers scheduled to be built in Japan to carry LNG from the Snøhvit field in the North Sea to the USA, Spain and France.
- Contract with the German shipping company Claus-Peter Offen and partners for the delivery of integrated automation systems (DataChief C20) and control systems for the main engines (AutoChief 4). The order includes deliveries to 30 German vessels being built in South Korea.
- Contract with the Norwegian National Coastal Administration for the delivery of a nation-wide Automatic Identification System (AIS) network for Norway. AIS mobile units exchange messages between sea-going vessels, and between vessels and land units.
- In the field of navigation, Kongsberg's integrated bridge systems were chosen for the new Skjold Class MTBs for the Norwegian Navy.
- The total influx of new orders for the business area came to MNOK 3 611 (MNOK 3 608) in 2003.

New autopilot
The next generation autopilot (AP25) was introduced in January 2004.

Kongsberg Defence & Aerospace

Total new orders for Kongsberg Defence & Aerospace had a value of MNOK 3 706. The backlog of orders increased from MNOK 3 729 to MNOK 4 352. The major projects are on schedule. As regards the new Naval Strike Missile (NSM), agreement was reached with the customer to prolong the development phase.

Major contracts

- Land Systems & Communications signed contracts worth a total of MNOK 1 769. The most important contracts were signed with Kuwait (MNOK 400), Hungary (MNOK 700) and Romania (MNOK 300).
- Dynamic Systems signed contracts worth MNOK 370. The most important contracts are for weapons control systems for armoured personnel carriers for the US Army. Thus far, orders have been somewhat more modest than expected.
- Naval Systems signed contracts valued at MNOK 1 047. The most important contracts were signed with the Norwegian Navy for deliveries to the new Skjold Class missile torpedo boats (MNOK 750) and with Lockheed Martin for deliveries for South Korean destroyers.
- Aircraft & Air Defence Systems has signed contracts valued at a total of MNOK 407. The most important one is for anti-aircraft equipment for Turkey, in collaboration with Raytheon (MNOK 210). A strategically important agreement was signed with Raytheon on the development of the next generation command, control and decision-support system for the US Marine Corps.

The world's fastest naval vessel
KONGSBERG will be supplying command and weapons control systems to the Norwegian Navy's six new Skjold class missile torpedo boats. In addition, the vessels will be equipped with KONGSBERG's Naval Strike Missile (NSM). The vessels will have a top speed of 60 knots, and deliveries will begin in 2010.

Vision, goals and strategy

Vision

KONGSBERG's vision is:
WORLD CLASS – through people, technology and dedication

Goals

KONGSBERG's main goal is to enhance the value of shareholders' assets in the long term by:

- Setting a profitability target of 10 per cent EBITA (earnings before interest, tax and the amortisation of goodwill);
- Developing a business concept that will induce, capture and open opportunities for the further development of ideas based on knowledge already present in the Group. This is to generate added value, as well as to pave the way for growth;
- Having an image and reputation that garner support for its issues, ensure recruitment, help retain key employees and guarantee credibility in the equity market and with other stakeholders;
- Operating in an ethical, socially responsible manner in respect of stakeholders and the communities in which KONGSBERG operates.

Strategy

Important initiatives for achieving these goals include:

Human resources development

Knowledge and expertise are KONGSBERG's most important competitive parameters. Offering all employees comprehensive human resources development opportunities is crucial to positive performance trends, making it a high priority. Recruitment is also imperative. The Group has an active recruitment programme for recent graduates and individuals with more experience. To recruit and retain personnel, a company must offer attractive, challenging jobs. The demands placed on employees today extend far beyond their formal qualifications, and emphasis is attached to facilitating training and raising awareness of the value of good, efficient interpersonal relations, in addition to providing career development opportunities.

KONGSBERG selects its management talent carefully, and offers systematic training through internal and external management development programmes. KONGSBERG has a code of ethics and strives to maintain a business culture that supports sustainable development.

Acquisitions

In the core business segments, acquisitions are a key part of the corporate growth strategy. The goal of acquisitions is to exploit common technology and achieve market synergies. The strategy is also motivated by the desire to increase the range of products offered, and to gain admission to new markets or access to specialised technology. Constant improvement of the Group's strategic market position plays a key role in its acquisition strategy.

Technological development

KONGSBERG generally spends about 10 per cent of its operating income on product development. Maintaining this level of product development activities is a goal for the Group, since it is considered a prerequisite for profitable growth. Product development may be funded by customers and/or equity-financed. KONGSBERG's products are largely based on the following core competencies: software development, engineering cybernetics, systems integration and signal processing.

Concentration on the strategic business areas

The business areas are continuously reviewed to identify activities which do not occupy a natural place there, or which might better be developed under the auspices of other industrial constellations. When the conditions are right for a divestment, the Group makes a meticulous assessment to protect assets insofar as possible.

Financial strategy

The Group's management attaches importance to having the financial strength needed to ensure its freedom of action. Accordingly, growth is to be funded mainly by earnings and the availability of previously tied-up capital. External funding is always based on a long-term perspective that is commensurate with the Group's business strategy. The Group's financial policy aims primarily at increasing predictability and reducing risk in its core activities.

History

Kongsberg Gruppen (KONGSBERG) embraces many different enterprises, each with its own history and place of origin. A glance at the Group's history will nonetheless reflect its strong ties to the progress of the city of Kongsberg over five centuries.

1624–1814

The discovery of silver
Kongsberg was founded in 1624 by King Christian IV, based on the discovery of silver in the area. The Silver Works and silver mines at Kongsberg played a pivotal role in Norwegian history from the late 1600s until the early 1800s. The Silver Works became Norway's largest enterprise. In about 1720, the enterprise accounted for 20 per cent of the national budget.

1814–1955

Kongsberg Våpenfabrikk and the maritime community at Horten
An economic slump for the Silver Works led to the establishment of Kongsberg Våpenfabrikk (a munitions factory) in 1814. The most gifted mining engineers were assigned the task of developing the new cornerstone enterprise. In the late 1800s, the company introduced the Krag Jørgensen rifle. Among other things, it was chosen as the main weapon for the US Army, leading to one of Norwegian industry's first major export contracts.

Norway's main naval yard was established in Horten in 1849, laying the foundation for a strong maritime community.

1955–1987

Industrial locomotive
Kongsberg Våpenfabrikk played a key role in building up Norwegian industry after World War II. From 1960 to 1987, the business evolved from a mechanical engineering company into an enterprise engaged in considerable product development, and targeting several markets with stringent performance standards. Market areas included the defence, automotive, energy, data, offshore, aviation and aerospace industries.

Norway's General Naval Forces Plan was adopted in 1960, marking the advent of a new era in Horten's 'electronic evolution'.

1987–1992

Crisis and revitalisation
In 1987, Kongsberg Våpenfabrikk was restructured and all civilian business activities were sold. Still based in the community of Kongsberg, the units sold off at that time have experienced healthy growth and profitability.

Defence activities were continued under the banner of Norsk Forsvarsteknologi AS, which formed the basis of today's corporation, KONGSBERG.

After the fall of the Berlin wall in 1989, the Group devised a strategy that involved devoting more attention to civilian markets, accompanied by a deliberate shift from industrial to technological production. Importance was attached to expanding activities in areas of technology related to defence activities.

1992–2003

Maritime focus, stock exchange listing and growth
In 1992, the Group acquired the Norcontrol companies. This signalled the beginning of a maritime focus that culminated in Kongsberg Maritime being named a separate business area in 1995. In 1996, the Group acquired the SIMRAD Group, followed by Navia in 2000.

KONGSBERG was launched on the Oslo Stock Exchange in 1993. At that time, about 50 per cent of corporate operating revenues were earned outside the defence market. Market capitalisation has increased from MNOK 643 in 1993 to MNOK 3 180 in 2003. The Group changed its name to Kongsberg Gruppen in 1995.

Defence activities have experienced substantial growth from 1999 to 2003, mainly in the fields of military communications and command and control systems.

Directors' Report

The 2003 results were weaker than in 2002 owing to a five per cent drop in operating revenues and the loss of an arbitration case. Earnings before interest, tax and amortisation (EBITA) came to MNOK 383 (compared with MNOK 485 in 2002). The EBITA margin was 5.8 per cent (6.9 per cent). The profit per share was NOK 4.23, compared with NOK 7.21 the year before. The Board proposes a dividend of NOK 1.30 per share for 2003.

Extensive cost-cutting measures were implemented to improve KONGSBERG's position in 2004, in tandem with efforts being made to enhance its market position on the international arena.

The Group earned 76 per cent of its operating revenues outside Norway in 2003. The Group continued to pursue its 'customer closeness strategy' throughout 2003. Operations have been initiated through acquisitions or venture creation in China, Brazil, the USA, England, Italy, The Netherlands, Germany, Morocco and Canada. Meanwhile, cost-cutting measures were introduced in Norway. The Board of Directors considers it vital to continue pursuing the Group's strategy of internationalisation, and to make long-term industrial progress in selected core areas.

A considerable share of KONGSBERG's value added is derived from the development of high-technology solutions, and the growth seen in recent years has been achieved in international markets, where solutions developed by KONGSBERG have proven attractive. In this context, the Group's high-level capabilities in technology as well as marketing are important prerequisites for its competitiveness. Determined efforts are being made to enhance profitability and achieve growth once again.

Predictability is crucial for defence enterprises when it comes to export regulations and the way in which the authorities practice them. Repurchasing through national procurements is an established practice in the international arena, and the industry as a whole is well aware of this. It is of the utmost importance to the Group that the rules for repurchasing are continued and practised in Norway.

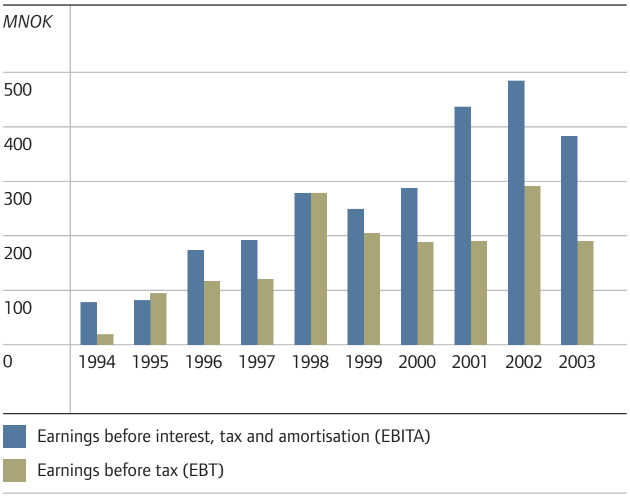
In the maritime area, the Board considers it essential that the authorities ensure Norway's maritime community is given general operating conditions that are competitive. Contact and co-operation with this community has given and will continue to give KONGSBERG the inspiration to develop new products and solutions. In this context, the work on the Norwegian government's Maritime White Paper is being monitored closely. The proposal is scheduled to be heard by the Norwegian parliament in spring 2004.

Income statement, balance sheet and cash flow statement

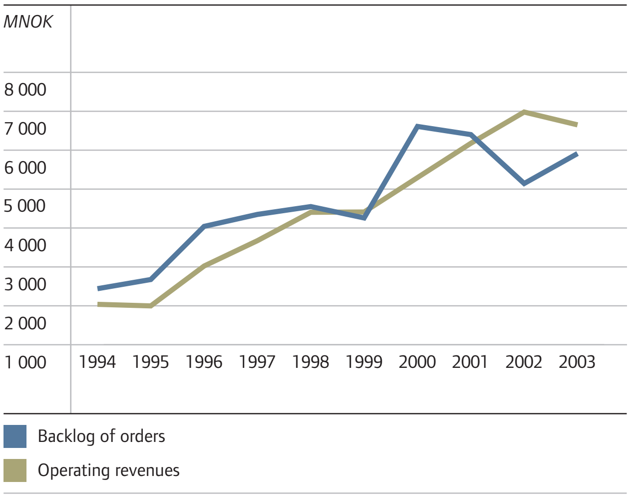
The annual accounts have been submitted on the assumption that Kongsberg Gruppen is a going concern, and the Board confirms the requirements for making this assumption have been met.

Consolidated operating revenues came to MNOK 6 651 (MNOK

Profit/(loss)



Corporate development



6 980), a decline of 5 per cent. The EBITA amounted to MNOK 383 (MNOK 485). The EBITA margin was 5.8 per cent (6.9 per cent). The operating profit came to MNOK 291 (MNOK 404).

Performance trends are discussed under the sections on the individual segments.

Net financial items, including associated companies, came to MNOK -101 (MNOK -113).

The ordinary result before tax was MNOK 190 (MNOK 291).

Total taxes are equivalent to a tax rate of 34 per cent, compared with 28 per cent in 2002. The net consolidated profit was MNOK 125 (MNOK 216).

The Group had a strong influx of new orders during the year and the backlog of orders was valued at MNOK 5 913 (MNOK 5 143) at year-end 2003.

Total corporate assets aggregated MNOK 6 008 (MNOK 5 597). Equity was MNOK 1 830 (MNOK 1 741) or 30.5 per cent (31.1 per cent).

Net interest-bearing debt totalled MNOK 1 159 (MNOK 792). Kongsberg Gruppen ASA floated a listed 4-year bond issue in June. The bond issue for MNOK 300 was fully subscribed. Consolidated gross interest-bearing liabilities consist of loans of MNOK 1 265, of which MNOK 500 in Norwegian commercial papers, MNOK 50 in a syndicated credit facility and MNOK 600 in Norwegian bond issues. Moreover, the Group has a mortgage of MNOK 77, and other long-term liabilities of MNOK 38, mainly incurred by Kongsberg Maritime Ltd. of the UK.

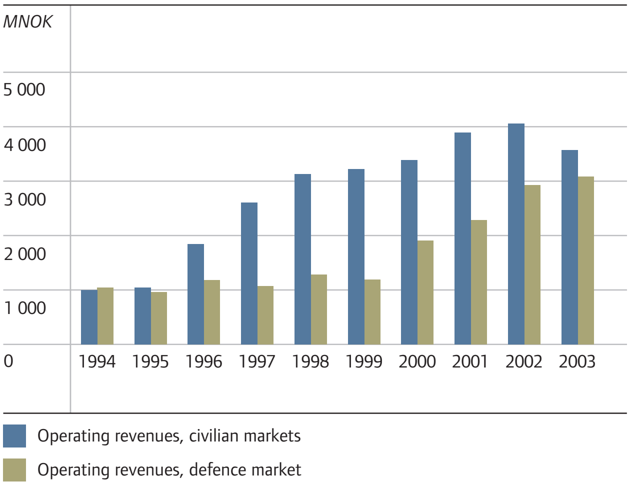
The cash flow from operations came to MNOK 83, compared with MNOK 264 in 2002. The main explanation is the build-up of inventory in connection with projects in progress. Many of the large-scale defence-related projects are now nearing completion. Typical of major projects is that they have large advance payments and low inventories initially, and low advance payments and larger inventories towards the end. The cash flows break down into MNOK -399 from investment activities and MNOK 235 from financial activities. Total consolidated cash and cash equivalents added up to MNOK 101 at 31 December 2003.

Shares and shareholders

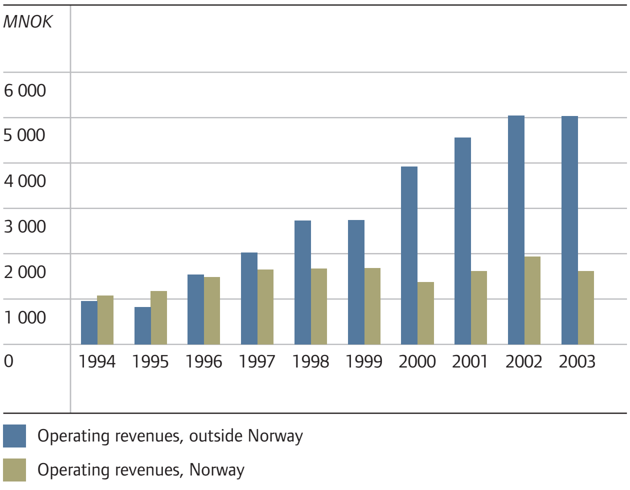
KONGSBERG's ordinary Annual General Meeting on 12 May 2003 authorised the Board to buy treasury shares. Limited to 5 per cent of the share capital, the authorisation is valid until the next ordinary AGM.

Kongsberg Gruppen ASA owned 272 557 treasury shares for its employee share programme as of 31 December 2003. The treasury share portfolio represents 0.9 per cent of the shares outstanding. The seventh share programme for all employees was implemented in 2003. A total of 479 employees subscribed a total of 147 821 shares. In this context, the Group awarded options corresponding

Operating revenues



Operating revenues



to about half the number of shares acquired. The options are redeemable after two years.

It is estimated that the 2003 adjustment on the tax-related incoming value of shares (RISK) will be NOK -1.84 per share for shareholders in Kongsberg Gruppen ASA. The RISK amount for fiscal 2002 was fixed at NOK 0.95 per share and will go to those who were shareholders on 1 January 2003.

KONGSBERG shares were priced at NOK 90.50 on 1 January, climbing to NOK 106 at year end. The number of shareholders increased by 1 036 to 3 715. The percentage of shares in foreign hands diminished by 1.4 percentage point during the year to 7.2 per cent.

Operations and markets in the business areas

KONGSBERG's two main business areas, Kongsberg Maritime and Kongsberg Defence & Aerospace, earned operating revenues of MNOK 3 470 and MNOK 3 084, respectively, accounting for 52 and 46 per cent of aggregate consolidated operating revenues, respectively.

Kongsberg Maritime

The business area posted operating revenues of MNOK 3 470 (MNOK 3 742). The EBITA amounted to MNOK 297 (MNOK 298).

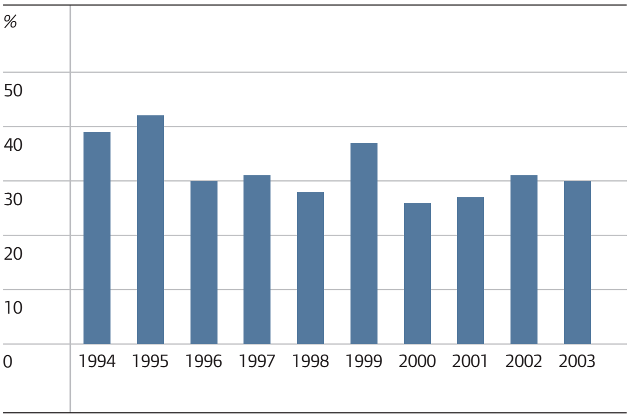
Kongsberg Maritime is working diligently to enhance its strategic market position and boost productivity throughout the business area. The improvement in market position is ascribable to strategic acquisitions and to moving operations closer to customers, as well as to reorganising with a view to better co-ordinating sales and marketing resources. The reorganisation will enhance productivity, not least by increasing the re-use of technology. Further, several functions/activities have been reinforced and built up outside Norway. As a result of the reorganisation, Kongsberg Maritime consists of two segments: Offshore & Merchant Marine and Yachting & Fishery. The merger was motivated by structural changes in the market, as the distinction between offshore shipping companies and other shipping companies has faded considerably. Kongsberg Maritime operates on the market under two brand names: KONGSBERG and SIMRAD.

Offshore & Merchant Marine

The segment earned an EBITA of MNOK 253 (MNOK 254) and operating revenues of MNOK 2 622 (MNOK 2 963). The EBITA margin increased from 8.6 per cent in 2002 to 9.6 per cent. Cost-cutting measures helped improve the margins. Towards year end, MNOK 25 was booked for restructuring the product area 'Navigation'. The segment was restructured and moved from Horten to Kongsberg. In future, it will operate in tandem with the product area 'Dynamic Positioning'.

New orders increased towards year end, reaching MNOK 790 in Q4. For the year as a whole, new orders totalled MNOK 2 758

Equity ratios



(MNOK 2 821). The segment had a backlog of orders worth MNOK 1 397 (MNOK 1 259) at year end.

The international market for basic supply vessels is relatively buoyant. The LNG initiative continues to be a success. Contracts were signed in 2003 for control systems for four tankers being built in Japan to convey LNG from the Snøhvit field to the USA, Spain and France. While activities have tapered off in the North Sea, they have picked up considerably in Brazil. Consequently, KONGSBERG has set up operations in Brazil. In 2003, contracts were signed with local shipyards for deliveries to 24 new vessels.

Shipyards in East Asia, KONGSBERG's most important market, are continuing to win market shares. To fortify its strategic market position in that region, KONGSBERG increased its stake in HKM Co. Ltd. of South Korea and set up operations in China.

A campaign was conducted in maritime information technology. Product development and the market launch were successful.

Yachting & Fishery

The segment posted operating revenues of MNOK 896 (MNOK 815). The EBITA amounted to MNOK 44 (MNOK 44). The EBITA margin was 4.9 per cent (5.4 per cent).

The result was influenced by the product mix, as well as the sale of older products and increased market investments in the USA and certain European countries. In addition, northern Europe's investments in fisheries were modest in 2003, resulting in a decline in sales from 2002.

The yachting market was generally softer than in 2002. Despite this, SIMRAD's sales to this segment expanded in 2003. New products were exceptionally well received on the market, sales directly to boat builders increased, and market investments began to bear fruit. On 1 July, SIMRAD acquired the company Bennex of the Netherlands, ensuring distribution in that area. The acquisition of the English manufacturer Brookes and Gatehouse (B&G) enhances SIMRAD's position in the market segment for larger sailboats and regatta boats, where B&G enjoys a pre-dominant position. The acquisition of B&G will also broaden market access for other SIMRAD products.

Kongsberg Defence & Aerospace

The BA posted operating revenues of MNOK 3 084 (MNOK 3 084). The EBITA amounted to MNOK 93 (MNOK 178). The EBITA margin was 3.0 per cent (5.8 per cent). The result was influenced by the loss of a MNOK 50 arbitration case with a subcontractor and delays in the Naval Strike Missile (NSM) programme.

The BA had a backlog of orders at year-end 2003 valued at MNOK 4 352 (MNOK 3 729), while the influx of new orders during the year was worth MNOK 3 706 (MNOK 1 961). The most important contract was with the Norwegian Navy for deliveries to five new Skjold Class MTBs. This decision was important for KONGSBERG as it initially translates into an order for command, control and navigation systems worth more than MNOK 700. Like the new frigates, the new MTBs are to be equipped with the new Naval Strike Missile (NSM). KONGSBERG's current contract with the Armed Forces covers the development of NSM. Efforts are in progress to conclude a contract for the transition from development to delivery.

The lack of contracts for the Missiles area and delays in the NSM programme are still critical to Kongsberg Defence & Aerospace's profitability, and are one of the main explanations for the dip in profitability in 2003. Several prospects are being explored, and there are possibilities for new contracts in 2004. Owing to the lack of new orders, Missiles is in the process of downsizing by 70 man-years of labour.

In November, a MNOK 210 contract was signed with Raytheon of the US for the delivery of components for upgrading the command and control units for Turkey's HAWK anti-aircraft system. It is expected that more countries will opt for KONGSBERG/Raytheon solutions in future.

Two major communications contracts were signed in 2003: one for MNOK 700 with Hungary and one for MNOK 400 with Kuwait. To enhance profitability, the communications segment will be downsized by the equivalent of 50 man-years of labour.

The delivery of weapons control systems for US Army armoured personnel carriers continued throughout 2003. Final qualification tests have been conducted on the weapons control system, and the product has been approved. Thus far, contracts valued at MNOK 907 have been signed under the NOK 2 billion framework agreement.

Risk

The Board monitors the Group's risk exposure closely, receiving quarterly updates on the most significant risk factors affecting the Group. The Board is of the opinion that a good balance has been struck between overall risk and the Group's ability to deal with risk.

KONGSBERG's operational risk is largely related to the implementation of projects of great technical complexity, where product quality is decisive. The implementation of complex technical projects is one aspect of the Group's core competency. Historically, the Group's ability to implement projects and product quality have been satisfactory. High quality and good delivery performance are among the Group's paramount objectives. In 2003, the Group's largest development project was the NSM (Naval Strike Missile), currently in the testing phase. However, as the development tests have not yet demonstrated all the functions, the programme has been extended. The Board of Directors believes there is still financial risk, primarily in relation to the further development tests on the NSM.

Business-related risk is associated with market conditions, competitors and the general business conditions prevailing in the markets in which KONGSBERG operates. The shipbuilding market fluctuates over time, impacting KONGSBERG's deliveries of systems to ships. This market is currently expansive, especially in the Far East. The level of investment in the petroleum industry is another important factor for KONGSBERG. Activities in this market have declined in the North Sea in recent years, but show expansive tendencies in other parts of the world. KONGSBERG has maintained and increased its shares in this market. Competition is generally growing keener in most of the Group's markets. The market for yachting instrumentation is contingent on general economic trends.

Insofar as the defence segment is concerned, sales with long lead times and large-scale individual projects can lead to fluctuations in activity levels. The Armed Forces' development of proprietary solutions in collaboration with Norwegian industry is decisive for continued growth and profitability in the long term.

Financial risk is mainly a factor of exchange rate fluctuations and financial capability. KONGSBERG's cost base is largely in Norway, while most of its revenues are in foreign currencies. The Group's competitiveness is therefore influenced by the value of the NOK against other currencies, particularly the USD. This risk is closely related to the operational activities in the business areas. KONGSBERG's policy in the short- and mid-term is to hedge future net earnings in foreign currencies through forward exchange contracts. Throughout 2003, the Group had higher average exchange rates in USD than the corresponding spot market rates. This had a positive effect on the results. Please see the notes to the accounts for more details. In the longer term, permanent changes in the value of the NOK will have to be solved through strategic and operational measures, for example, by building up activities abroad, increasing foreign currency purchasing and instituting cost-cutting measures. In early 2004, the Group prolonged its bank funding by establishing a five-year syndicated bank credit facility for MNOK 1 100. The Group also has ongoing programmes for loans in the bond and money markets.

Research and development

KONGSBERG's spending on research and development is equivalent to more than 10 per cent of operating revenues. MNOK 302, corresponding to 5 per cent of operating revenues, is equity-financed. Externally funded projects entail permanent commercial rights. KONGSBERG will continue to take a pro-active approach to product development and expects to maintain today's level in the years ahead. It is important that development activities be aimed at the Group's core areas. The most important goal is to maintain and boost profitability in the long term. KONGSBERG published its first Intellectual Capital Report in 2003. In 2004, that topic is part of the Sustainability Report. Emphasis on research and development is an important prerequisite for developing the Group's intellectual capital.

Health, Safety and the Environment (HSE)

KONGSBERG has a well-developed system for safety-related work. No serious job-related mishaps or accidents occurred or were reported among KONGSBERG employees during the year. The directors want to help prevent job-related injuries and illnesses. Enthusiasm and accountability at all levels of the organisation are essential for achieving this goal. KONGSBERG gives high priority to human health, job satisfaction and safety. Environmental efforts are dealt with by the individual segments, and the Working Environment Committees meet on a regular basis. To give this field the attention it deserves, the individual companies in the Group have engaged professional expertise to provide advice and help ensure that requisite HSE initiatives are implemented. The table below charts trends in absence due to illness over the past five years.

	2003	*2002*	*2001*	*2000*	*1999*
Absence due to illness (%)	3.2	3.3	2.7	2.3	3.1

KONGSBERG has signed letters of intent regarding more inclusive working life for its Norwegian units. Annual working environment surveys are conducted to elicit employees' views on working for KONGSBERG, e.g. with emphasis on psycho-social conditions. The goal of the survey is to identify potential opportunities for improvement. The surveys confirm that the improvement processes are bringing results. Initiatives are tailor-made for the different segments.

Kongsberg's operations are generally based on software development and systems integration, so few of them have any adverse impact on the outdoor environment. Of all the employees, 89 per cent work in offices, while 11 per cent are operators, for the most part in the fields of electronics and engineering. The Group devotes considerable attention to active environmental measures and has, as part of its Sustainability Report, compiled a separate section on the environment, describing its efforts in more detail. The report has been endorsed by the Board.

Personnel and organisation

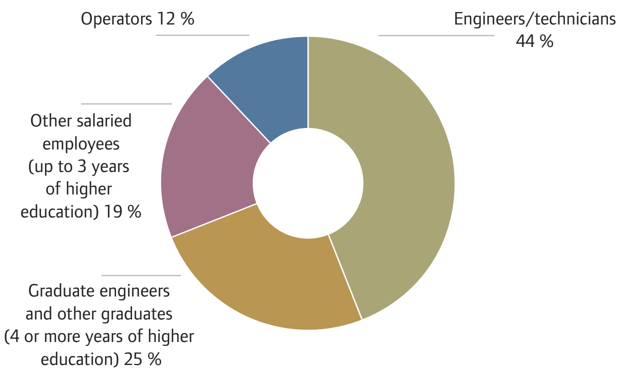
At 31 December 2003, the Group had 4 176 employees (4 208), 918 (830) of whom worked outside Norway. At year end, the parent company had 32 employees.

The way in which Kongsberg Gruppen uses and develops its human resources is an essential element of long-term success. To enhance the Group's ability to revitalise and improve decision-making processes, the goal is to cultivate diversity so that different backgrounds, cultures, educations and ways of thinking are represented. Part of that goal is to increase the percentage of female employees. Active efforts are made to encourage the transfer of knowledge between the business areas. Offering good development opportunities is an important policy instrument for recruiting and retaining employees. Efforts have been invested in various types of measures to ensure the recruitment of adequate and appropriate expertise to Kongsberg. The Kongsberg School facilitates and co-ordinates courses and training programmes within the Group.

A common resource group has been appointed to help develop qualified management talent throughout the corporation. The Kongsberg School offers a portfolio of management development programmes. Women accounted for 20 per cent of the participants in regular management development programmes in 2003.

At year end, the Group had 889 female employees (21 per cent). Ten per cent of all managerial positions in Norway are occupied by women. Many women have been recruited to technical communities in recent years, but there is still limited access to female graduates in the areas most pre-dominant at Kongsberg. As for the Board of Directors, 40 per cent of the shareholder-elected directors are women. Generally speaking, there are still few women in senior managerial positions. Kongsberg will therefore continue to strive to increase the percentage of female managers and focus on the recruitment of women to technical positions. At Kongsberg, the fundamental attitude is that women and men shall have equal opportunities. Salaries and terms of employment for comparable positions are the same for women and men. Kongsberg attaches

Employees by level of education



importance to being an attractive place of employment for men and women alike.

A new Board of Directors was elected by the ordinary AGM on 12 May 2003. Siri Hatlen and Niels Petter Wright were elected to succeed Jens Ulltveit-Moe and Roar Flåthen as directors. Jan Erik Hagen and Roy Harald Hove were elected by and from among the employees as new directors, succeeding Vidar Lande and Berit Ågren Aas. The other four directors were re-elected. The Board of Directors thanks those who left the Board in 2003 for the good work they did for the Group.

Eight Board meetings were held in 2003.

Co-operation is good with the trade unions through the established co-operation and co-determination schemes, providing invaluable contributions to the development of the individual companies and the Group as a whole.

Corporate governance

Good corporate governance is characterised by responsible interaction between the owners, the Board and management, viewed in a long-term, value-adding perspective. KONGSBERG's Board of Directors aspires to inspire trust among the owners and other stakeholders. Issues related to corporate governance have therefore been the subject of discussions by the Group's Board and management in 2003 and early 2004. Based on these reviews, the Board has drawn up and adopted a Corporate Governance Policy. A more detailed description is provided on pages 63–68 of this report.

Prospects for 2004

The Board is aware that Missiles will continue to represent a risk in 2004 due to the order situation for Penguins and the NSM programme. The maritime segment has good prospects in the market for merchant vessels. KONGSBERG's yachting products are considered competitive, both technically and in terms of marketing. Satisfactory profitability is expected to continue in the offshore industry, accompanied by keener competition in certain product areas.

Cost-cutting measures have been initiated with a view to ensuring future profits.

Net profit and allocations

The parent company Kongsberg Gruppen ASA posted a net profit of MNOK 59 in 2003. The Board of Directors proposes the following allocations for Kongsberg Gruppen ASA:

Dividends	MNOK 39
Transferred to legal reserves	MNOK 20
Total allocations	MNOK 59

In addition, MNOK 21 was allocated as a Group contribution.

At 31 December 2003, distributable reserves totalled MNOK 393.

Kongsberg, 17 March 2004

Christian Brinch
Chairman

Benedicte Berg Schilbred
Deputy Chairman

Torolf Rein
Director

Siri Hatlen
Director

Niels Petter Wright
Director

Roy Harald Hove
Director

Roar Marthiniussen
Director

Jan Erik Hagen
Director

Jan Erik Korssjøen
CEO

■ The corporate Board of Directors

Christian Brinch (57)
Chairman of the Board
Number of years on the Board: 13
Number of shares in
Kongsberg Gruppen ASA: 0
Occupation: Self-employed

Benedicte Berg Schilbred (57)
Deputy Chairman
Number of years on the Board: 3
Number of shares in Kongsberg
Gruppen ASA: 17 500
(through the company Odd Berg AS)
Occupation: Executive Chairman of
the Board of the Odd Berg Group

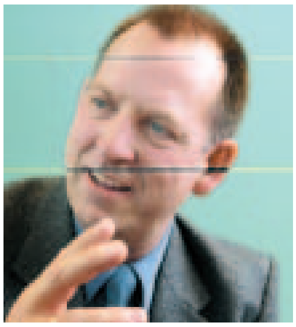
Torolf Rein (69)
Director
Number of years on the Board: 9
Number of shares in
Kongsberg Gruppen ASA: 0
Norway's former Chief of Defence

Siri Hatlen (46)
Director
Number of years on the Board: 1
Number of shares in Kongsberg
Gruppen ASA: 0
Occupation: Consultant, Chairman
of the Board for Health East

Niels Petter Wright (42)
Director
Number of years on the Board: 1
Number of shares in Kongsberg
Gruppen ASA: 0
Occupation: CFO Elopak AS

Roar Marthiniussen (47)
Director (employee representative)
Number of years on the Board: 5
Number of shares in
Kongsberg Gruppen ASA: 2 400
Occupation: Sales manager,
Kongsberg Maritime AS

Jan Erik Hagen (45)
Director (employee representative)
Number of years on the Board: 1
Number of shares in Kongsberg
Gruppen ASA: 477
Occupation: Shop steward,
Kongsberg Protech AS



Roy Harald Hove (47)
Director (employee representative)
Number of years on the Board: 1
Number of shares in
Kongsberg Gruppen ASA: 43
Occupation: Senior design engineer,
Kongsberg Defence & Aerospace AS

Income statement 1 January - 31 December – Kongsberg Gruppen (The Group)

The income statement shows consolidated operating revenues and operating expenses for all companies of which Kongsberg Gruppen ASA owns more than 50 per cent, direct or indirectly. Kongsberg Gruppen uses EBITA (Earnings Before Interest, Tax and the Amortisation of goodwill) as a key profitability concept for operations.

Amounts in MNOK	*Notes*	*2003*	*2002*	*2001*
Operating revenues	2	**6 651**	**6 980**	**6 176**
Raw materials and consumables		(2 831)	(3 125)	(2 766)
Personnel expenses	3, 4	(2 227)	(2 119)	(1 876)
Other operating expenses	5	(1 010)	(1 063)	(906)
Depreciation on tangible fixed assets	6	(200)	(188)	(191)
EBITA and litigation expenses		**383**	**485**	**437**
Amortisation of goodwill	7	(92)	(81)	(76)
Litigation expenses		-	-	(33)
Operating profit		**291**	**404**	**328**
Share of profit/(loss) in associated companies	8	-	(9)	(6)
Net financial items	9	(101)	(104)	(131)
Earnings before tax (EBT)		**190**	**291**	**191**
Gains on sale of properties	10	-	10	143
Profit/(loss) on discontinued operation, net after tax		-	-	(98)
Tax expense	11	(65)	(85)	(113)
Net profit/(loss) for the year		**125**	**216**	**123**
Minority share		(1)	3	1
Majority share		126	213	122
Profit/diluted profit in NOK per share	12	4.23	7.21	4.18

Balance sheet at 31 December – Kongsberg Gruppen (The Group)

The balance sheet shows the Group's consolidated assets and how they are financed through equity, interest-bearing debt and other liabilities, including prepayments from customers. Tangible fixed assets are assets intended for permanent ownership or use, e.g. machinery and plants, and land and buildings, in addition to goodwill. All assets related to commodity flows, receivables due for repayment within one year and assets not intended for permanent ownership or commercial use, are current assets. Liabilities include interest-bearing and interest-free funding, and consist mainly of the Group's borrowing from various credit institutions, prepayments from customers, trade debt, and taxes and public fees due. Liabilities are classified as short-term if they fall due for payment within one year.

Amounts in MNOK	*Notes*	*2003*	*2002*	*2001*
■ Assets				
Deferred tax asset	11	8	7	10
Goodwill	7	1 194	1 213	1 187
Tangible fixed assets	6	1 100	1 082	1 090
Investments in associated companies	8	93	78	112
Financial fixed assets	4, 13	307	265	219
Total fixed assets		**2 702**	**2 645**	**2 618**
Inventory	14	793	661	722
Receivables	15	2 407	2 106	1 972
Investments		5	3	2
Bank deposits and cash equivalents		101	182	315
Total current assets		**3 306**	**2 952**	**3 011**
Total assets		**6 008**	**5 597**	**5 629**
■ Equity and liabilities				
Share capital		150	150	150
Treasury shares		(1)	(2)	(3)
Share premium reserve		832	832	832
Total paid-in equity		**981**	**980**	**979**
Other equity		818	714	544
Minority interests		31	47	15
Total equity	16	**1 830**	**1 741**	**1 538**
Deferred tax liabilities	11	496	435	347
Other provisions	10	107	107	100
Total provisions		**603**	**542**	**447**
Long-term interest-bearing liabilities	17	1 265	977	1 093
Total long-term liabilities		**1 265**	**977**	**1 093**
Prepayments from customers		931	818	1 028
Other short-term liabilities	19	1 379	1 519	1 523
Total short-term liabilities		**2 310**	**2 337**	**2 551**
Total liabilities		**4 178**	**3 856**	**4 091**
Total equity and liabilities		**6 008**	**5 597**	**5 629**

Kongsberg, 17 March 2004

Christian Brinch
Chairman

Benedicte Berg Schilbred
Deputy Chairman

Torolf Rein
Director

Siri Hatlen
Director

Niels Petter Wright
Director

Roy Harald Hove
Director

Roar Marthiniussen
Director

Jan Erik Hagen
Director

Jan Erik Korssjøen
CEO

Statement of cash flows – Kongsberg Gruppen (The Group)

A consolidated cash flow statement is influenced by three factors. The cash flow from operations indicates how the profit/loss earned during the period is reflected in pure cash flow after adding depreciation (not the cash effect), and adjustments for changes in short-term items and pension liabilities/assets and the proportional results from associated companies, as well as adjustments for the effects of gains/losses on the sale of business assets. The net cash flow from investments indicates which cash flow is used for necessary re-investment, and the cash flow from sales and changes in the capital tied up in other long-term financial assets. The net cash flow from financial activities indicates the cash flow generated by, for instance, the receipt of fresh shareholders' funds, receipts and disbursements in connection with the sale/acquisition of treasury shares and the payment of dividends to the owners. It also shows increases and decreases in interest-bearing debt.

Amounts in MNOK	*2003*	*2002*	*2001*
Earnings before tax (EBT)	190	291	191
Other items before tax	-	10	7
Taxes paid	(6)	-	(10)
(Profit)/loss on sale of fixed assets	(2)	(10)	(143)
Depreciation and amortisation	292	269	267
Share of (profit)/loss in associated companies	-	9	6
Change in pension plan assets and pension liabilities	(36)	(44)	(38)
Change in shares and bonds	(2)	(1)	8
Change in short-term receivables	73	(91)	190
Change in projects in progress and inventories	(505)	18	(242)
Change in accounts payable	(32)	(80)	(43)
Change in prepayments from customers	113	(210)	71
Change in other accrual items	(2)	103	57
Net cash flow from operations	**83**	**264**	**321**
Payments for the acquisition of fixed assets	(292)	(291)	(339)
Payments for the acquisition of shares	(115)	(108)	(41)
Receipts from the disposal of fixed assets	3	83	292
Net receipts/payments on long-term receivables and shares	5	15	-
Net cash flow from investment activities	**(399)**	**(301)**	**(88)**
Net increase/decrease in interest-bearing debt	288	(116)	(128)
Receipts for sale of treasury shares	10	20	28
Payment of dividends	(63)	-	-
Net cash flow from financial activities	**235**	**(96)**	**(100)**
Net change in cash and cash equivalents	(81)	(133)	133
Cash and cash equivalents at 1 January	182	315	182
Cash and cash equivalents at 31 December	**101**	**182**	**315**

Accounting principles

The annual accounts are presented in compliance with the Norwegian Accounting Act of 1998, and have been prepared in accordance with generally accepted Norwegian accounting standards.

Consolidation of subsidiaries
The consolidated accounts include the companies in which Kongsberg Gruppen ASA directly or indirectly owns more than 50 per cent of the shares and has a controlling interest. The most significant companies included in the consolidated accounts are listed in Note 1 to the parent company's accounts. The consolidated accounts show the Group's financial position and results when all units are considered as a whole. Shares in subsidiaries are eliminated in accordance with the acquisition method of accounting. Excess value that cannot be assigned to identifiable assets is classified as goodwill. New subsidiaries are included in the consolidated accounts from the date of acquisition. For successive share purchases, identifiable assets are restated at their fair values at the time the Group obtains a controlling interest. Excess value due to goodwill is calculated on each individual acquisition. Subsidiaries sold during the year are included on the income statement up to the date of disposal. Intercompany revenues, costs and balances have been eliminated.

Translation – foreign subsidiaries
The accounts of the foreign subsidiaries are included in the income statement at average exchange rates for the year. Balance sheet items, including goodwill related to foreign subsidiaries, are translated at the rates that applied on 31 December. Translation differences are booked against consolidated shareholders' equity.

Valuation and classification of assets and liabilities
The classification of items during the fiscal year is based on the assumption that assets associated with transaction flows, claims to be settled within one year and "assets not intended for permanent ownership or use" are current assets. Other assets are classified as tangible fixed assets. Commercial papers are classified as long-term liabilities because it is possible to convert them into long-term bank loans. Current assets are valued at cost or their net market value, whichever is lower. Fixed assets are valued at cost less business depreciation, if any. Tangible fixed assets are written down if their market value is lower than their book value and the difference is considered to be of a permanent nature.

Foreign currency
Receivables and liabilities are translated at the exchange rate applicable on the date of balance sheet recognition. Gains and losses related to items in the commodity flow are classified as operating revenues and expenses.

Intangible assets
Goodwill is amortised on the basis of estimated gains expected in conjunction with the acquisition of each individual company. At each closing of the accounts, the value of remaining goodwill is estimated and changes, if any, are made in write-downs or amortisation periods. All costs related to equity-financed research and development have been charged to the income statement.

Tangible fixed assets
Tangible fixed assets are depreciated on a straight-line basis over expected useful life of the asset.

Ownership interests in associated companies and subsidiaries
Associated companies are defined as those in which Kongsberg has significant influence. Interests in associated companies are valued in the consolidated accounts in accordance with the equity method of accounting. In the parent company accounts, ownership interests refer to shares and interests in associated companies valued on the basis of the cost method of accounting.

Other long-term shareholdings and ownership interests
Long-term shareholdings and units in which Kongsberg does not exercise significant influence are recognised at cost. The investments are written down to their actual value if the decline in value is not of a temporary nature. Dividends and other allocations of profit from the companies are reported under 'Other financial income'.

Investments in other enterprises (short-term shareholdings)
Other short-term investments are valued at the average cost price or actual value on the date of balance sheet recognition, whichever is lower.

Inventory
Inventory is valued at its average cost price or net realisable value, whichever is lower. The net realisable value of raw materials and work in progress is calculated as the sales value of the finished products less remaining production and sales costs.

Income recognition principles
The Group's main business objective is to develop and manufacture products and systems based on orders received. The processed value of the work in progress is booked as operating revenue. Uninvoiced work in progress is reported on the balance sheet under 'Projects in progress'. Work in progress is stipulated as incurred production costs plus a proportional share of the estimated contract profit. Production costs include direct wages, direct materials and a proportional share of the individual business area's indirect costs, while general development costs, sales costs, common administrative costs and interest are not included in production costs.

Accrued contract profit includes the interest income on prepayments from customers that exceeds the capital tied up in the individual projects. The estimated accrued contract profit shall not exceed a proportional share of the estimated total contract profit. The proportional share of the contract profit is based on the degree of completion of the individual contract, which is largely determined on the basis of the costs incurred compared with the anticipated overall costs at the time of valuation. Contract profit is not recognised as income until a project's final result can be estimated with a reasonable degree of certainty. Any anticipated loss on the remainder of a project shall be expensed in full immediately.

Estimates of contract profits for projects can involve a number of discretionary variables. This is especially true of the scope of estimated remaining expenses. Such estimates are based on the best judgement of management. However, owing to the scope and complexity of the estimates, the final results upon completion of the contract may deviate from the estimates made at the time of closing the accounts.

In special cases, work on projects will commence and expenses will be incurred as work in progress before a customer places a formal order. This presupposes a very strong probability that a contract will be signed.

Income from the sale of ordinary products is recognised upon delivery.

Receivables
Accounts receivable and other debts are listed on the balance sheet at nominal amounts less provisions for anticipated losses. Provisions for losses are based on individual assessments regarding the collectability of each receivable. In addition, a general provision is made to cover potential losses on other receivables.

Financial instruments
Kongsberg Gruppen uses financial instruments to manage foreign exchange and interest rate exposure. Most forward foreign exchange contracts are used to hedge future cash flows and balance sheet items in foreign currency. Gains and losses on foreign exchange contracts which satisfy the criteria for hedging are reported and evaluated in tandem with the underlying hedged item. Amounts received or paid in connection with interest rate swaps that satisfy the criteria for hedging interest-

bearing assets or liabilities are recorded over the term of the contract. Gains and losses on hedging instruments rolled over prior to their expiry are recognised on the balance sheet and income statement over time along with the underlying hedged item.

Pensions

The parent company and subsidiaries have collective pension schemes which entitle employees to certain future pension benefits in accordance with net benefit plans. Pension benefits are based on the number of years of earned pension rights and salary level at retirement. There are also early retirement plans for certain executives. To ensure uniform calculation of KONGSBERG's pension commitments, all corporate units have used the same actuary. In the income statement, the year's net pension expenses (after a deduction for the anticipated return on the pension plan assets) have been recorded as 'Personnel expenses'. In the balance sheet, net pension plan assets, including social security expenses, are reported as 'Financial fixed assets'. Differences estimated between the pension liabilities and the pension plan assets are amortised over the assumed average years remaining until retirement age if net differences exceed 10 per cent of the gross pension liabilities or pension plan assets, whichever is higher. Adjustments for changes in the pension plan are distributed over the average number of years remaining until retirement age.

Financial and actuarial assumptions are subject to annual evaluations. The discount rate is based on the long-term government bond interest rate, plus a supplement that reflects the timeline for calculating the pension liability.

The Group's legal liability is not affected by the treatment of pensions in the accounts.

Uncertain commitments

Uncertain commitments are booked if there is more than a 50 per cent probability that a problem will arise. Best estimates are used to calculate the settlement value.

Taxes

Tax expenses in the income statement include payable taxes and the change in deferred taxes. The change in deferred taxes reflects the future payable taxes resulting from the current year's activities. Deferred taxes are based on accumulated profit, but they fall due in subsequent accounting periods. Deferred taxes are calculated on net tax-increasing differences between the balance sheet items used for accounting purposes and those used for taxation purposes, adjusted for temporary tax-decreasing differences and tax losses carried forward according to the liability method. Income from long-term production contracts is not recognised for tax purposes until an individual contract has been completed. Owing to KONGSBERG's volume of large, long-term contracts, there are therefore considerable temporary tax-increasing differences.

Share transactions with employees

Discounts on the sale of shares to employees are booked as payroll expenses.

Notes – Kongsberg Gruppen (The Group)

Notes provide further details about some of the items on the income statement and the balance sheet. The notes also cover other factors of significance, including commitments that cannot be booked on the balance sheet, e.g. guarantees and currency transactions.

1 Changes in Group structure

SeaFlex

In January 2002, Kongsberg Gruppen acquired 62 per cent of the shares in SeaFlex AS in Asker for MNOK 21. The acquisition was made to strengthen the Group's activities in the offshore industry. SeaFlex specialises in riser technology for offshore oil and gas production.

Kongsberg Satellite Services

In January 2002, KONGSBERG and the Norwegian Space Centre merged their satellite activities on Svalbard and in Tromsø, establishing a new 50/50 joint venture, Kongsberg Satellite Services AS. The goal was to improve satellite servicing operations, including earth observation services from Svalbard and Tromsø.

ABB's dynamic positioning activities

In the summer of 2002, KONGSBERG and ABB AS signed a world-wide co-operation agreement on marketing, sales and technology development relating to ships and offshore vessels. As a part of the agreement, ABB's dynamic positioning activities were transferred to Kongsberg Simrad for MNOK 60.

HKM

To enhance its strategic market position in the Far East, in 2002, KONGSBERG acquired the majority of shares (58 per cent) in HKM Co. Ltd. of South Korea. In 2003, the Group increased its stake, bringing total investments in the company to MNOK 79.4 (86.8 per cent).

SensIT

In November 2002, the focus on ships' systems led to the acquisition of the remaining 68 per cent of the shares in SensIT AS, giving KONGSBERG a technological edge in wireless sensors for monitoring rotating machinery. The shares carried a price tag of MNOK 9.5. KONGSBERG now owns 100 per cent of SensIT.

Fire & Safety

As a link in the focus on ships' systems, in December 2002, KONGSBERG agreed to sell its fire and safety unit in Kongsberg Maritime Ship Systems (KMSS) in Trondheim to Autronica Fire & Safety AS, a subsidiary of KIDDE plc. The unit had MNOK 85 in operating revenues and 25 employees. The sales price was MNOK 55.5.

B&G (Brookes and Gatehouse)

KONGSBERG acquired Brookes and Gatehouse Ltd. (B&G) of the UK in 2003 for MNOK 32. B&G is highly respected for its sailboat instrumentation products, and enjoys large market shares, particularly for the largest, most advanced sailboats. The acquisition fortifies the Group's Yachting & Fishery segment, where SIMRAD already is a strong brand name.

Other new ventures/acquisitions

To enhance Kongsberg Maritime's strategic market position, in 2003, new ventures were set up in Shanghai (China), Rio de Janeiro (Brazil), New Orleans (USA), Viareggio (Italy), Schleswig (Germany), Casablanca (Morocco) and Lunenburg (Canada). Further, SIMRAD's distribution company Bennex Holland BV of The Netherlands was acquired for MNOK 19 to ensure distribution in that area.

2 Operating revenues

The note shows the geographical distribution of the Group's sales revenues based on customers' locations and the distribution of certain key figures by segment.

By geographical area

Amounts in MNOK	*2003*	*2002*	*2001*
Norway	1 618	1 939	1 620
Scandinavia	247	381	306
Europe	2 125	1 959	1 866
America	1 505	1 514	1 199
Asia	998	963	879
Other	158	224	306
Total	**6 651**	**6 980**	**6 176**

Key figures by segment

The reorganisation of Kongsberg Maritime resulted in changes in its segmentation, so previous years have been adjusted to facilitate comparison. Inter-Group sales are priced at stipulated market values.

Amounts in MNOK	*Operating revenues*	*Operating expenses*	*EBITA*	*Amortisation of goodwill, etc. 1)*	*Operating profit/ (loss)*	*Tied up capital 2)*	*Prepayments from customers*	*Non-interest bearing debt 3)*	*Investments*	*Depreciation and write-downs*
2001										
Offshore & Merchant Marine	2 819	2 570	249	57	192	2 768	47	1 072	185	74
Yachting & Fishery	940	906	34	12	22	996	-	317	44	38
Defence & Aerospace	2 388	2 250	138	7	131	1 406	981	767	92	72
Other/elimination	29	13	16	33	(17)	142	-	(186)	18	7
Total	**6 176**	**5 739**	**437**	**109**	**328**	**5 312**	**1 028**	**1 970**	**339**	**191**
2002										
Offshore & Merchant Marine	2 963	2 709	254	63	191	2 677	72	936	203	68
Yachting & Fishery	815	771	44	11	33	835	-	237	28	34
Defence & Aerospace	3 084	2 906	178	7	171	1 782	746	1 021	113	80
Other/elimination	118	109	9	-	9	118	-	(133)	16	6
Total	**6 980**	**6 495**	**485**	**81**	**404**	**5 412**	**818**	**2 061**	**360**	**188**
2003										
Offshore & Merchant Marine	2 622	2 369	253	73	180	2 808	125	879	74	71
Yachting & Fishery	896	852	44	13	31	947	-	314	91	37
Defence & Aerospace	3 084	2 991	93	6	87	2 142	806	1 059	121	85
Other/elimination	49	56	(7)	-	(7)	5	-	(270)	6	7
Total	**6 651**	**6 268**	**383**	**92**	**291**	**5 902**	**931**	**1 982**	**292**	**200**

1) Includes litigation expenses under 'Other/elimination' in 2001.

2) Tied-up capital comprises total assets less current investments, bank deposits and cash equivalents.

3) Interest-free liabilities include all debt less prepayments from customers and interest-bearing liabilities.

3 Personnel expenses, number of employees and remuneration

Personnel expenses refer to all the expenses associated with the remuneration of personnel employed by the Group.

Personnel expenses

Amounts in MNOK	*2003*	*2002*	*2001*
Personnel expenses	1 809	1 742	1 549
Social security expenses	251	238	209
Pension expenses incl. social security	94	65	47
Other benefits	73	74	71
Total	**2 227**	**2 119**	**1 876**
Average no. of employees during the fiscal year	4 192	4 110	3 888

Directors' fees

Amounts in NOK	
Directors' fees	956 168
Consultancy fee to the Chairman of the Board apart from his ordinary director's fee	164 100

Remuneration to the CEO

Amounts in NOK	*2003*	*2002*
Salary	2 310 000	1 955 435
Performance-linked pay	138 500	138 500
Pension premium for the CEO	612 684	683 864
Other remuneration	139 275	156 810
Directors' fees, subsidiaries	130 700	151 500

In June 2002, the Board decided to regulate the level of the CEO's salary to NOK 2 310 000. The CEO's salary was not adjusted in 2003. The CEO's salary consists of a fixed salary and performance-linked pay of up to 2.5 times his monthly salary. The CEO has six months' reciprocal notice of resignation/termination. Apart from the notification period, the CEO may be entitled to full wages until he begins in a new position, limited to up to one year after severance. The other corporate executives also receive remuneration consisting of a fixed salary and performance-linked wage limited to 2.5 times their monthly salary. In addition to the term of notice, they may be entitled to full wages until they begin in a new position, limited to up to one year after severance.

The corporate executives (6 individuals) have early retirement agreements from the age of 60. The benefits give them 90 per cent of their salary upon retirement at age 60, diminishing by 10 per cent per year to 60 per cent of their salary from age 63 to age 67. In 2003, a group of sub-executive managers (13 individuals) with considerable leadership responsibility signed an agreement entitling them to early retirement from age 62, based on 65 per cent of their salaries up to age 67.

4 Pension expenses, assets and liabilities

The Group has a service pension plan that covers all the Group's employees in Norway. At 31 December 2003, 3 258 employees were covered by the scheme, which is insured through Gjensidige NOR. The schemes are treated as benefit plans. Pension benefits are based on the number of years of earned pension rights and salary level at retirement. Pension benefits depend upon the individual employee's number of years of service and his/her wage level upon reaching retirement age. The pension scheme also includes wage levels over and above 12G.

The calculation of future pension obligations is based on the following assumptions:

	2003	*2002*	*2001*
Discount rate	6.0 %	7.0 %	7.0 %
Anticipated rate of return	7.0 %	8.0 %	8.0 %
Salary adjustment	3.0 %	3.0 %	3.0 %
Pension base level adjustment	3.0 %	3.0 %	3.0 %
Pension adjustment	3.0 %	2.0 %	2.0 %
Turnover	3.0 %	2.0 %	2.0 %

The age limit for an early retirement pension (AFP) is 62. The Group's extended pension liabilities are included in the accounts in accordance with actuarial standards based on a lower ordinary retirement age, 20 per cent signing propensity, 25 per cent employer financing and otherwise the same assumptions that apply to ordinary pensions. Changes in actual signing propensity as well as final funding can lead to changes in the final pension liabilities.

Pension expenses for the year are estimated based on the financial and actuarial assumptions made at the beginning of the year. Gross pension liabilities are based on the financial and actuarial assumptions made at year end. Changing the discount rate from 7 per cent to 6 per cent means that pension liabilities increased by roughly MNOK 150, which is accounted for as an unrecognised estimated deviation. Upon future amortisation of the estimated deviation, the pertinent social security expenses will also be recognised. The pension plan assets are invested as follows: 29 per cent in long-term bonds, 22 per cent in the money market, 21 per cent in short-term bonds, 13 per cent in equities, 12 per cent in property and 3 per cent in 'other'. The gross value of pension plan assets includes an anticipated yield of 7 per cent for 2003.

The year's pension costs were calculated as follows:

Amounts in MNOK	*2003*	*2002*	*2001*
Service cost	51	43	39
Interest cost on pension liabilities	54	45	40
Estimated return on pension plan assets	(53)	(50)	(47)
Amortisation of estimated deviation	12	8	3
Amortisation, plan changes	10	2	-
Accrued social security expenses	11	7	5
Total net pension expenses	**85**	**55**	**40**
Expenses related to pension subsidy plans outside Norway	9	10	7

Amounts in MNOK	*2003*	*2002*	*2001*
Gross pension liabilities	(1 011)	(730)	(654)
Gross pension plan assets	773	683	683
Net pension plan assets/(liabilities)	**(238)**	**(47)**	**29**
Unrecognised plan changes	46	28	-
Unrecognised estimated deviation	374	168	82
Accrued social security expenses	26	23	17
Net prepaid pensions	**208**	**172**	**128**

5 Other operating expenses

Other operating expenses consist of all operating expenses apart from wages and depreciation. Selected types of costs are specified below.

Amounts in MNOK	*2003*	*2002*	*2001*
Sales, advertising, etc.	102	86	87
Contracted services	221	226	215
Repairs and maintenance	43	48	49
Rent-related expenses	156	151	86
Travel and *per diem* expenses	212	228	205
Procurements related to operations	97	156	139
Other	179	168	125
Total	**1 010**	**1 063**	**906**

Remuneration to the auditor for 2003

Amounts in NOK 1 000	*Parent company*	*Subsi-diaries in Norway*	*Subsi-diaries abroad*
Corporate auditor Ernst & Young			
Auditing fee	550	3 985	1 175
Fees for other auditing-related services	286	864	579
Fees for other tax-related services	84	1 739	
Others auditors			
Estimated auditing fees		148	1 290
Fees for other services		26	459

6 Tangible fixed assets

The figures indicate the Group's investments in tangible fixed assets. The note shows the original acquisition cost and balance sheet values by type of production equipment. The Group uses straight-line depreciation for all tangible fixed assets.

Amounts in MNOK	*Machinery and plant*	*Technical facilities*	*Land, buildings and other real property*	*Total*
Cost price at 1 January	479	911	854	2 244
Exchange rate differences	3	4	4	11
Additions	34	117	73	224
Disposals	(18)	(14)	(9)	(41)
Cost price at 31 December	**498**	**1 018**	**922**	**2 438**
Accumulated depreciation/write-downs at 31 December	(340)	(779)	(219)	(1 338)
Book value at 31 December	**158**	**239**	**703**	**1 100**
Ordinary depreciation for the year	40	124	36	200
Depreciation rates	10-33 %	12-33 %	0-10 %	
Annual rent for operating leases not recognised on the balance sheet	5	13	127	145

7 Intangible assets

Goodwill

Goodwill is the premium the Group has paid over and above any added value that can be traced to identifiable assets in connection with acquisitions. Goodwill is amortised on the basis of estimated gains expected in conjunction with the acquisition of each individual company. Goodwill is amortised over 5 to 20 years. Each time the accounts are closed, the value of remaining goodwill is estimated and changes, if any, are made in write-downs or amortisation periods.

Amounts in MNOK	*Acquisition cost at 1 January*	*Additions/ Disposals*	*Exchange rate differences*	*Acquisition cost at 31 December*	*Amortisation for the year*	*Accumulated deprec./write-downs 31 Dec.*	*Closing balance at 31 December*
Yachting & Fishery	223	53	(2)	274	13	83	191
Offshore & Merchant Marine	1 285	15	7	1 307	73	370	937
Defence & Aerospace	88	-	-	88	6	22	66
Total goodwill	**1 596**	**68**	**5**	**1 669**	**92**	**475**	**1 194**

Goodwill by major acquisition *Amounts in MNOK*	*Year of acquisition*	*Amortisation for the year*	*Closing balance at 31 Dec.*
Simrad	1996	22	201
Navico	1998	4	55
Navia	2000	41	679
Kongsberg Defence Communications	2000	5	59
ABB's Dynamic Positioning activity	2002	3	54
Kongsberg Maritime Korea (formerly HKM)	2002/2003	9	42
Total, major acquisitions		**84**	**1 090**

Research and development (R&D)

KONGSBERG's spends more than 10 per cent of its operating revenues on R&D. Of that amount, MNOK 302, corresponding to 5 per cent of operating revenues, is equity-financed. None of the equity-financed expenses are considered to satisfy the criteria for balance sheet recognition. The externally funded projects entail permanent commercial rights. It is important that development activities be aimed at the Group's core areas.

8 Shares in associated companies, etc.

Associated companies are companies in which the Group owns between 20 and 50 per cent. These investments are booked by reporting the Group's share of the companies' profit/loss after tax, adjusted for excess/negative values, if any. The balance sheet presents the stake at its cost price plus accumulated results, but adjusted for accumulated excess/negative values and dividends received, if any. A dividend is the disbursement of accrued funds and cannot be booked since the Group's share of the result has already been booked.

Amounts in MNOK	*Year of acquisition*	*Stake and voting interest*	*Opening balance 1 January*	*Additions/ Disposals*	*Dividends*	*Share of profit/ (loss) incl. amortisation of excess/negative value*	*Closing balance at 31 December*	*Amortisation of excess/ negative value*
Kitron ASA (Hisøy)	1998	27.0 %	46	21	-	(6)	61	2
Kongsberg Satellite Services AS (Tromsø)	1998	50.0 %	22	-	-	5	27	-
CCIS House AS (Asker)	1998	42.5 %	2	-	-	-	2	-
Teknologisk Institutt Labratorietjenester AS (Ågotnes)	1999	25.0 %	5	(5)	-	-	-	-
Reime Prosess Notodden AS (Notodden)	2002	49.0 %	3	-	(1)	1	3	-
Total			**78**	**16**	**(1)**	**0**	**93**	**2**

9 Net financial items

Net financial items consist of all consolidated interest income and interest expenses associated with corporate funding. Moreover, the net foreign exchange effects of the Group's financial activities are reported as net exchange gains or losses. Exchange gains or losses linked to commodity flows are booked as operating items.

Amounts in MNOK	*2003*	*2002*	*2001*
Interest income	1	3	4
Interest expenses	(89)	(101)	(111)
Net interest expenses	**(88)**	**(98)**	**(107)**
Change in the valuation of current investments	-	-	(16)
Other financial expenses, net	(18)	(23)	(8)
Gain on sale of shares	5	17	-
Total	**(101)**	**(104)**	**(131)**

10 Sale and leaseback of property

In 1999, 2001 and 2002, the subsidiary Kongsberg Næringseiendom AS sold real estate located in Kongsberg Industrial Park. The properties have been leased back on long-term leases that will continue to apply until 2014, 2018 and 2017, respectively. The lease-backs are considered operational leasing agreements.

In addition to the rent, Kongsberg Næringseiendom is responsible for certain expenses associated with fees on and the maintenance of the properties. The leases have durations ranging from three months to 9 years. Of the property sold, 20 per cent is rented to Group companies.

The gains earned on the sale of the properties are booked under 'Other items' on the income statement. The gains appear after provisions for commitments Kongsberg Næringseiendom has undertaken to cover leaseback costs, fees and maintenance beyond what is expected to be covered by the rents received from the tenants. The estimated commitments total MNOK 107 (MNOK 107 in 2002 and MNOK 100 in 2001).

In connection with the sale of property in 2001, Kongsberg Næringseiendom extended an interest-bearing seller's credit of MNOK 20 which is listed under 'Other long-term liabilities'. Kongsberg Næringseiendom has options to buy back the properties sold in 2001 at their market values upon expiry of the leases.

The parent company has guaranteed Kongsberg Næringseiendom's payments for the leaseback of properties that have been sold. The rents are adjusted annually. All properties enjoy almost full occupancy.

Amounts in MNOK	*Year of sale*	*Amount of sale*	*Rent payable in 2004*	*Remaining term of lease*	*Weighted average sub-lease period*
A total of 32 000 m2 of industrial premises/offices	1999	350	33.7	11 years	8 years
A total of 43 800 m2 of industrial premises/offices	2001	265	26.1	15 years	4 years
A total of 6 200 m2 of industrial premises/offices	2002	55	5.2	14 years	6.5 years

11 Tax

Deferred tax

Deferred tax represents future payable tax-related commitments for the Group. Deferred tax arises as a result of possible differences in account-related and tax-related accruals. This applies especially to differences related to long-term production contracts. Deferred tax/deferred tax assets have been calculated on temporary differences and tax losses carried forward related to:

Amounts in MNOK	*2003*	*2002*	*2001*
Fixed assets/non-current liabilities	230	174	43
Current assets/current liabilities	2 087	1 879	1 224
Tax loss carried forward	(575)	(524)	(65)
Temporary differences and tax loss carried forward	**1 742**	**1 529**	**1 202**
Deferred tax	496	435	347
Deferred tax assets abroad	(8)	(7)	(10)
Net deferred tax	**488**	**428**	**337**

Tax expenses

Total taxes are calculated on the basis of earnings before tax. Tax expenses comprise the following items:

Amounts in MNOK	*2003*	*2002*	*2001*
Tax effects of activities being wound up	-	-	38
Change in deferred tax in Norway and abroad	60	85	56
Tax payable in Norway and abroad	5	-	19
Tax expenses	**65**	**85**	**113**
Reconciliation of effective and nominal tax rates			
28 % of the EBT (earnings before tax) and gains on the sale of properties	53	84	94
Amortisation of goodwill at Group level	4	3	3
Tax loss carried forward and the effect of tax rate differences between Norway and other countries	2	9	12
Other permanent differences	6	(11)	4
Tax expenses	**65**	**85**	**113**

12 Basic/diluted earnings per share

Basic/diluted earnings per share has been calculated by dividing the profit for the year by a weighted average number ordinary shares outstanding in the period from 1 January 2003 to 31 December 2003. Ordinary shares issued in connection with the capital increase and shares bought back during the period under review are weighted proportionate to the length of time they have been outstanding during the reporting period.

	2003	*2002*	*2001*
Majority share of the profit for the year (MNOK)	126	213	122
Share capital (million shares)	30.0	30.0	30.0
Weighted no. of shares outstanding (million shares)	29.7	29.5	29.2
Basic/diluted earnings per share in NOK	4.23	7.21	4.18

13 Financial fixed assets

Financial fixed assets represent financial investments intended for permanent ownership or use.

Amounts in MNOK	*2003*	*2002*	*2001*
Other shareholdings	15	13	16
Net pension assets	208	172	128
Loans to employees	16	12	9
Loans to associated companies	33	34	32
Other long-term receivables	35	34	34
Total	**307**	**265**	**219**

14 Inventory

This note shows the Group's aggregate inventories, by raw materials and finished products.

Amounts in MNOK	*2003*	*2002*	*2001*
Raw materials	449	337	360
Work in progress	48	45	45
Finished products	296	279	317
Total	**793**	**661**	**722**

15 Receivables

Amounts in MNOK	2003	2002	2001
Accounts receivable	1 164	1 195	1 116
Projects in progress	1 048	675	633
Other receivables	163	153	104
Prepayments to suppliers	32	83	119
Total	**2 407**	**2 106**	**1 972**

Amounts in MNOK	Total orders	Operating revenues 2003	Acc. operating revenues	Retained operating revenues
Missile and aerospace products	3 458	383	3 123	335
Naval defence products	3 201	376	1 760	1 441
Anti-aircraft, trainers and simulators	1 804	301	1 178	626
Weapons control systems	1 101	369	911	190
Military communications	3 704	762	2 148	1 556
Total	**13 268**	**2 191**	**9 120**	**4 148**

Long-term production contracts

Offshore & Merchant Marine and Defence & Aerospace are the most project-oriented segments of Kongsberg. Most of Offshore & Merchant Marine's projects have a duration of less than two years, and earnings on individual projects make a modest contribution to consolidated earnings. Defence & Aerospace projects are of longer duration and total earnings on an individual project make a substantial contribution to the Group's activities. The projects in progress in the individual product areas at Defence & Aerospace are shown on the table to the right.

The production still remaining on Defence & Aerospace's loss projects and recognised on the balance sheet amounted to MNOK 353 at year-end 2003. All anticipated losses are charged against income.

The Naval Strike Missile (NSM) programme is divided into two main phases: development and qualification, and the production of missiles. To facilitate the transition from development and qualification to production, activities with long lead-times are initiated before the final production phase contract is signed. At the end of 2003, inventory valued at MNOK 10 was connected to such activities. At year-end 2002, the corresponding figure was MNOK 10, which was related to the start-up of activities for the delivery of radios to Hungary. The contract with Hungary was then signed in March 2003.

16 Equity

Equity should in principle develop at a pace commensurate with the result, but certain elements may be recorded directly against equity. Examples of this are share issues, dividends and translation differences related to foreign subsidiaries and currency fluctuations. The purchase or sale of treasury shares will be direct equity transactions and holdings of treasury shares will be presented as a reduction in equity.

Amounts in MNOK	Share capital	Treasury shares	Share premium fund	Other equity	Total, parent company	Group companies	Total, Group
Equity at 1 Jan. 2000	**150**	**(3)**	**832**	**489**	**1 468**	**22**	**1 490**
Treasury shares	-	(2)	-	(39)	(41)	-	(41)
Net profit	-	-	-	(75)	(75)	19	(56)
Translation differences	-	-	-	-	-	(3)	(3)
New minority interests	-	-	-	-	-	16	16
Equity at 31 Dec. 2000	**150**	**(5)**	**832**	**375**	**1 352**	**54**	**1 406**
Treasury shares	-	2	-	30	32	-	32
Net profit	-	-	-	(26)	(26)	149	123
Translation differences	-	-	-	-	-	(1)	(1)
Adjustment, equity ratio, Kitron	-	-	-	-	-	(19)	(19)
New minority interests	-	-	-	-	-	(3)	(3)
Equity at 31 Dec. 2001	**150**	**(3)**	**832**	**379**	**1 358**	**180**	**1 538**
Treasury shares	-	1	-	24	25	-	25
Net profit	-	-	-	43	43	173	216
Translation differences	-	-	-	-	-	(4)	(4)
Dividends	-	-	-	(63)	(63)	-	(63)
New minority interests	-	-	-	-	-	29	29
Equity at 31 Dec. 2002	**150**	**(2)**	**832**	**383**	**1 363**	**378**	**1 741**
Treasury shares	-	1	-	11	12	-	12
Net profit	-	-	-	59	59	66	125
Translation differences	-	-	-	-	-	8	8
Dividends	-	-	-	(39)	(39)	-	(39)
Acquisition of/dividends to minority interests	-	-	-	-	-	(17)	(17)
Equity at 31 Dec. 2003	**150**	**(1)**	**832**	**414**	**1 395**	**435**	**1 830**

Share capital

At 31 December 2003, the Group's share capital consisted of 30 000 000 shares with a nominal value of NOK 5 per share.

The table shows the trend in share capital since the Group went public:

Type of expansion	*Year*	*Number of shares*	*Nominal value*	*Amount in MNOK*	*Adjustment factor*	*Share capital in MNOK*
Stock Exchange launch	1993	5 850 000	20	117		117
Private placement with employees	1996	6 000 000	20	3		120
Share split	1997	24 000 000	5		1:4	120
Share issue	1999	30 000 000	5	30		150

The largest shareholders at 31 December 2003 were

Name	*Number of shares*	*Percentage share*
The Norwegian State as repr. by the Ministry of Trade and Industry	15 000 400	50.0 %
The National Insurance Fund	1 934 460	6.4 %
JP Morgan Chase Bank	1 616 572	5.4 %
MP Pensjon (pension fund)	1 017 900	3.4 %
SKAGEN Vekst (unit trust)	940 000	3.1 %
Arendals Fossekompani ASA	775 000	2.6 %
Ferd Invest	650 000	2.2 %
Kongsberg Gruppen ASA	272 557	0.9 %
Vital Forsikring ASA (insurance)	245 957	0.8 %
KLP Forsikring (insurance)	241 300	0.8 %
Total	**22 694 146**	**75.6 %**
Other (stake < 1%)	7 305 854	24.4 %
Total number of shares	**30 000 000**	**100.0 %**

Distribution of shareholders by size of holding

Number of shares	*Number of owners*	*Holding %*
1–100	692	0.15
101–1 000	2 254	3.25
1 001–10 000	666	5.43
10 001–100 000	79	8.99
100 001–1 000 000	20	16.95
Over 1 000 000	4	65.23
Total	**3 715**	**100.00**

Of the 3 715 the owners at 31 December 2003, 256 were non-Norwegians and owned a total of 7.23 per cent of the shares.

Treasury shares

Kongsberg Gruppen holds 272 557 of its own shares for use in employee share programmes. The shares were purchased in accordance with the authorisation issued by the Annual General Meeting, which allows for the repurchase of up to 5 per cent of the shares outstanding. Re-acquisitions must take place at prices between NOK 75 and NOK 200 per share.

	Number
Holding of own shares 31 December 2002	420 378
Own shares conveyed to employees	(147 821)
Holding of own shares 31 December 2003	272 557

Sales of treasury shares are booked at the market value on the date of sale, while the employee discount is booked as wages (MNOK 2).

A total of 197 664 options have been issued to employees (including executive management). The options have been granted through the share programmes conducted for all employees in the Group. For a more detailed description of the employee share and option programmes, please see the section on Shares and shareholders.

Shares owned by members of the Board, corporate management and other insiders:

Name	*Number shares*
Corporate management	
Torfinn Kildal, President, Kongsberg Maritime	6 347
Arne Solberg, CFO	5 675
Jan Erik Korssjoen, CEO	5 133
Tom Birck Gerhardsen, President, Kongsberg Defence & Aerospace	4 795
Stig Trondvold, Executive Vice President, Business Development	1 312
Even Aas, Executive Vice President, Corporate Communications	1 082
The Board	
Benedicte Berg Schilbred, Director (through Odd Berg AS)	17 500
Roar Marthiniussen, Director	2 600
Jan Erik Hagen, Director	477
Roy Harald Hove, Director	43

17 Long-term debt to credit institutions

Amounts in MNOK	*2003*	*Year due*
Mortgages (20-year repayment loan)	77	2020
Certificate loans/syndicated credit facility	550	2009
Bond loan ISIN 00101 4521.2	300	2005
Bond loan ISIN 00101 9701.5	300	2007
Other long-term liabilities	38	
Total	**1 265**	
Undrawn lines of credit	1 100	2009

The mortgage was partially redeemed in 2003. The remainder of the loan is from Innovation Norway (formerly the Norwegian Regional and Industrial Development Fund). At year end 2003, negotiable certificates/syndicated credit facilities consisted of MNOK 500 in Norwegian certificates and MNOK 50 in Sterling Acceptance in the UK, a short-term money market loan. Certificate loans are classified as long-term liabilities because it is possible to convert them to long-term bank loans.

The Group has two bond loans, one for MNOK 300 established in 2002 with a three-year term to maturity and one for MNOK 300 established in 2003 with a four-year term. Other long-term liabilities consist mainly of loans incurred by the subsidiary Kongsberg Maritime Ltd. (UK).

The Group has a credit facility of MNOK 1 100 that runs until March 2009. The credit facility was established in March 2004 to replace a facility of MNOK 800 that would have been due in September 2004. The syndicated credit facility entails the following covenants related to key financial figures:

a) The Group's consolidated equity must be at least MNOK 1 500;
b) Earnings before interest and tax (EBIT) plus interest income must be twice as high as payable interest;
c) Net interest-bearing liabilities shall not exceed three times the EBITDA (Earnings Before Interest, Tax, Depreciation and the Amortisation of goodwill), but can be as much as 3.5 times that level for three consecutive quarters at the most.

All covenants were fulfilled at year end.

Interest rate risk

KONGSBERG's policy is to keep interest expenses predictable in a two- to four-year perspective. The Group hedges its loans through fixed-interest and interest swap agreements. Financial expenses linked to existing loans were only partially reduced as a result of the decline in interest rates in 2003, and will gradually be reduced further in the years ahead, given the current level of interest.

The average interest rate on the Group's loan portfolio is currently higher than the benchmark for market interest on 3-year bonds for industrial enterprises such as Kongsberg Gruppen ASA. The interest swap agreements have an estimated shortfall in market value of MNOK 67 compared with the level of interest on 31 Dec. 2003. Calculated in the same way, the fixed interest agreements have a shortfall in market value of about MNOK 9.

At 31 Dec. 2003, the Group had the following fixed interest and interest swap agreements (from floating to fixed interest):

Amounts in MNOK	*Due date*	*2004*	*2005*	*2006*	*2007*	*Years remaining*	*Interest rate*
Fixed interest agreements							
Mortgage	10 Oct. 2005		77			1.8	7.51 %
Bond loan ISIN 00101 9701.5	26 Sept. 2007				300	3.7	5.24 %
Interest swap agreements							
Agreement 1	17 Dec. 2007				300	4.0	6.83 %
Agreement 2	19 June 2005		300			1.5	7.26 %
Agreement 3	16 June 2004	100				0.5	6.80 %
Agreement 4	15 Sept. 2004	100				0.7	7.38 %
Agreement 5	21 Dec. 2005		100			2.0	6.88 %
Total		**200**	**400**	**-**	**300**	**2.5**	

18 Foreign exchange

Currency risk

The Group has considerable foreign exchange exposure, earning 76 per cent of its income abroad in 2003. KONGSBERG's policy is to limit currency risk while actively assessing various currencies' importance as competitive parameters. Accordingly, all contractual foreign currency flows are hedged through futures agreements. Budgeted currency flows and foreign currency bids for major contracts are also hedged. Moreover, the Group hedges equity in foreign subsidiaries and foreign currency loans granted to foreign subsidiaries.

Since the Group has hedged budgeted currency flows and signed contracts in foreign currencies, corporate operating revenues and profits are not expected to be influenced much by fluctuations in foreign exchange rates over the next two to four years. At 31 December 2003, the Group had no significant foreign currency loans.

Currency hedging

Hedge accounting is based on forward foreign exchange and option contracts. At 31 Dec. 2003, the Group had the following futures and option contracts, broken down by currency and year of expiration. (All figures translated to MNOK):

	2004	*2005*	*2006*	*2007*	*2008*	*Total*
Net forward sale of foreign currency						
USD	1 594	704	318	102	10	2 728
EUR	946	331	220	186	23	1 706
Other	419	(41)	(39)	(36)	-	303
Total forward sales	**2 959**	**994**	**499**	**252**	**33**	**4 737**
Put options						
USD	223	-	-	-	-	223
Hedging a total of	**3 182**	**994**	**499**	**252**	**33**	**4 960**

Almost all foreign exchange income for 2004 and parts of the following years is hedged. The guaranteed exchange rate levels reflect price trends over the past three years. Given the Group's extensive use of USD, and the weakening of the USD against the NOK in recent years, at 31 December 2003, the portfolio entailed considerable net added value. The portfolio provides good predictability for the profitability of the Group's foreign exchange earnings.

19 Other current liabilities

Other current liabilities represent operations-related interest-free debt. Other current liabilities include allocations and accruals related to projects, provisions for warranties, and accruals for holiday pay.

Amounts in MNOK	*2003*	*2002*	*2001*
Accounts payable	452	484	564
Withholding tax, social security, VAT, etc.	131	155	140
Tax payable	4	5	9
Provision for dividends	39	63	-
Provisions for holiday pay	183	161	148
Provisions for guarantees and accruals relating to projects	327	410	449
Other items	243	241	213
Total	**1 379**	**1 519**	**1 523**

20 Off-balance sheet items

The information on pledged assets indicates which Group assets will be available to pledgees in the event of a bankruptcy or liquidation situation.

a) Assets pledged as security

The Group has pledged buildings equipped with operating equipment as collateral for loans. The loans have been provided by Innovation Norway (formerly Norwegian Regional and Industrial Development Fund). The buildings are located in Kongsberg, Egersund and Horten.

Amounts in MNOK	*2003*	*2002*	*2001*
The following loans are secured by collateral			
Loans against collateral in buildings, including operating equipment	77	365	385
Book value of assets pledged as security			
Buildings, machinery, fittings, etc.	551	532	533

b) Prepayment and completion guarantees

Consolidated companies must furnish guarantees for prepayments and completion in conjunction with projects. The guarantees are issued by Norwegian and foreign banks and insurance companies. Kongsberg Gruppen ASA stands behind all its guarantees.

Amounts in MNOK	*2003*	*2002*	*2001*
Prepayments and completion guarantees in respect of customers	2 267	2 479	2 475

Kongsberg Gruppen ASA has framework agreements for guarantees, entailing covenants with banks and insurance companies (see Note 17 to the consolidated accounts). No collateral has been furnished for the guarantee amounts.

21 Uncertain commitments

Simrad AS has received a writ of summons alleging that Simrad has acted at variance with sound business practice, §§ 1 and 7 of the Marketing Control Act. The claimant asserts that Simrad has unlawfully made use of the claimant's know-how and other company secrets. The case is scheduled to be heard before the Horten District Court in June 2004. No specific sum has been mentioned in connection with the claim.

22 IFRS

The EU has decided that all listed enterprises in the EU area must, by 1 January 2005 at the latest, use the International Financial Reporting Standards (IFRS) for their consolidated accounts. Owing to the EEA agreement, this change will also apply to Norwegian listed enterprises. There is still some uncertainty as to which IFRS standards will be implemented in 2005, as well as to the formulation of the criteria in the standard. Accordingly, it not possible to analyse exactly what changes Kongsberg will have to make in connection with the transition to IFRS.

Kongsberg is expected to make its first IFRS report in Q1 2005. It will include comparable figures for 2004, pursuant to IFRS.

Kongsberg Gruppen has begun its efforts to analyse and plan the changes required for reporting in accordance with IFRS. Based on the analyses, we have provisionally identified several factors likely to have a potential impact;

- No provision for proposed dividends (possible to increase equity).
- Balance sheet recognition of the hedge instruments during the hedging period (possible increase in equity volatility).
- Implementation effects related to pensions (unamortised estimated deviations booked against equity).
- Goodwill not to be depreciated any more, but tested for possible write downs.
- Some development costs must be assessed with a view to the IFRS criteria for possible balance sheet recognition.

Income statement, balance sheet and cash flow statement – Kongsberg Gruppen ASA

The financial statements for the holding company Kongsberg Gruppen ASA include all activities at the main office. Activities at the main office include the Group's executive management and the corporate functions: corporate communications, legal affairs, business development, human resources development, leadership development and finance/funding. Corporate functions work largely on assignment for the Group's other companies, charging them for services rendered. The central financial function 'Kongsberg Finans' serves as the corporate bank and is responsible for the Group's external financing, management of the Group's liquid funds and general management of the Group's foreign currency and interest rate risk. All assets in subsidiaries are presented using the cost method of accounting.

Income statement 1 January - 31 December

Amounts in MNOK	*2003*	*2002*
Operating revenues	**80**	**54**
Personnel expenses	52	39
Depreciation	3	3
Other operating expenses	46	34
Total operating expenses	**101**	**76**
Operating profit/(loss)	**(21)**	**(22)**
Interest from Group companies	101	151
Gain on sale of shares	6	-
Currency trading gains/(losses)	3	45
Liquidation losses	(15)	(144)
Write-down on shares	(1)	(46)
Write-down on receivables	-	(24)
Interest to Group companies	(94)	(119)
Other interest expenses	(65)	(66)
Group contribution received	179	250
Net financial items	**114**	**47**
Earnings before tax (EBT)	**93**	**25**
Taxable income/(expense)	(34)	18
Net profit	**59**	**43**
Allocations and distributable reserves and equity transfers		
Proposed dividend	(39)	(63)
Group contribution made	(21)	-

Statement of cash flows

Amounts in MNOK	*2003*	*2002*
Net cash flow from operations	(69)	(7)
Net cash flow from investment activities	(45)	(166)
Net cash flow from financial activities	114	173
Net change in cash and cash equivalents	**0**	**0**
Cash and case equivalents at 1 January	-	-
Cash and cash equivalents at 31 December	**0**	**0**

Balance sheet at 31 December

Amounts in MNOK	*Notes*	*2003*	*2002*
■ **Assets**			
Deferred tax assets		20	52
Tangible fixed assets		7	8
Shares in subsidiaries	1	1 862	1 944
Other shareholdings		69	49
Net pension assets		-	1
Long-term loans to subsidiaries		2 396	1 698
Other long-term receivables		4	5
Total fixed assets		**4 358**	**3 757**
Short-term receivables on subsidiaries		196	256
Other short-term receivables		26	19
Shares		4	3
Total current assets		**226**	**278**
Total assets		**4 584**	**4 035**
■ **Equity and liablitlites**			
Share capital		150	150
Treasury shares		(1)	(2)
Share premium reserve		832	832
Total paid-in equity		**981**	**980**
Other equity		414	383
Retained earnings		**414**	**383**
Total equity		**1 395**	**1 363**
Long-term debt to subsidiaries		1 685	1 751
Liabilities to credit institutions		1 150	561
Total long-term liabilities		**2 835**	**2 312**
Other short-term liabilities		83	129
Overdraft facilities		271	231
Total short-term liabilities		**354**	**360**
Total equity and liabilities		**4 584**	**4 035**

1 Shares in subsidiaries

Amounts in MNOK	*Year of acquisition*	*Main office*	*Stake/voting interest %*	*Book value 31 Dec.*
Kongsberg Defence & Aerospace AS	1997	Kongsberg	100	392
Kongsberg Protech AS	1999	Kongsberg	100	22
Kongsberg Næringspark AS	1987	Kongsberg	100	5
Kongsberg Holding AS	1987	Kongsberg	100	0
Kongsberg Basetec AS	1992	Kongsberg	100	106
Kongsberg Maritime AS 1)	1992	Horten	88.5	1 101
Kongsberg Forsvar AS	1995	Kongsberg	100	0
Kongsberg NFT AS	1995	Kongsberg	100	0
Kongsberg Asset Management AS	1995	Kongsberg	100	5
Norsk Forsvarsteknologi AS	1987	Kongsberg	100	0
Kongsberg Næringseiendom AS	1997	Kongsberg	100	227
Sivad AS	1998	Drammen	100	0
Nerion AS	2002	Trondheim	100	0
Autronica AS	2003	Trondheim	100	0
Kongsberg Reinsurance Ltd.	2001	Dublin	100	4
Aentera Network AS 2)	2000	Kongsberg	51	0
				1 862

1) The remaining 11.5 per cent of the shares in Kongsberg Maritime AS are owned by Kongsberg Basetec AS.

2) Kongsberg Protech AS also owns 16 per cent of the company.

Auditor's Report for 2003

ERNST & YOUNG

Statsautoriserte revisorer

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Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of
Kongsberg Gruppen ASA

Auditor's report for 2003

We have audited the annual financial statements of Kongsberg Gruppen ASA as of 31 December 2003, showing a profit of NOK 59 000 000 for the parent company and a profit of NOK 125 000 000 for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows, the accompanying notes and the consolidated accounts. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and the CEO. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company and of the Group as of 31 December 2003, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Company's management has fulfilled its duty to properly register and document the accounting information as required by law and accounting standards, principles and practices generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and comply with law and regulations.

Oslo, 17 March 2004
ERNST & YOUNG AS

Olve Gravråk (sign.)
State Authorised Public Accountant (Norway)

Note: The translation to English has been prepared for information purposes only.

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Oslo Atrium
Christian Frederiks plass 6
0154 Oslo

Arendal, Bergen, Bø, Drammen, Egersund, Fredrikstad, Holmestrand, Horten, Hønefoss, Kongsberg, Kragerø, Kristiansand, Larvik, Levanger, Lillehammer, Moss, Molde, Notodden, Oslo, Otta, Porsgrunn/Skien, Sandefjord, Sortland, Stavanger, Steinkjer, Tromsø, Trondheim, Tønsberg, Vikersund, Ålesund

Kongsberg Maritime

We maximise marine performance by providing the full picture

Torfinn Kildal
President, Kongsberg Maritime

Kongsberg Maritime has engaged in marine activities for more than 50 years, building up a wealth of knowledge about marine operations, user requirements and challenges, as well as about how to meet challenges by providing cost-efficient products and systems. Kongsberg Maritime's focus is not limited to products and system solutions; continuous efforts are made to develop the organisation and its employees to accommodate new user needs and challenges. This is embodied in three strategic choices:

- Strong emphasis on developing business activities closer to customers;
- Strong emphasis on research and development in close collaboration with users;
- Emphasis on efficient operations.

In 2003, to clarify and reinforce the company's visual image, it was decided that from now on the Group will focus on two strong brand names: KONGSBERG and SIMRAD.

Closer to customers

Kongsberg Maritime is striving to develop activities closer to its most important customer clusters. This calls for international expansion. Northeast Asia consolidated its position as the world's most prominent shipbuilding region in 2003. It appears the region will continue to maintain its lead, so we have merged our service company in Busan (KMSS, South Korea) and HKM Co. Ltd. to establish Kongsberg Maritime Korea Ltd., in which KONGSBERG owns an 89 per cent stake.

2003 also marked the advent of Kongsberg Maritime China in Shanghai, established jointly with our local partner of many years, Hoi Tung Marine Equipment of Shanghai. KONGSBERG owns a 65 per cent stake. This gives us a stronger platform for ensuring market access and boosting our competitiveness in this region.

South America, with Brazil in the lead, is expanding its shipbuilding activities and expanding as an area of operations for purpose-built vessels in the offshore industry. As a result, Kongsberg Maritime do Brazil was established.

The yachting market was weaker in 2003. To improve profits, SIMRAD is expanding its distribution network on the Italian market and acquired its distributor in the Netherlands.

The acquisition of the English manufacturer Brookes and Gatehouse (B&G) strengthens SIMRAD's position in the segment for larger sailboats and regatta boats, where B&G enjoys a pre-dominant position.

Research and development – innovative solutions

Kongsberg Maritime continues to focus on developing innovative, cost-efficient products and system solutions. A number of new products were launched in 2003, while existing products were improved and new functionalities added. For example:

- The new dynamic positioning system: cPos
- The new bridge control system: Autochief C20
- The new multi-functional radar featuring a GPS satellite receiver, chart plotter and echosounder.

Efficient operations

The number of contracts for tankers and dry cargo vessels reached record heights in 2003, leading to a high level of activity in marine automation.

Investment levels in important market segments, e.g. offshore and subsea, stagnated in 2003, and edged down in yachts and fisheries. These segments are also characterised by keener competition.

Efficiency improvement measures were therefore implemented in 2003. The main initiative was to merge Kongsberg Simrad and Kongsberg Maritime Ship Systems into one enterprise: Kongsberg Maritime. This will improve the efficiency of marketing and sales, and help us maximise our collective competence and technology in a better, more effective manner. It will also make the organisation more flexible and better able to adapt to market changes.

It was deemed necessary to downsize in Norway, particularly in Merchant Marine and Offshore. Meanwhile, we are building up our companies abroad, so the overall manpower situation at 31 December 2003 was the same as the year before. These changes were necessary to adapt to the international competitive situation and maintain profitability.

The markets and other external business conditions are not expected to change significantly in 2004, meaning we will continue to pursue our strategic choices.

Kongsberg Maritime

Kongsberg Maritime is among the world's leading suppliers of high-technology products and systems in the field of marine electronics. The business area markets its products under two brand names:

- SIMRAD covering Yachting & Fishery (yachts, commercial vessels and the coastal fleet)
- KONGSBERG covering Offshore & Merchant Marine

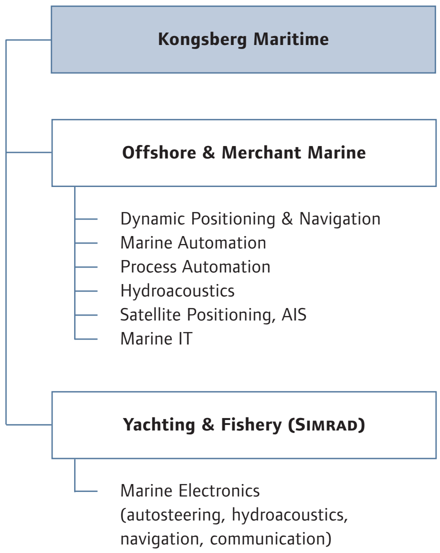
The range of products is mainly based on the following technologies: dynamic positioning, marine automation, navigation, hydroacoustics, simulation, communication and autosteering.

In 2003, the BA accounted for 52 per cent of the Group's aggregate operating revenues. The BA's operating revenues added up to MNOK 3 470 in 2003, compared with MNOK 3 742 in 2002. Of that amount, MNOK 2 707 was generated by exports or activities outside Norway. The corresponding figure for 2002 was MNOK 2 824.

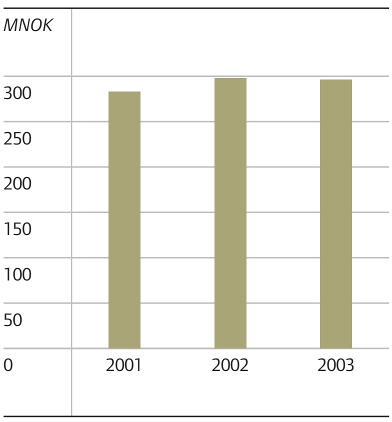
As a result of Kongsberg Simrad AS and Kongsberg Maritime Ship Systems AS being merged into Kongsberg Maritime AS with legal effect as from 1 January 2004, the company will consist of just two segments for reporting in 2004: Offshore & Merchant Marine and Yachting & Fishery.

Kongsberg Maritime has 2 432 employees in 22 countries.

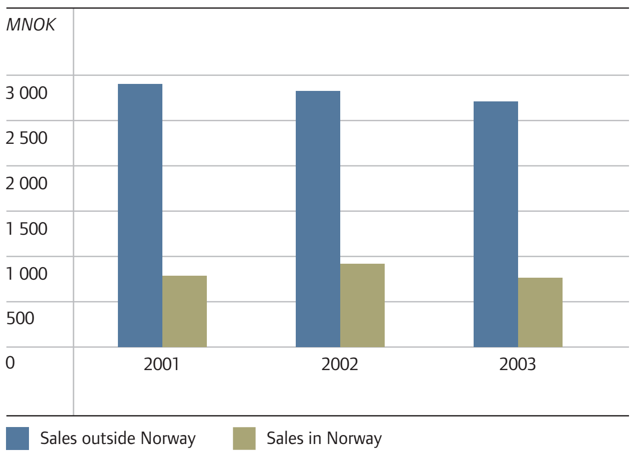
Key figures (MNOK)	*2003*	*2002*	*2001*
Operating revenues	3 470	3 742	3 689
EBITA	297	298	283
EBIT	211	224	214
Backlog of orders	1 463	1 322	1 455
Number of employees	2 432	2 425	2 373



EBITA



Operating revenues



■ Offshore & Merchant Marine

(KONGSBERG)

Key figures (MNOK)	*2003*	*2002*	*2001*
Operating revenues	2 622	2 963	2 819
EBITA	253	254	249
EBIT	180	191	192
Backlog of orders	1 397	1 259	1 340
Number of employees	1 646	1 731	1 640

Offshore & Merchant Marine is the largest segment, accounting for 76 per cent of Kongsberg Maritime's operating revenues in 2003.

Offshore

KONGSBERG is a world leader in dynamic positioning, marine automation systems and hydroacoustics. As a result of the Group's international initiatives and focus on research and development, market positions were maintained throughout 2003.

Integrated systems featuring dynamic positioning and vessel automation are gaining momentum. The LNG (Liquefied Natural Gas) segment saw a high level of activity once again in 2003.

Owing to its long traditions in applied hydroacoustics, KONGSBERG has developed a number of high-technology products for seabed surveying, subsea communication and underwater positioning. A new generation of multibeam echosounders has been developed; the first system will be delivered in early 2004. The same technology and expertise are applied to sonars. Sonars of various types are developed and supplied to naval services in many countries. In 2003, KONGSBERG has delivered and installed monitoring systems for underwater applications to several corners of the world. Given today's threat of terrorism, this field may be poised for growth.

KONGSBERG also offers positioning systems based on GPS and motion sensors for a variety of vessels. AIS is an automatic system for recording a vessel's position and movement data, as well as its size and cargo information. The data is conveyed to other vessels located nearby and to vessel traffic monitoring centres onshore. About 1 000 AIS units were installed on vessels in 2003. In addition, numerous base stations were installed onshore. These will ensure communication and the exchange of data with vessels in the area, and are part of coastal and harbour surveillance systems.

Integrated marine automation systems
From the bridge of the *Nordic Stavanger*. KONGSBERG has delivered integrated systems featuring dynamic positioning, cargo handling and vessel automation.

The company also supplies instrumentation for semi-submersibles, including cameras, and different types of small sonars. In this context, the instruments are used for jobs such as locating objects on the seabed and in conjunction with the inspection of underwater installations.

The offshore market has been stable, but competition is increasing. The high level of activity in the LNG market is expected to continue, not least for integrated automation systems for gas tankers. Several major contracts have been signed for systems for Norwegian and foreign vessels. Dynamic positioning activities have maintained a steady, high level.

Activities are burgeoning in Brazil, so KONGSBERG set up an office there. To improve customer support to operators in the Gulf of Mexico, a customer support centre was set up in New Orleans.

A contract was signed with the Norwegian Defence Research Establishment (FFI) on behalf of the Norwegian Navy (DNS) to develop, produce and supply a prototype of a semi-submersible for mine-hunting operations. The vessel will be based on the technology in and results achieved by the original HUGIN system, which is being used for seabed surveying for offshore oil and gas activities. Further development will take place in collaboration with FFI and DNS. This contract is believed to signal an interesting new area of application within naval defence.

The LNG segment developed favourably, and in Q2 a contract was signed for integrated automation systems for four tankers to carry LNG from the North Sea's Snøhvit field. All the vessels will be built in Japan.

Merchant Marine

Merchant Marine's products include automation and navigation systems, cargo management systems, sensors and maritime simulators and training systems. The products are exported the world over through sales offices, distribution companies and networks of agents.

Vessel traffic monitoring
Singapore is one of the world's busiest harbours, with more than 1 000 vessels in port at any given time. KONGSBERG has supplied the harbour traffic monitoring system that makes it possible for the authorities to maintain a full overview of vessel traffic at all times.

To strengthen competitiveness and profitability, cost-cutting measures were implemented in early 2003. This resulted in staff cuts in Norway. Meanwhile, Kongsberg's companies in north-east Asia are expanding. Automation activities were stable in 2003, and there was a good influx of new orders, the majority of which are for deliveries to shipyards in South Korea and China.

Especially in the latter half of 2003, the market was characterised by a growing number of orders for ships in the Far East. Kongsberg's strong presence in South Korea is a significant factor in the good influx of new orders. The enterprise is maintaining its market position among Asian shipyards. The demand for maritime simulators is on the rise for military and civilian applications alike.

AutoChief C20™
The launch of the new AutoChief C20™ bridge control system received a very warm welcome on the market, thanks to its functionality and design. In the autumn, the product won the Norwegian Design Council's Award for Design Excellence.

Award for Design Excellence
Awarded by the Norwegian Design Council

New area of activity

Marine Information Technology is a new area of activity. Its activities include:

- Marine IT Company AS, which makes IT solutions for maritime ship operation onboard and fleet administration from shipping company offices.
- Norcontrol IT AS delivers IT projects to the international market from Norway and from subsidiaries in many countries, for the sector Vessel Traffic Management and Information Systems (VTMIS).

More stringent safety standards onboard and in harbour and coastal areas are expected to boost demand in the VTMIS sector in the years ahead. They are also expected to have a favourable impact on the demand for information technology onboard vessels. Similarly, this trend is expected to raise the requirements for maritime training.

Generally speaking, more stringent requirements from national and international authorities increase the pace of replacing older technology with newer, more efficient systems for running ships, harbours and shipping companies.

The relatively low level of activity and modest volume in the vessel traffic systems segment are expected to pick up in 2004.

■ Yachting & Fishery

(SIMRAD)

Key figures (MNOK)	*2003*	*2002*	*2001*
Operating revenues	896	815	940
EBITA	44	44	34
EBIT	31	33	22
Number of employees	786	694	733

SIMRAD develops, manufactures and sells systems for navigation, autosteering, communications and fish-finding for fishing vessels, the yacht market and the coastal fleet. Product development and production take place at SIMRAD's facilities in Horten and Egersund in Norway, as well as in Denmark and the United Kingdom. The products are marketed the world over. SIMRAD has its own sales and distribution companies in Europe and America.

The market

The market for yacht electronics is affected by seasonal fluctuations, frequent changes of models, and the general economic situation. For yachts of more than 40 feet and for super yachts (over 80 feet), the market has been stable, but it has been slightly weaker for the 30–40 foot segment. The market for smaller boats is favourable, but many are equipped with more simple instrumentation than what SIMRAD delivers.

The market for fishing fleet electronics is largely governed by the income situation in the fisheries industry. It is difficult to predict short-term market trends, but the global market is expected to remain stable over time. 2003 marked a financial slump for the fisheries industry in northern Europe, primarily due to uncertainty and the reduction of fishing quotas in the EU. Meanwhile, SIMRAD's sales to Turkey, Italy, Greece, Peru and Chile climbed.

Highlights

The British company Brookes and Gatehouse Ltd. (B&G) was acquired from the Yeoman Group plc in England for MNOK 32. B&G is highly respected for its sailboat instrumentation products, and enjoys large market shares, particularly for the largest, most advanced sailboats. The acquisition strengthens SIMRAD's position in sailboats and regatta boats.

Bennex Holland BV had distributed SIMRAD's products in the BeNeLux countries for many years. KONGSBERG acquired the company and its 22 employees, and subsequently changed the company's name to SIMRAD BV.

SIMRAD established its own distribution company in Canada to strengthen its market position. The company is located in Lunenburg on the east coast of Canada.

New catch control sensors were launched in 2003. They are especially appropriate for the coastal trawling fleet.

A development contract with the Institute of Marine Research in Norway and its counterpart in France for the development and production of multi-beam echosounders/sonars for fisheries research for delivery in 2005.

A new series of VHF radios with digital selective calling (DSC) was introduced. The new product is based on modules, and can be delivered as a complete vessel communication system featuring multiple operator stations, intercom, megaphone and foghorn.

New, more rapid multifunctional radars with GPS satellite receivers, chart plotters and echosounders. The systems are available with 10″ or 15″ LCD colour monitors, or as a GPS chart plotter with or without echosounder.

Kongsberg Defence & Aerospace

Secure flows of information between different weapons systems incorporated into a single network

Tom Gerhardsen
President, Kongsberg Defence & Aerospace

Valued at MNOK 3 706, new orders for Kongsberg Defence & Aerospace in 2003 were the highest since 2000. The BA made strong progress on its projects in 2003. The most strategically important projects were:

- Contract with Lockheed Martin for command and control systems for the South Korean Navy;
- Contract for the sale of military radios to Hungary;
- Contract for the delivery of command and control systems for the new Norwegian Skjold Class Missile Torpedo Boats (MTBs).

These contracts were the result of several years of plying the market and customer contacts.

Alliances

Kongsberg Defence & Aerospace bases part of its international sales on alliances with major foreign companies. The alliances have been established as a result of procurements for the Norwegian Armed Forces. Under repurchasing agreements, Kongsberg Defence & Aerospace has the opportunity to develop proprietary products for incorporation into the partner's main product.

- Co-operation with Raytheon of the US began in 1984 with Norway's procurement of an anti-aircraft system. In 2003, a contract was signed for the delivery of anti-aircraft systems to Turkey, the fifth NATO country to order this equipment from Kongsberg Defence & Aerospace;
- 2003 also marked the first sale of frigate systems based on the Norwegian order. Kongsberg Defence & Aerospace is subcontracting for Lockheed Martin on frigate systems for the South Korean Navy.

Penguin missile sales fell short of expectations in 2003. Several customers are considering their options, and there is a good chance they will make decisions in 2004. Given the lack of orders, Missiles & Space will be downsized in 2004.

NSM – Naval Strike Missile

Development testing continued for the NSM, based on new firing tests. Using these, numerous product requirements have been tested and verified. Additional tests will be conducted in 2004 to verify the requirements not yet tested. Management is confident the NSM will meet the requirements in the product specifications. The signing of missile delivery start-up contracts has been postponed, but is expected in 2004.

Weapons control systems

Final qualification tests were conducted on the weapons control systems for the US Army, and the product was approved. Kongsberg Defence & Aerospace received an order from the third brigade, and orders are expected to be forthcoming for the last three brigades under the framework contract signed in 2001.

Network-based defence

KONGSBERG has commenced work on network-based defence. Network-based defence involves protecting the flow of information between individual weapons systems. Several of Kongsberg Defence & Aerospace's systems require no more than slight modifications to become part of such networks. Kongsberg Defence & Aerospace has set up a laboratory for testing equipment comparable to the equipment delivered to its customers. This method facilitates rapid start-up in the field, accompanied by step-by-step implementation by individual units.

Repurchasing

Repurchasing is customary at the international level, and Kongsberg Defence & Aerospace must take this into account when signing contracts. In future, Kongsberg Defence & Aerospace will actively take advantage of alliances created through Norwegian procurements in which it has participated to secure contracts. It is still essential for Norway that repurchasing requirements be applied when the Armed Forces make major procurements, as they open opportunities for exports. Regardless of these rules, Norwegian industry must be competitive to win contracts.

Kongsberg Defence & Aerospace

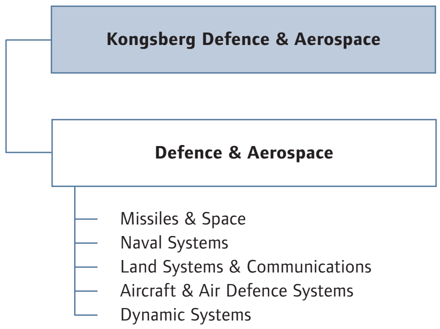
Kongsberg Defence & Aerospace has long traditions of developing and manufacturing sophisticated systems in close collaboration with the Norwegian Armed Forces. Kongsberg Defence & Aerospace's anti-ship missiles, command and weapons control systems and communications systems have also proven competitive on the export market. Alliances with major foreign defence enterprises are a key part of the business area's international marketing strategy.

The major projects are on schedule. However, as the full battery of development tests has not yet been performed to demonstrate all the functions of the new Naval Strike Missile (NSM), the firing programme has been extended.

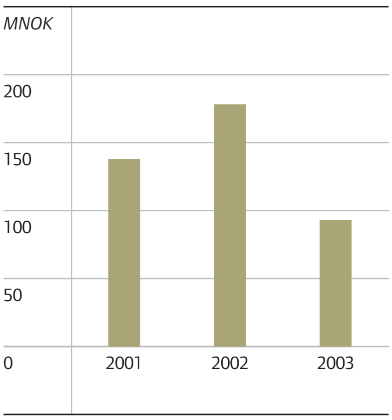
In 2003, the BA earned MNOK 3 084 in operating revenues, the same as in 2002.

Kongsberg Defence & Aerospace had a backlog of orders worth MNOK 4 352 at year-end 2003, compared with MNOK 3 729 in 2002. Of the new orders received in 2003, 67 per cent is destined for the export market. At year-end 2003, the BA had 1 650 employees.

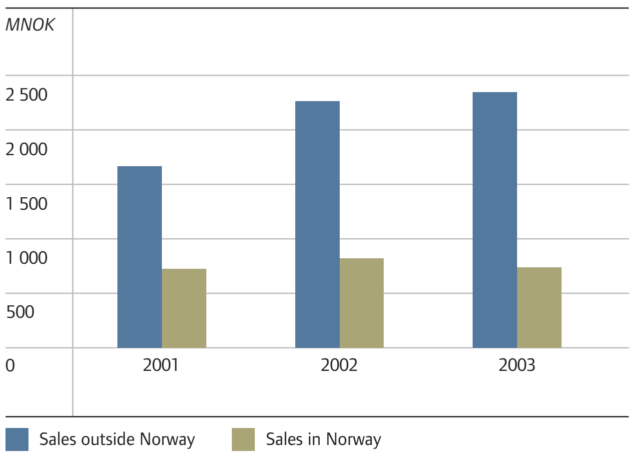
Key figures (MNOK)	*2003*	*2002*	*2001*
Operating revenues	3 084	3 084	2 388
EBITA	93	178	138
EBIT	87	171	131
Backlog of orders	4 352	3 729	4 852
Number of employees	1 650	1 649	1 499



EBITA



Operating revenues



The market

Kongsberg Defence & Aerospace's operations are predominately project-oriented. Through procurements for the Norwegian Armed Forces, the business area has secured orders either for the sale of proprietary products or as a subcontractor for foreign suppliers. It is important for Kongsberg Defence & Aerospace that procurements of Norwegian defence materiel from foreign contractors be conducted in a manner that benefits Norwegian industry. Kongsberg Defence & Aerospace's projects include more than 1 200 large and small enterprises as subcontractors.

The business area will continue to promote individual products by engaging in strategically important alliances with major foreign defence contractors. Co-operation agreements have been established through large-scale projects with the Norwegian Armed Forces. In most countries, the choice of defence supplier is a question of industrial policy, with considerations related to domestic industry and human resources often appearing to outweigh the importance attached to performance and price. Consequently, Kongsberg Defence & Aerospace targets markets in which competitiveness is a decisive factor. In recent years, the company has won contracts against strong international competition, and decisions are currently pending on a number of major contract opportunities.

Highlights

- Contract with the Kuwaiti Ministry of Defence for the delivery of the Eritac and Multi Role Radio mobile communication systems;
- Contract with the Hungarian Ministry of Defence for the delivery of military radios, i.e. the Multi Role Radio (MRR);
- Contract with Lockheed Martin for command and control systems for the South Korean Navy;
- Contract for the expansion and modernisation of a telecommunications system in Romania;
- Contract with Raytheon for the delivery of an anti-aircraft command system for the US Marine Corps;
- Contract for the delivery of command and control systems for the new Norwegian Skjold Class missile torpedo boats (MTBs).

The Rosetta space probe
The Rosetta space probe will be voyaging through the solar system for 10 years, searching for a comet that may provide new knowledge about the enigmatic origin of life. Kongsberg Defence & Aerospace has delivered components for the space probe. (Photo: ESA/AOES Medialab)

Land Systems & Communications

The segment's activities include the product niches tactical radio and communications systems, and command, control and information systems at the national and international levels.

Deliveries of command, control and information systems to the Norwegian Army continued. The systems will give users a new tactical leadership tool as well as a state-of-the-art fire control system for artillery.

The contract with the Armed Forces for new tactical MRR (Multi Role Radio) and LMRR (Light Multi Role Radio) radios is in the delivery phase. Testing by the Armed Forces has shown that the MRR and LMRR meet users' expectations. There are specific international market initiatives in progress. The tactical communications segment operates on the export market exclusively, inevitably in competition with large international companies. Considerable resources are invested in developing new product solutions.

Living up to expectations
The MRR (Multi Role Radio) and LFR (Light multi-Functional Radio) are in the delivery phase and living up to users' expectations.

Naval Systems

Naval Systems delivers systems for submarines, surface vessels and minehunting vessels. The main products are related to command and weapons control systems.

The segment's largest programme is a contract signed in 2000 with Lockheed Martin of the US to develop and deliver vital subsystems for the command and weapons control system designed for the new Norwegian frigates. The programme is being conducted in accordance with the original plans. The first complete system will be delivered in 2004. The first export contract for the weapons control system was signed in June 2003.

A command and weapons control system has been developed for and delivered to Norway's Ula Class submarines. This system is currently under delivery to German and Italian submarines. In addition, the contracts cover deliveries to the national land-based facilities for simulator training.

The command and weapons control system for Norway's Hawk Class MTBs is being developed and manufactured in collaboration with DCNI of France. The system will serve as the basis for deliveries to Norway's new Skjold Class MTBs.

The Minesniper, a product designed to destroy sea mines, has been developed for and sold to the Norwegian and Spanish navies.

Aircraft & Air Defence Systems

This segment includes air defence systems, tactical training systems and information systems for aircraft.

In collaboration with the Royal Norwegian Air Force, KONGSBERG has developed a mobile anti-aircraft system called NASAMS (Norwegian Advanced Surface to Air Missile System), a highly effective and competitive solution for the international market. In 2003, a contract was signed with the Turkish Armed Forces for the delivery of a command and control centre.

Kongsberg Defence & Aerospace is engaged in strategic anti-aircraft collaboration with Raytheon of the US. KONGSBERG's most important contribution in this context is its software-based command and control solutions.

GBADOC (Ground Based Air Defence Operation Centre) is an important part of KONGSBERG's international efforts to promote command and control systems for ground-based anti-aircraft. The system will be used to co-ordinate Norwegian and allied anti-aircraft units.

Sophisticated training systems to train troops in advanced weapons systems continue to be an important market in Norway and abroad. The simulators are based on established KONGSBERG products, and adapted to customer specifications to provide the

KONGSBERG protects the frigates
The new Fridtjof Nansen class frigates represent Norway's largest defence contract to date. KONGSBERG is supplying integrated weapons systems to protect the frigates against submarines and surface vessels.

An effective air defence system
NASAMS is a mobile anti-aircraft system. The most important components KONGSBERG is supplying are software-based command and control solutions.

best possible emulation of operational reality. Personnel use the equipment to practise operations, skills, communications and tactical command and control.

In 2002, KONGSBERG invested considerable efforts in long-term project opportunities related to Norway's future procurements of fighter aircraft. The initiative will continue in 2004, and project start-up is scheduled for 2004.

Missiles & Space

Kongsberg Defence & Aerospace develops and manufactures anti-ship missiles.

In 1996, a contract was signed with the Norwegian Navy to develop a new anti-ship missile, the Naval Strike Missile (NSM). A number of development tests and numerous function tests were conducted in 2003. An extra development test in 2004 is expected to showcase further functions. In consultation with the customer, early on in the programme, it was decided to extend the programme by a year altogether, so the development tests were postponed by 10 months. The development project will be completed in 2005. Made of composites, the new NSM will be the most sophisticated of its kind. The surface and shape of the NSM will make it hard to detect by radar. The imaging infrared seeker employs the world's most advanced seeker technology. A French partner is responsible for the turbo-jet engine and a German partner is handling the development of the new warhead.

It is expected that a production contract will be signed with the Norwegian Armed Forces in 2004. The NSM is one of the main weapons onboard the new Norwegian frigates and MTBs. Several countries have signalled considerable interest in the new missile.

The Penguin missile is one of the main weapons of the Royal Norwegian Navy. It has been exported to a total of six countries in recent years. The Penguin programme maintained a high level of activity in 2003. Production, delivery and maintenance were completed according to already signed contracts and were all on schedule. While no new Penguin contracts were signed in 2003, several clients are in the final phase of considering the acquisition of anti-ship missiles.

Kongsberg Defence & Aerospace is Norway's largest supplier to ESA, the European Space Agency. The aerospace activities are divided between Kongsberg and Tromsø.

Advanced anti-ship missile (NSM)
The NSM pictured during a firing test in France. The missile will be one of the main weapons on the new Norwegian frigates and MTBs.

Dynamic Systems

The main product is the Remote Weapon Station (RWS) for armoured personnel carriers. The RWS is an advanced weapons control system operated from a protected position inside the vehicle. This type of product has only been on the market for a few years. Several countries are planning to procure similar systems.

Dynamic Systems currently has contracts for deliveries to the Norwegian Armed Forces and to the USA. The framework agreement for deliveries to the US Armed Forces is valued at NOK 2.0 billion. Orders for MNOK 907 have been received thus far. The number ordered for the first three brigades was slightly less than expected. However, several smaller orders linked to the contract mean that new orders for the three brigades are as outlined in the framework contract. In 2003, the US authorities decided to order equipment for all six brigades.

Weapons control system
KONGSBERG is delivering a weapons control system to the US Armed Forces.
The system is operated from a protected position inside the vehicle.

Shares and shareholder relations

Shareholder policy

KONGSBERG's paramount objective is to enhance the value of its shareholders' investments. The Group's primary focus is on its two main business areas (BAs): Kongsberg Maritime and Kongsberg Defence & Aerospace. KONGSBERG plans to grow organically and through acquisitions in selected strategic market segments. The Group's goal is to be a world leader in its target areas.

KONGSBERG also aspires to project an image that ensures credibility and predictability on the equity market. The Group strives to ensure a long-term competitive return on shareholders' investments that is commensurate with the risk involved. Dividends have been paid every year since 1993, with the exception of in 2000 and 2001. The dividends have averaged around 30 per cent of the net profit.

Investor relations

KONGSBERG furnishes the equity market with relevant, comprehensive information as the basis for a balanced, correct valuation of the share. The Group attaches importance to maintaining an open dialogue with the equity market and media through stock exchange bulletins, press releases and other media initiatives, as well as by making presentations for analysts and investors. KONGSBERG's website has a special investor information section, featuring all consolidated annual reports, quarterly reports and presentation material.

Dividends and profit per share

KONGSBERG has experienced the following trends in dividends and profit per share in recent years:

NOK	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*	*1996*
Profit per share	4.23	7.21	4.18	(1.86)	8.84	7.04	3.04	2.95
Dividends	1.30	2.10	-	-	2.25	2.00	1.00	0.88
P/E *)	25.1	12.6	23.1	-	16.2	10.8	25.0	19.6

*) The price/earnings ratio per share, based on the share value on the last day of trading for the year. Dividends are paid to those registered as owning shares on the date of the Annual General Meeting (AGM). This year's ordinary AGM will be held on 6 May 2004.

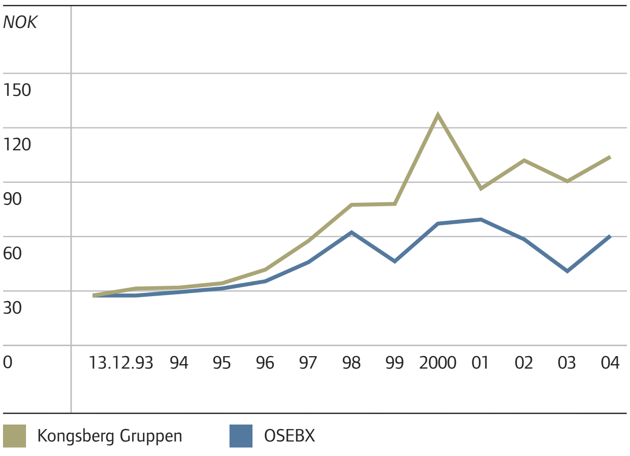
Market capitalisation

Market capitalisation increased by 17 per cent on the year, from MNOK 2 715 to MNOK 3 180. KONGSBERG was launched on the Oslo Stock Exchange on 13 December 1993, with a market capitalisation of MNOK 643. A decade later, on 13 December 2003, the Group's market capitalisation was MNOK 3 045.

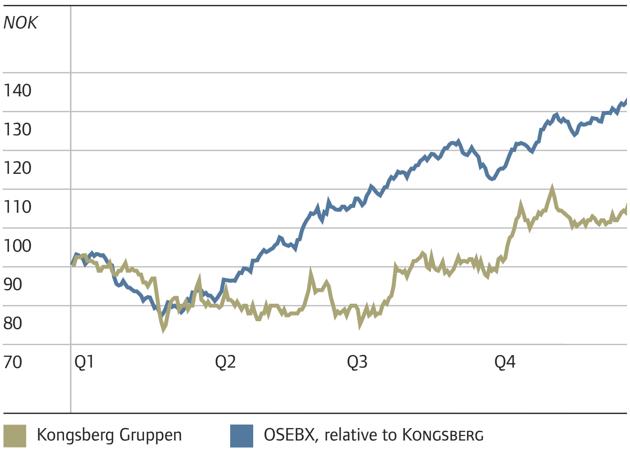
Share price trends and turnover in 2003

The share showed slow growth in the early half of 2003, bottoming out at NOK 74 per share in May. Towards year end, the share price picked up, ending the year at NOK 106, a rise of 17 per cent from year-end 2002 (NOK 90.50). The All-Share Index climbed by 48 per cent during the same period.

Share price trends from introduction on the Oslo Stock Exchange



Share price trends in 2003



Shares in 1000s	*2003*	*2002*	*2001*	*2000*
Number of shares traded 1)	5 258	6 524	9 378	9 329
As a % of bonus shares 2)	35 %	43 %	63 %	62 %

1) Change of ownership registered in the Norwegian Registry of Securities
2) Of shares in circulation, excluding the Norwegian State's 50.001 per cent stake.

Employee share and option programmes

The Group's annual employee share programme was conducted in spring 2003. This was the seventh time all employees were given the opportunity to buy shares in the Group at a 20 per cent discount. A total of 147 821 shares, divided among a total of 479 employees, were sold at a price of NOK 69 each. Bonus options were also attached to the purchases, granting each buyer about half the number of options as shares purchased. The options can be exercised after two years.

Number of shares and nominal value

Kongsberg Gruppen ASA has share capital of 30 million shares with a nominal value of NOK 5 per share. There is just one class of shares, and there are no limitations on voting rights. When launched on the Stock Exchange on 13 December 1993, the Group had 5.85 million shares, with a nominal value of NOK 20. In 1999, the number of shares was increased to 6 million in connection with a share issue directed at the employees. In May 1997, the share was split into four, increasing the number of shares to 24 million with a nominal value of NOK 5 per share. All key figures for 1997 and earlier years have been adjusted accordingly. In July 1999, 6 million new shares were issued, bringing the total up to the current level of 30 000 000 shares.

Treasury shares

KONGSBERG's ordinary Annual General Meeting on 12 May 2003 authorised the Board to buy shares in Kongsberg Gruppen. Limited to 5 per cent of the share capital, the authorisation is valid until the next ordinary AGM. At 31 December 2003, KONGSBERG owned a total of 272 557 or 0.9 per cent of its own shares. The shares were purchased for the employee option and share programmes.

Ownership structure

The Norwegian State is still the largest shareholder, given its stake of slightly more than 50 per cent. Umoe Invest sold its shares during the year. The National Insurance Fund is now the largest owner, apart from the State. The percentage of shares in foreign hands dropped from 8.6 per cent to 7.2 per cent.

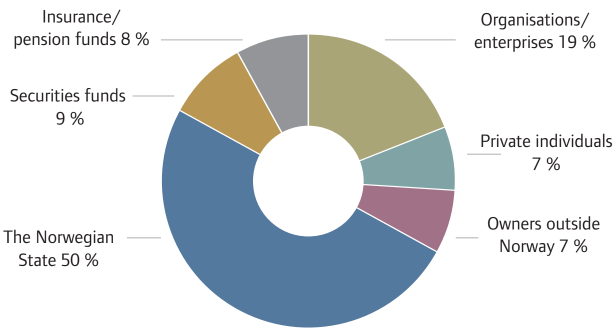
Shares owned by directors and managers

For information about the shares owned by directors and corporate executive board, please see Note 16 in the annotated consolidated accounts.

Major shareholders at 15 March 2004

Name	*Number of shares*	*Percentage share*
The Norwegian State as repr. by the Ministry of Trade and Indsutry	15 000 400	50.00 %
The National Insurance Fund	1 934 460	6.44 %
JP Morgan Chase Bank	1 586 572	5.29 %
MP Pensjon (pension fund)	1 017 900	3.39 %
SKAGEN Vekst (unit trust)	975 000	3.25 %
Arendals Fossekompani ASA	803 300	2.69 %
Odin Norge (unit trust)	761 700	2.54 %
Ferd Invest	650 000	2.17 %
Kongsberg Gruppen ASA	272 557	0.91 %
Vital Forsikring ASA (insurance)	245 957	0.81 %
Total, 10 largest shareholders	**22 717 446**	**75.72 %**
Total number of shares	**30 000 000**	**100.00 %**

Ownership structure at 31 December 2003



Analytical data

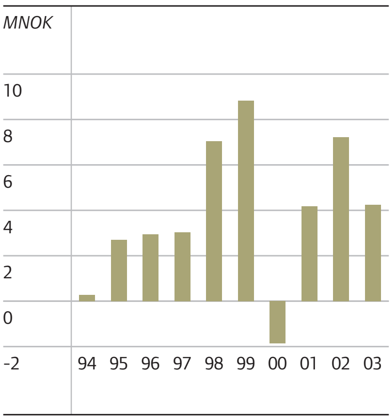
■ Key figures

Amounts in MNOK		*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*	*1996*	*1995*
Operations	Operating revenues	6 651	6 980	6 176	5 296	4 412	4 404	3 674	3 023	1 998
	– *Civilian*	54 %	58 %	63 %	64 %	73 %	71 %	71 %	61 %	52 %
	– *Outside Norway*	76 %	72 %	74 %	74 %	62 %	62 %	55 %	51 %	41 %
	Earnings before interest, tax and amortisation (EBITA)	383	485	437	287	249	278	192	173	81
	Operating profit/(loss) (EBIT)	291	404	328	225	213	189	157	140	64
	Earnings before tax (EBT)	190	291	191	188	205	279	121	117	94
	Net profit/(loss) for the year	125	216	123	(56)	233	171	73	75	63
	Effective tax rate	34 %	28 %	38 %	-	32 %	33 %	40 %	36 %	33 %
	Net cash flow from operations	83	264	321	46	409	423	358	190	121
	Operating margin before depreciation for goodwill (EBITA margin)	5.8 %	6.9 %	7.1 %	5.4 %	5.6 %	6.3 %	5.2 %	5.7 %	4.1 %
	Operating margin (EBIT margin)	4.4 %	5.8 %	5.3 %	4.2 %	4.8 %	4.3 %	4.3 %	4.6 %	3.2 %
	Profit margin (EBT margin)	2.9 %	4.2 %	3.1 %	3.5 %	4.6 %	6.3 %	3.3 %	3.9 %	4.7 %
	New orders	7 421	5 725	5 967	7 648	4 123	4 604	3 952	3 955	2 291
	Backlog of orders	5 913	5 143	6 401	6 610	4 258	4 551	4 349	4 041	2 676
	Equity-financed development	302	318	282	184	185	172	146	142	74
	Equity-financed development as a % of operating revenues	5 %	5 %	5 %	3 %	4 %	4 %	4 %	5 %	4 %
Capital	Total assets	6 008	5 597	5 629	5 371	4 012	3 949	3 412	3 221	2 171
	Employed capital	3 698	3 260	3 078	2 942	1 796	1 959	1 798	1 888	1 254
	Prepayments from customers	931	818	1 028	957	858	552	555	376	217
	Net interest-bearing debt	1 159	792	776	1 029	(330)	456	126	298	(255)
	Equity	1 830	1 741	1 538	1 406	1 490	1 106	1 042	975	917
	Equity ratio	30 %	31 %	27 %	26 %	37 %	28 %	31 %	30 %	42 %
	Return on total assets	5 %	7 %	6 %	5 %	6 %	9 %	6 %	6 %	5 %
	Return on employed capital	8 %	13 %	11 %	11 %	13 %	18 %	10 %	11 %	9 %
	Return on equity	11 %	18 %	13 %	13 %	16 %	26 %	12 %	12 %	11 %
	Investments	292	360	339	1 235	305	574	216	715	112
	Depreciation	292	269	267	240	187	228	149	133	87
Employees	Number of employees	4 176	4 208	4 012	3 765	3 382	3 333	3 262	3 212	2 049
	Graduate engineers/engineers/technicians	2 904	2 871	2 633	2 294	2 106	1 990	1 901	1 901	706
	Wage share	33 %	30 %	30 %	32 %	32 %	30 %	33 %	33 %	37 %
Owners' values	Capitalisation	3 180	2 715	2 895	2 550	3 780	1 824	1 824	1 386	959
	Annual share price trend	17 %	(6 %)	14 %	(33 %)	107 %	0 %	32 %	45 %	20 %
	Profit per share	4.23	7.21	4.18	(1.86)	8.84	7.04	3.04	2.95	2.69
	P/E	25.06	12.55	23.09	-	16.20	10.80	25.00	19.60	15.20
	Dividends	1.30	2.10	0.00	0.00	2.25	2.00	1.00	0.88	0.69
	RISK adjustment	(1.84)	0.95	0.40	(0.59)	2.13	(1.90)	(0.95)	(0.81)	(0.69)

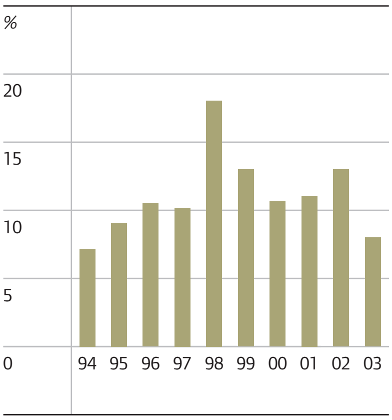
Definitions

Effective tax rate	Tax as a percentage of the profit/loss before tax.
Net cash flow	Please see the Statement of Cash Flows on page 22.
Operating margin	Operating margin as a percentage of operating income.
Profit margin	Earnings before tax (EBT) as a percentage of operating revenues.
Employed capital	Total assets less short-term interest-free liabilities.
Equity	Book equity and subordinated loan capital from the State (MNOK 300 from 1993–98).
Return on total assets	Operating profit plus financial income as a percentage of total assets.
Return on employed capital	Earnings before tax plus financial income as a percentage of average restricted capital.
Return on equity	Profit/loss after financial items as a percentage of average equity.
Annual share price trend	Change in share price compared with previous year.
Wage share	Wages and social security expenses as a percentage of operating income.
Profit per share	Net profit after tax divided by a weighted average number of shares.
P/E	Price/Earnings. Market price at 31 December divided by the result per share.
RISK adjustment	The year's adjustment on the tax-related incoming value of shares.

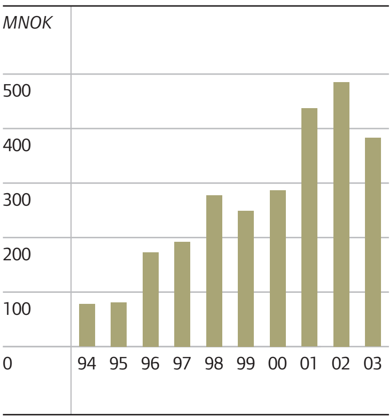
Profit per share



Return on employed capital



EBITA



■ Financial risk and market conditions

Foreign currency

Although most of KONGSBERG's production takes place in Norway, more than 70 per cent of its output is exported. The Group's main competitors are located in Europe, the USA and Japan. While the Group also makes purchases in foreign currency corresponding to 30 to 40 per cent of sales, it has considerable net exposure, linked in particular to USD. The deterioration of the USD entails a negative distortion of competition for KONGSBERG. Owing to the Group's currency hedging strategy, the situation has had a limited impact thus far.

KONGSBERG's policy is to limit currency risk while actively assessing various currencies' importance as competitive parameters. Accordingly, all contractual currency flows of significance are hedged. Budgeted currency flows are also hedged. The hedging of budgeted currency flows and foreign currency bids for major contracts is based on the individual enterprise's market and competitive situation. Equity is also hedged in the Group's foreign subsidiaries and foreign currency loans to those subsidiaries.

At 31 December 2003, the Group had hedged a total of almost NOK 5 billion in foreign currency, mainly USD and EUR. The hedging strategy has a 2-to-4-year perspective. It offsets transient currency fluctuations and gives the Group time to make operational adjustments in the event of more lasting changes. Active efforts are invested in reducing the effect of currency fluctuations, for example, by increasing the percentage of production outside Norway.

See Note 18 to the consolidated accounts.

Funding

In 2003, KONGSBERG had gross debt of roughly NOK 1.2 billion, and net interest-bearing debt of about NOK 1.1 billion. Borrowing requirements vary considerably during the year as a result of seasonal fluctuations in some areas, and due to the terms of payment in major defence contracts. While project costs are relatively constant, payments are linked to milestones.

At the beginning of 2004, KONGSBERG had loans totalling MNOK 1 227 in its central financing programme:

Mortgages	MNOK 77	Annual payments until 2020
Norwegian commercial papers	MNOK 500	Maturity 0–6 months
Bond loan	MNOK 300	Due June 2005
Bond loan	MNOK 300	Due October 2007
Sterling Acceptance	MNOK 50	Maturity 3 months

KONGSBERG's financing is otherwise based on a syndicated credit facility of MNOK 1 100 that will run until March 2009. The credit facility is currently undrawn. Financial and liquidity management is co-ordinated by Kongsberg Finans, the Group's corporate financial services unit. The Group attaches importance to diversified funding, and lines of credit are considered in the light of the Group's growth strategy.

Interest

The Group's policy is to have an average fixed-rate period on its external loans of two to four years. At year-end 2003, the Group's central loan programme had an average fixed-rate period of 2.5 years. In February 2004, further interest rate hedges were implemented, bringing the average fixed-rate period to roughly 4 years. KONGSBERG has hedged its loans through fixed-interest and interest swap agreements.

Owing to the interest strategy, if today's interest level continues, interest rate reductions will come into play gradually over a 5-year period.

Reference is made to Note 17 to the consolidated accounts.

■ Important assets

Property

KONGSBERG is engaged in substantial property operations. The operations encompass the following properties:

	Owned by KONGSBERG		External owners	
		Annual rent 2003		*Annual rent 2003*
	m2	*(NOK 1 000)*	*m2*	*(NOK 1 000)*
Kongsberg	82 836	68 284	84 461	61 307
Horten	27 716	19 591		
Egersund	6 230	2 321		
Other	727	572	475	375
Total	**117 509**	**90 768**	**84 936**	**61 682**

In addition to this, 32 128 m2 of property is subleased to Group companies. The properties generate annual revenues of MNOK 30.2.

Altogether, KONGSBERG manages 234 573 m2 of space, which generated MNOK 182.7 in rental revenues in 2003.

Property owned by KONGSBERG is generally used for the Group's own business activities. Group companies pay rent at market rates. The property owned by others is located in Kongsberg Industrial Park, and KONGSBERG is responsible for operations, management and rental. KONGSBERG used to own these properties, but sold them under three sale-leaseback agreements in recent years. More details about these agreements are available in Note 10 to the consolidated accounts.

KONGSBERG has long experience of property management and operation, and Kongsberg Industrial Park is a very well-run, efficient industrial park, housing more than 50 enterprises and 4000 employees. The park's main focus is on knowledge and high technology enterprises aimed at international markets.

At 31 December 2003, a MNOK 77 loan in Innovation Norway was secured by property owned by Kongsberg Næringseiendom.

The properties owned by KONGSBERG have a balance sheet value of MNOK 551.

Goodwill

Goodwill is the purchase price in excess of the net tangible assets of acquired companies. Goodwill is amortised on the basis of the earnings estimates made at the time of the acquisition of each individual company. Goodwill is amortised over 5 to 20 years. At each closing of the accounts, the value of remaining goodwill is estimated and changes, if any, are made in write-downs or amortisation periods.

Amounts in MNOK	*Cost price 31 Dec. 2003*	*Depr. for the year*	*Acc. depr. and write-downs 31 Dec. 2003*	*Closing balance 31 Dec. 2003*
Yachting & Fishery	274	13	83	191
Offshore & Merchant Marine	1 307	73	370	937
Defence & Aerospace	88	6	22	66
Total goodwill	**1 669**	**92**	**475**	**1 194**

Otherwise, please see Note 7 to the consolidated accounts.

Receivables

The Group had total receivables of MNOK 2 407 on 31 December 2003, cf. Note 15 to the consolidated accounts.

Receivables consist of a number of different elements, from small balances owing on invoices, to claims that refer to large individual projects.

The Group's business objective is largely to develop and manufacture products and systems based on orders received. The processed value of the work in progress is booked as operating revenue. Uninvoiced work in progress is reported on the balance sheet under 'Projects in progress'. A major part of this is related to the following areas at Kongsberg Defence & Aerospace.

Amounts in MNOK	*Total orders*	*Operating revenues 2003*	*Accum. operating revenues*
Missile and aerospace products	3 458	383	3 123
Naval defence products	3 201	376	1 760
Anti-aircraft, trainers and simulators	1 804	301	1 178
Weapons control systems	1 101	369	911
Military communications	3 704	762	2 148
Total	**13 268**	**2 191**	**9 120**

These projects are customer-financed and often contain an element of advance payment. The projects' share of receivables must therefore be viewed in the context of advance payments from customers, which came to MNOK 931 at 31 December 2003.

The other receivables are of a more traditional nature, and the other parties are generally shipyards, shipping companies and retail dealers in the area of yachting and fishery. Historically speaking, the Group has incurred few bad debts, and the credit risk on receivables is considered low.

Corporate governance at KONGSBERG

Definition of corporate governance

Corporate Governance deals with issues and principles linked to the distribution of roles between the governing bodies in an enterprise, and the responsibility and authority assigned to each of those bodies. Good corporate governance is characterised by responsible interaction between owners, the Board and management, viewed in a long-term, value-adding perspective. It calls for smooth collaboration between the Board and management, respect for the Group's stakeholders, and open dialogue with the world around us.

Treatment of the topic in 2003

Issues related to corporate governance have been the subject of in-depth discussions by the Group's Board of Directors and management in 2003 and early 2004. A corporate governance policy has been drawn up and adopted by the Board.

KONGSBERG's policy

KONGSBERG shall insofar as possible follow 'best practice' with regard to recommendations on corporate governance. The Group's compliance with and deviations, if any, from 'best practice' will be mentioned and made available to stakeholders.

The following elements underpin KONGSBERG's corporate governance policy:

- KONGSBERG shall maintain open, reliable and relevant communication with the public about its business activities and conditions related to corporate governance.
- KONGSBERG's Board of Directors shall be autonomous and independent of the Group's management.
- KONGSBERG attaches importance to avoiding conflicts of interest between owners, the Board and management.
- KONGSBERG shall have a clear division of responsibilities between the Board and management.
- All shareholders shall be treated equally.

■ Recommendations

KONGSBERG's position on recommendations

A Norwegian recommendation (hereafter referred to as the recommendation) for Corporate Governance was put forward on 11 December 2003. The recommendation was presented by the Norwegian Shareholders' Association, Eierforum (a forum representing Norway's largest institutional investors), the Norwegian Financial Services Association, the Norwegian Association of Financial Analysts, the Confederation of Norwegian Business and Industry, the Norwegian Pension Funds Union, Oslo Stock Exchange and the Norwegian Mutual Fund Association. The recommendation is provisional; the final version is expected to be completed in autumn 2004.

For the time being, KONGSBERG opts to follow the recommendation. Any deviations are subject to comment.

The following description is generally structured in accordance with the above-mentioned recommendation. As recommended, more details are provided on the individual points. Point 11 'Management and internal procedures' is not covered by the recommendation. It has been included nonetheless, as it is considered a key point in the discussion of corporate governance.

1. Principles of corporate governance

The Group has drawn up a special policy on corporate governance. A deliberate decision was also taken about which 'best practice' to follow.

The Group's compliance with and follow up of its Code of Ethics have been the subject of a thorough internal process. For more detailed information, please see the Group's website at www.kongsberg.com.

2. Activities

"The object of Kongsberg Gruppen ASA is to engage in technological and industrial activities in the maritime, defence and related sectors. The Company may participate in and own other companies."

These sentences are quoted from § 3 of KONGSBERG's Articles of Association. The Group's Articles of Association may be found on page 68 of the Annual Report and on the Group's website at www.kongsberg.com.

3. Equality

Equality

KONGSBERG's shares are all Class A shares. The Articles of Association place no restrictions on voting rights. All shares are equal.

Purchase of treasury shares

The Annual General Meeting (AGM) can authorise the Board to purchase up to 10 per cent of its own shares. The ordinary Annual General Meeting of 12 May 2003 authorised the Board to purchase treasury shares. Limited to 5 per cent of the share capital, the authorisation is valid until the next ordinary AGM. At 31 December 2003, KONGSBERG owned a total of 272 557 or 0.9 per cent of its own shares.

Treasury shares are purchased for the share scheme for employees, but can also be sold on the market. Offered to all employees at a discount, the shares are subject to a one-year lock-in period from the date of purchase.

Share issues

The Group conducted a MNOK 600 rights issue for shareholders in 1999, of which MNOK 300 involved the conversion of State debt.

The Group has performed no private placement of shares, with the exception of a small share issue for the employees in 1996.

4. Freely negotiable

All shares are freely negotiable, with the exception of the employees' purchase of shares at a discount, see point 3 above. The Articles of Association place no restrictions on negotiability.

5. Share capital

Consolidated equity aggregated MNOK 1 830 at the end of 2003. This resulted in an equity to assets ratio of 30.5 per cent. The Board consistently considers the Group's requirements for financial strength in the light of the Group's strategy and risk profile.

Share issue authorisation

The Board is not authorised to undertake share issues.

6. Dividends

Stipulation of dividend

The Annual General Meeting (AGM) stipulates the annual dividend, based on a proposal from the Board. The proposal is the ceiling for what the AGM can adopt. A dividend of NOK 2.10 per share was paid for 2002, and the Board proposes the AGM adopt a dividend of NOK 1.30 per share be paid for 2003.

The Group will ordinarily strive to achieve an annual dividend of approx. 30 per cent of the net result.

7. Annual general meeting

By virtue of the Annual General Meeting, shareholders are guaranteed participation in the Group's supreme governing body. The AGM adopts the Articles of Association.

Shareholders representing at least five per cent of the shares can call for extraordinary general meetings.

Annual General Meeting (AGM) – participation, agenda and implementation

The AGM is ordinarily organised by 1 June every year. The CEO reviews the Group's status at the AGM. The Chairman of the Board and the Group's CFO are also present to respond to questions from shareholders. Last year's AGM was held on 12 May 2003. A total of 67.39 per cent of the aggregate share capital was represented.

Notification of the Annual General Meeting is normally sent out three weeks in advance. This is one week earlier than the Act's minimum requirement (two weeks). Registrations are accepted by post, telefax or E-mail, and should normally be completed five days prior to the date of the AGM. The Financial Calendar is published on the Internet and in the Group's annual report. Shareholders who are unable to attend are urged to assign their proxy.

8. Board of Directors – composition and autonomy

Election of the Board of Directors

The AGM elects the five shareholder-elected representatives to the Board. The Nominating Committee nominates candidates for shareholder-elected directorships prior to the election. Nominations are sent to the shareholders along with the convening letter to the AGM. Board elections take place by simple majority. The Norwegian State currently owns 50.001 per cent of the shares and could, in principle, control the election of the shareholder-elected directors.

Three directors are elected directly by and from among the Group's employees.

Directors are elected for two-year terms and are eligible for re-election.

Composition of the Board of Directors
It is essential that the Board as a whole is capable of dealing with Board work and the Group's main business activities. According to the Articles of Association, the Group shall have five to eight directors. At present, the Board consists of five external directors and three directors elected by and from among the Group's employees.

The CEO is not a member of the Board of Directors. The Board is responsible for hiring the CEO.
The Board is elected for a two-year term and elects its own chair. Christian Brinch is Chairman of the Board.

Changes in the Board in 2003
At the AGM in May 2003, Siri Hatlen and Niels Petter Wright were elected as the new shareholder-elected directors, while Roy Harald Hove and Jan Erik Hagen were elected as the new employee-elected directors.

The Board's autonomy
The Board considers itself autonomous and independent of the Group's executive management. Importance is attached to avoiding conflicts of interest between owners, the Board, management and the Group's other stakeholders.

Remuneration to the directors
The Annual General Meeting stipulates the Board's remuneration each year. In 2003, remuneration totalled NOK 956 168 (NOK 981 331 in 2002).

Directors' fees are not linked to option programmes or the like.

The Board's fees and remuneration are discussed in Note 3 on page 26.

9. Nominating Committee
The Nominating Committee shall consist of three members who shall be shareholders or representatives of shareholders. Two members of the Nominating Committee are elected by the AGM and one by the Board. The Committee elects its own chair.

The Committee works under instructions from the AGM. At the AGM in May 2004, the Board will propose amending the Nominating Committee's instructions to align them with the recommendation.

A new Nominating Committee will be elected at the ordinary Annual General Meeting on 6 May 2004.

10. Board work
The Board's responsibilities
At Kongsberg, the Board's primary responsibility is to protect the interests of all shareholders, although the Board also has a responsibility to the Group's other stakeholders.

The Board's main tasks involve helping to draw up and adopting the Group's strategy, performing the requisite control functions and serving as an advisory body for the Group's executive management. These tasks are not constant. The focus will shift, depending on the Group's needs at any given time.

The Board's relationship to executive management
There is a clear division of responsibilities between the Board and executive management. The Chairman of the Board is responsible for directors' work being done in an efficient, correct manner and in line with the Board's responsibilities. The CEO is responsible for the Group's operational management.

Rules of procedure for the Board of Directors
The Board will at all times ensure the rules of procedure comply with the provisions of Act No. 45 related to Public Limited Companies of 13 June 1997, and that they comply with the recommendation.

Notice of meetings and discussion of items
The Board schedules regular board meetings each year. There are usually seven or eight meetings a year. Additional meetings are convened on an ad hoc basis. The Board met 8 times in 2003.

All directors receive regular information about the Group's operational and financial progress well in advance of the scheduled Board meetings. The directors also receive monthly operations reports. The Group's business plan, strategy and risk are regularly reviewed and evaluated by the Board. The directors are free to consult the Group's senior executives as needed.

Ordinarily, the CEO proposes the agenda for the Board meetings, then the Chairman of the Board sets the agenda. In addition to the directors, Board meetings are attended by: the CEO, CFO and chief legal officer (secretary of the Board). Other participants are summoned as needed.

The Board takes decisions of particular importance to the Group, including the approval of the annual and quarterly accounts, strategies and strategic plans, the approval of significant investments (usually those in excess of MNOK 10), and the approval of sizeable business acquisitions and disposals.

New directors are briefed on the Group's current strategy and historical conditions related to its current situation.

Professional secrecy – communication between the Board and shareholders
The Board's proceedings and minutes are in principle confidential unless the Board decides otherwise or there is obviously no need for such treatment. This is pursuant to the rules of procedure for the Board of Directors.

Disqualification
The Board is bound by the rules regarding disqualification as they appear in §§ 6-27 of the Public Limited Companies Act. In 2003, there were no cases where a member of the Board of Directors had to disqualify him- or herself from discussions.

Use of Board Committees
The Board considered appointing Board Committees and decided not to do so.

The Board's self-evaluation
Each year, a special Board seminar is organised on topics related to the Group's activities and the Board's duties and working methods. The Board's working methods and interaction are generally discussed on an ongoing basis, and specifically at the Board seminars. In this connection, the Board also evaluates its efforts in terms of corporate governance.

11. Management and internal procedures

Corporate executive management
Corporate executive management currently consists of six individuals. In addition to the CEO, the executive management group consists of the CFO, the presidents of the two main business areas (Kongsberg Maritime and Kongsberg Defence & Aerospace), the executive vice president of Business Development and the executive vice president of Corporate Communications.

Executive management usually meets once a fortnight, supplemented by daily contact on operational issues. The Group subscribes to the paramount principle of making binding commitments to agreed targets. Consequently, it practises a decentralised form of corporate governance that gives individual units considerable freedom of action, accompanied by the responsibility that entails.

Executive management's main responsibility is the operation of the corporation, and the overall situation of KONGSBERG governs the decisions that are made. Executive management follows up earnings and budgets on a monthly basis with the various performance centres.

Evaluations
Each year, executive management evaluates its own work and working methods.

Inter-Group Boards of Directors
The Group's subsidiaries have their own boards of directors, staffed by KONGSBERG managers and employees. The president of the company in question or someone authorised by the president will chair the boards of the subsidiaries.

Internal control
The corporation has no special unit for internal audits. Accounting controls are accomplished through different divisions of responsibilities, guidelines and approval routines. The Group's central accounting unit has overall responsibility for starting businesses and following up guidelines and principles. Inter-Group financial transactions are subject to special control systems and routines. Financial risk is offset using appropriate financial instruments. Financial risk management is handled by the Group's central financial unit.

Responsibility for the commercial content of contracts and agreements lies with the individual business area.

Special share register
The company has stipulated in-house guidelines for trading in the Group's shares. The regulations are in accordance with the guidelines drawn up by the Oslo Stock Exchange for insider trading. These guidelines are updated regularly in accordance with regulations from the Oslo Stock Exchange, and distributed to primary insiders at regular intervals.

Corporate Code of Ethics
The corporate Code of Ethics was updated in 2003. Agent and cooperation agreements were reviewed. As a result of this review, certain agreements will be renegotiated as soon as possible. An Ethics Council has been established, and training and follow-up plans drawn up.

12. Remuneration to leading employees

The CEO's terms of employment are set by the Board.

The wage structure for the other members of executive management is stipulated by the Board. The terms of employment are proposed by the CEO and subject to the approval of the Chairman of the Board. Remuneration to the CEO and the rest of corporate executive management is described in Note 3, page 27.

Each year, the Board undertakes a thorough review of salaries and other remuneration to the CEO. The review is based on market surveys of corresponding positions. The Board's attitude to the CEO's salary is that it should be competitive, but not top the scale.

13. Information and communications

The annual report and accounts – interim reporting

The Group usually presents provisional annual accounts in late February. Complete accounts, the Directors' Report and the annual report are sent to shareholders and other stakeholders in March/April. Beyond this, the Group presents its accounts on a quarterly basis.

All shareholders are treated equally as a matter of course.

This year, for the first time, the Group published a report on sustainable development. It was decided to define intellectual capital as part of that concept.

Other market information

Open investor presentations are conducted in connection with the Group's annual and quarterly reports. The CEO reviews the results and comments on products, markets and prospects for the future. The Group's CFO also participates in these presentations, as do other members of executive management from time to time.

The presentations made for investors in connection with the annual and quarterly reports are available on the Group's website. Beyond that, the Group conducts an ongoing dialogue with and makes presentations for analysts and investors.

It is considered vital to keep owners and investors informed of the Group's progress and economic and financial status. Importance is also attached to ensuring that the same information is released to the equity market at the same time. Care is also taken to maintain an impartial distribution of information in discussions with shareholders and analysts.

14. Take-overs

The Group's Articles of Association contain no defence mechanisms against share acquisitions, nor have other measures been instituted to limit opportunities to purchase shares in the Group. The Norwegian state owns 50.001 per cent of the shares. The negotiability of these shares is subject to parliamentary decision.

15. Auditor

Auditor's relationship to the Board

The Chairman of the Board conducts a separate meeting with the auditor and executive management prior to the Board's discussion of the financial statements. The auditor is always present during the Board's discussions of the financial statements. At that meeting, the Board is also briefed on issues of particular concern to the auditor.

The Board arranges annual meetings with the auditor to review the Auditor's Report on the Group's accounting principles, risk areas and internal control routines.

Auditor's relationship to executive management

The Board of Directors has discussed guidelines for the business relationship between the auditor and the Group.

The Group used Arthur Andersen & Co. as its independent auditor from its inception in 1987. In April 2002, Arthur Andersen & Co. in Norway was merged with Ernst & Young. In addition to ordinary auditing, the company has provided consultancy services related to accounting, tax and reporting. See Note 5 to the consolidated accounts.

The Board will regularly evaluate whether the auditor is performing his control function to the Board's satisfaction.

■ Articles of Association – Kongsberg Gruppen ASA

As amended by the ordinary Annual General Meeting on 12 May 2003.

§ 1
The name of the Company is Kongsberg Gruppen ASA. The Company is a public company.

§ 2
The Company's registered office is in Kongsberg (Norway).

§ 3
The object of Kongsberg Gruppen ASA is to engage in technological and industrial activities in the maritime, defence and related sectors. The Company may participate in and own other companies.

§ 4
The Company's share capital is NOK 150 000 000, divided into 30 000 000 shares with a nominal value of NOK 5. The Company's shares shall be registered in the Norwegian Registry of Securities.

§ 5
The Board shall have from five to eight members (Directors). Up to five Directors and up to two Deputy Directors shall be elected by the Annual General Meeting. According to regulations laid down pursuant to the provisions of the Norwegian Companies Act regarding employee representation on the Boards of Directors of private companies, three Directors and their deputies shall be elected directly by and from among the employees.

§ 6
The Chairman of the Board has the power to sign for the Company or, in his/her absence, the Deputy Chairman and another Director may co-sign.

§ 7
The Annual General Meeting shall be held in Kongsberg or in Oslo. The ordinary Annual General Meeting (AGM) shall be convened in writing with least 14 days' notification.

§ 8
The ordinary AGM shall:
1. Adopt the annual accounts and the Annual Report, including the payment of dividends;
2. Discuss other matters which, pursuant to legislation or the Articles of Association, are the province of the AGM;
3. Elect the shareholders' representatives and their deputies to the corporate Board of Directors;
4. Elect two members to the Nominating Committee;
5. Elect one or more auditors, based on nominations made by the AGM;
6. Stipulate the Board's remuneration and approve remuneration to the auditor.

The convening letter shall state that shareholders who would like to participate in the AGM are to sign up by a deadline specified in the convening letter. The deadline shall expire no more than five days prior to the AGM.

The AGM shall be chaired by the Chairman of the Board or, in his/her absence, by the Deputy Chairman. In the absence of both, the AGM shall elect a moderator.

§ 9
The Nominating Committee shall consist of three members who shall be shareholders or representatives of shareholders. Two shall be elected by the ordinary AGM. One shall be elected by the Board. The term of office is 2 years.

The Nominating Committee shall elect its own chair.

The Chairman of the Board and the CEO shall, without being enfranchised to vote, be called in to at least one meeting of the Nominating Committee before the Nominating Committee presents its final recommendation.

The Nominating Committee shall submit to the AGM its nominations for Directors and Deputy Directors.

Based on a motion made by the Board's shareholder-elected Directors, the AGM shall adopt instructions for the Nominating Committee.

Corporate Executive Management

Jan Erik Korssjøen (56)
CEO

Graduate Engineer from NTH (Norwegian University of Science and Technology). Became CEO in 1999 after heading Kongsberg Maritime for 4 years. Began his career in AS Kongsberg Våpenfabrikk, where he held a number of managerial positions. Later president of Dresser Rand AS and Kongsberg Systems AS. He owns 5 133 shares in the Group.

Directorships and offices held outside the Group
Chairman of the Board, SINTEF
Director, TBL
Member of corporate assembly, Telenor ASA
Council member, Det Norske Veritas

Arne Solberg (51)
Chief Financial Officer

Economist from the Norwegian School of Management BI. Employed by Kongsberg Gruppen since 1987 and responsible for corporate funding and financial affairs. Formerly in leading positions in finance/administration at Elektrisk Bureau. He owns 5 675 shares in the Group.

Directorships outside the Group
Director, Elcon Finans
Director, Kitron ASA

Torfinn Kildal (49)
President,
Kongsberg Maritime AS

Economist from the Norwegian School of Economics and Business Administration (NHH). Joined Kongsberg Gruppen in 1996. He began his career in AS Kongsberg Våpenfabrikk, and then had managerial positions in the SIMRAD Group. He owns 6 347 shares in the Group.

Tom Gerhardsen (55)
President,
Kongsberg Defence & Aerospace AS

Graduate Engineer from NTH (Norwegian University of Science and Technology). Joined Kongsberg Gruppen in 1987. Formerly employed by the Norwegian Defence Research Establishment and AS Kongsberg Våpenfabrikk. He owns 4 795 shares in the Group.

Even Aas (42)
Executive Vice President,
Corporate Communications

Economist, University of Oslo. Joined Kongsberg Gruppen in 1998. Formerly employed by the Norwegian Confederation of Trade Unions, political adviser and later state secretary for commerce and shipping in the Ministry of Foreign Affairs, and employed by Telenor. He owns 1 082 shares in the Group.

Stig Trondvold (50)
Executive Vice President,
Business Development

Graduate Engineer from NTH (Norwegian University of Science and Technology) and an MBA from IMD in Switzerland. Employed by Kongsberg Gruppen since 2000 and responsible for corporate business development. Began his career in SINTEF, followed by several managerial positions in the automotive component industry – including in AS Kongsberg Våpenfabrikk, Kongsberg Automotive AS and Kongsberg Techmatic AS. He owns 1 312 shares in the Group.

Directorships outside the Group
Chairman of the Board, Kongsberg Innovasjon AS
Director, Teknologisk Institutt
Director, Scali AS
Deputy director, Sparebank 1 Kongsberg

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Arne Solberg, Chief Financial Officer
Even Aas, Executive Vice President,
Corporate Communications
Stig Trondvold, Executive Vice President,
Business Development
Tom Gerhardsen, President
(Kongsberg Defence &
Aerospace AS)
Torfinn Kildal, President
(Kongsberg Maritime AS)

Corporate functions
Tom Røren, Vice President,
Corporate Communications
Kåre Hjalland, Vice President,
Human Resources
Trond Bakke Nielsen, Vice President,
Corporate Finance
Hilde Øygarden, Vice President,
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Christian Karde, Vice President,
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Financial calendar

Annual General Assembly
The ordinary Annual General Meeting will be held at 2 p.m. on Thursday, 6 May 2004.
Venue: Conference Centre, Kongsberg Næringspark, Kongsberg, Norway

Presentation of the quarterly reports in 2004
Q1: 28 April
Q2: 19 August
Q3: 27 October

Last year for the first time, KONGSBERG presented a separate Intellectual Capital Report in addition to an Environmental Report and its traditional Annual Report.

This year, the Annual Report is supplemented by a comprehensive Sustainability Report that places KONGSBERG's activities in a broader perspective, complementing the financial reports.

We welcome your views about both reports. Please contact us at office@kongsberg.com.

Otherwise, we encourage you to follow the Group's progress at www.kongsberg.com.

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