



KONGSBERG

**Item 12, the Annual General Meeting of Kongsberg Gruppen ASA on 26 April 2017,
Suggestion from shareholder regarding organization and composition of
Kongsberg Gruppen's Ethics Council**

A shareholder has promoted the following suggestion:

« As a shareholder in Kongsberg Gruppen ASA, pursuant to §5-11 of the Act related to Public Limited Companies (Public Limited Companies Act), I ask that the following item be added to the agenda for discussion at the company's upcoming Annual General Meeting:

ORGANIZATION AND COMPOSITION OF KONGSBERG GRUPPEN'S ETHICS COUNCIL (THE COUNCIL)

Introduction

After a matter had been handled by Kongsberg Gruppen's Ethics Council in 2016, questions were raised about whether the Council administrates the company's code of ethics and principles in a credible and competent manner, inter alia, by ensuring that discussions are adequately separated from the purely commercial aspects of the business.

Not least since ethics was also an area of particular focus in 2015-16, it would therefore be appreciated if more light were to be shed on the question by e.g. commissioning the Board to consider the question of whether the current organisation and composition of the Council ensure good management of and compliance with the Company's Code of Ethics and principles.

Background

Under pressure from the major trade unions, in mid-2014, Kongsberg Gruppen introduced a new collective insurance scheme for employees in the Norwegian part of the business. The premium is covered by the employer (the policyholder), but since the scheme is liable to fringe benefit taxation, in practice, the new scheme still involves costs on the part of the employees (those insured), making the decision an indirect intervention in employees' private finances, even for those who are not unionized and those who are members of associations that did not participate in the bargaining process.

Consequently, the company was asked which agreement or legal authority the company believed it had for introducing the scheme to the extent mentioned in the preceding paragraph. However, although the question was raised repeatedly, also in writing, the company has not yet been able to explain this.

It is not difficult to see why the company and the unions at the bargaining table may have believed they were best served by including as many as possible in the scheme. It is therefore tempting to believe that the company has opted to take advantage of its superior size in respect of those who would presumably not have chosen to participate in the scheme.

Deliberations by Kongsberg Gruppen's Ethics Council

Kongsberg Gruppen's Code of Ethics states *inter alia* that the company supports the United Nation's "Global Compact Initiative" and is committed to actively supporting the 10 fundamental principles of the initiative. Among other things, this means respecting and protecting internationally recognized human rights, including the individual's rights to privacy, not least in terms of finances, as well as the right of freedom of association, and the natural consequences ensuing from this.

A letter to Kongsberg Gruppen's Ethics Council written in autumn 2015 therefore raised a question of principle about whether the introduction of the new insurance scheme might be in violation of the Group's Code of Ethics.

The reply to the letter was received in autumn 2016, stating that the Council supported the introduction of the scheme. However, little explanation was given to justify the viewpoint, beyond stating that it must be acceptable to intervene in employees' private affairs as long as the intervention is sufficiently minor, and the conclusion was a rather trite and meaningless phrase about the scheme being well intended.

It is extremely difficult to see that the Council has applied the ethical framework and respected each individual's integrity in this matter. On the contrary, it may seem as though the Council has not wanted to take a position on the actual questions of ethics and fundamental principles that were raised.

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The Council's work is also to be characterized by transparency, but the reply did not mention who had been involved in the deliberations on the issue. Based on the information available about the composition of the Council, it is far from obvious whether all the Council's potential participants could be considered competent, since they may have been key players in the process in the run-up to the introduction of the new scheme, either as promoters, case officers and/or decision-makers. In other words, their competence is unknown and undocumented.

Proposed resolution

The Board of Directors is commissioned to investigate whether the current organization and composition of the Council adequately ensures competent management of and compliance with the Company's Code of Ethics, not least that they be adequately separated from the purely commercial aspects of the business. The report is to be presented to the next Annual General Meeting, together with a proposed resolution. »

The Board's response to Item 12, "Suggestion from shareholder regarding organization and composition of Kongsberg Gruppen's Ethics Council" to Kongsberg Gruppen ASA's Annual General Meeting on 26 April 2017

The Board of Kongsberg Gruppen ASA determines the composition of the Ethics Council. According to the mandate for Ethics Council, it should be an internal Council within the Group. The Council shall consist of employees, administration and management from the entire Group. This will ensure diversity and that different voices and opinions are heard.

In the specific case that is the basis for the shareholder's suggestion, the Ethics Council was composed of representatives from the management, staff, ombudsmen (elected by employees) and administration during the treatment. The Board's assessment is that all the relevant stakeholders were represented in the proceedings, including five people who represented the employees. The assessment of the case in the Ethics Council was unanimous. Shareholder asks a question about participants who may have been the prime movers, executive officers and/or policy makers was habile to consider the case. The desire for the introduction of the insurance scheme was promoted by unions representing a majority of the Group's employees, and not by the administration. This also applies to a specific case, and no claim or documentation saying this is a recurring problem in connection with questions, which the Ethics Council treats. The Board considers that the composition of the Ethics Council represents the different interests within the Group, professional expertise within the Council's mandate and is suitable to counteract that members who had to have a special interest can control the treatment of a question.

The Board does not see that the business aspects have been particularly prominent during the introduction of the scheme, and Ethics Council takes for its basis that the scheme essentially is a blessing for the individual employee.

The Board consider that the composition of the Ethics Council is reasonable and in a good way represents the various interests in the Group up against the Council's tasks. The Board supports thus not the shareholder in his proposal for a resolution to investigate if the current organization and composition of the Ethics Council, and/or whether the Council has kept the commercial aspects separated from ethical reviews in the proceedings of the mentioned case.

On this basis, the Board recommend that the Annual General Meeting vote against the proposal.