Kongsberg Gruppen (KONGSBERG) is a multinational, knowledge enterprise that delivers high-technology systems for offshore oil and gas production, the merchant marine, defence and aerospace. The Group’s operations generally address the international market, with Europe, the USA, the Middle East and Asia as the most important geographical areas.

**SUSTAINABILITY REPORT**

**Introduction**

Kongsberg Gruppen has been a leading company in the Defence and Aerospace markets for over 100 years. The Group operates in several business areas with a strong focus on innovation and technology development. This report provides an overview of the Group’s sustainability performance in 2012.

**Key Financial Figures**

- Revenue: NOK 140 billion
- Profit: NOK 12 billion
- Employees: 14,000

**Operating Revenues**

<table>
<thead>
<tr>
<th>Area</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defence &amp; Aerospace</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Offshore &amp; Merchant Marine</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Other Business</td>
<td>20%</td>
<td>20%</td>
</tr>
</tbody>
</table>

**Earnings before interest, tax and amortisation**

<table>
<thead>
<tr>
<th>Area</th>
<th>2012</th>
<th>2011</th>
</tr>
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<tbody>
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<td>Other Business</td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Cover photo

This cover display is from the integrated weapons system on board one of the new Norwegian frigates. The system receives data to give the crew the best possible overview of the tactical situation and helps locate hostile surface vessels and submarines.

**BUSINESS AREA ACTIVITIES**

**Kongsberg Maritime**

- Torfinn Kildal, President
- The world of offshore markets
- The market in Europe, the USA, the Middle East and Asia
- Key Financial Figures

**Kongsberg Defence & Aerospace**

- Tom Gerhardsen, President
- The world of aerospace
- The market in Europe, the USA, the Middle East and Asia
- Key Financial Figures

**Kongsberg Gruppen ASA**

- Highlights
- The defence market
- The maritime market
- The outdoor environment
- The organisation of environmental efforts
- Key financial figures

**VISION, OBJECTIVES AND STRATEGY**

Vision, Objectives and Strategy

- Visions, Objectives and Strategy
- Strategic Direction

**DIRECTORS’ REPORT AND ACCOUNTS**

Directors’ Report

- The Group
- Auditors’ Report

**CORPORATE GOVERNANCE AND FINANCIAL STATEMENTS**

Corporate Governance

- Corporate Governance at Kongsberg
- Interview with Jarl Ulvin

Financial Statements

- Financial Statements
- Important Balance Sheets
- Key Financial Figures
**MAIN FIGURES**

- Yet another year of progress
- Growth in operating revenues and the EBIT
- Strong influx of new orders and growing backlog of orders

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**Key figures by Business Area**

<table>
<thead>
<tr>
<th>Business Area</th>
<th>Operating revenues</th>
<th>Operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004*</td>
<td>2005*</td>
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<tr>
<td>Offshore &amp; Merchant Marine</td>
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<td>Defence &amp; Aerospace</td>
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<td>Other classification</td>
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<td>107</td>
</tr>
<tr>
<td>Total Group</td>
<td>6,220</td>
<td>5,791</td>
</tr>
</tbody>
</table>

1. The figures are IFRS compliant (International Financial Reporting Standard) and jointly controlled operations are consolidated using the proportionate method. 
2. The figures have been adjusted for effects of the transition to IFRS and the sale of yachting activities, and jointly controlled operations are consolidated using the proportionate method. 
3. The figures are net adjustments for the transition to IFRS, but are presented according to NASSP. Jointly controlled operations are reported as associates.

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**Annual Report and Sustainability Report 2008**

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"WE ADD CONSIDERABLE VALUE"

The main objective for our industrial activities is to add value in both the short and the long term. The value we add is first and foremost for our owners, our customers, our employees and for the communities in which we operate.

Our short-term value added can be expressed by what we achieved in 2006:

- We added value for our owners as the Group's share price increased in value on the Oslo Stock Exchange by 41.1 per cent to NOK 5,250 in 2006. The proposed dividend for 2006 will total NOK 75, or NOK 2.50 per share.
- Our customers create added value by using our products and services. In 2006, our customers awarded us NOK 2 billion more in new orders than in 2005. Altogether, we booked new orders worth NOK 7.6 billion. While some of this success was due to the generally bullish nature of the market, we also increased our market share in several product segments.
- Our employees drew more than NOK 1.2 billion in net wages. What is more, Kongsberg has thousands of subcontractors which also have employees who benefit from our overall value creation.
- Our operations generated just less than NOK 1 billion in direct and indirect taxes for the communities in which we operate.

Our long-term value creation can to some extent be expressed by the investments we make in the future. The most important are:
- We spent NOK 82 million in total capital expenditure in 2006, or 18 per cent of our total sales. In addition, Kongsberg spent NOK 117 million of its total net sales revenue on R&D expenditure.
- We spent NOK 284 million on acquisitions in 2006, and these undertakings will reinforce our operations in selected product areas. Collectively, these acquisitions did not make a positive contribution to earnings per share (EPS) in 2006, but they are expected to contribute favourably in the years ahead.
- We continue to give priority to human resources development in technical fields as well as administration, and we invested in new production control tools. All in all, we added considerable value during the year. The year’s value added was higher than in 2005, and we augmented our investments in the future. In terms of both added value and market position, our progress was partially attributable to the generally bullish market, but it was mainly the result of our successes during the year. We improved our operating revenues (21 per cent), profitability (22.8 per cent higher EBITA), new orders (35 per cent) and order backlog (19.5 per cent), at the same time as we cut costs.

Strong markets

Our markets are buoyant, especially in the offshore industry, the merchant marine sector, and parts of the defence market.

Kongsberg’s maritime business area (BA), Kongsberg Maritime, saw a strong market for its products designed for merchant vessels as well as for purpose-built vessels for the offshore industry. What is more, the boom in the market for drilling rigs and the market for our hydro-acoustic-based products (seabed surveying, sonars and transponders) enabled the BA to book a record-high inference of new orders in 2006, and the backlog of orders extended its growth streak to eight consecutive quarters.

We continue to maintain leading positions in most of our maritime product areas. We benefit greatly from being part of a robust Norwegian maritime cluster. Kongsberg Maritime signed agreements to acquire FANTOST Process Technologies and Sense Intelligence in 2006. Combined with the Group’s other oil and gas activities, the acquisitions will be valuable additions to Kongsberg’s campaign to become a larger, more important supplier to the oil and gas industry.

2006 was also a successful year for the Group’s defence and aerospace BA, Kongsberg Defence & Aerospace. Operating revenues, profits, new orders and the backlog of orders all improved during the year.

In the market for defence and aerospace products, KONGSBERG is a relatively small contractor by international standards. There is, however, one product area in which we are a world leader, i.e. the market for the Protector remote weapons control system. To date, seven countries have opted for Kongsberg’s system to protect their operators in military vehicles. Altogether, Kongsberg sold remote weapons control systems valued at more than NOK 1.2 billion in 2006. The market is also continuing to grow as more and more countries’ defence and vehicle suppliers recognise how our system protects personnel and enhances the accuracy of conventional weapons station solutions.

Further, in 2006 and early 2007, several successful tests were conducted on our new anti-ship missile, the NSM, verifying the missile’s highly advanced features. We are currently negotiating a production contract with the Norwegian Armed Forces. These tests and a contract for the delivery of the missile will be decisive for the product’s further commercial success.

The defence market also offers significant opportunities for Kongsberg in relation to Norway’s planned procurement of new fighter aircraft. Regardless of which type of aircraft Norway chooses, the contractor will be required to sign offset agreements with Norwegian industry. Kongsberg is cooperating with the authorities and contractors to design possible ‘industrial packages’.

Stronger international presence

More than 70 per cent of Kongsberg’s sales revenues are earned outside Norway in 2006, and this percentage is expected to rise in future. We further strengthened our international presence in 2006, mainly to improve our competitiveness, and that can best be achieved by being closer to our customers. Requirements for local value added are also important in some of our markets. Moreover, local value creation often mitigates the risk associated with currency fluctuations. Last, but not least, are the opportunities for the savings that ensue from using local labour, and from manufacturing in countries with lower cost levels than Norway.

Better competitiveness leads to more sales, improving in turn, the Group’s business in Norway and abroad. However, relatively speaking, our growth rate is higher outside Norway. In 2006, the Group strengthened its work force by 278 employees, 45 per cent of whom work outside Norway.

A production line for the Protector weapons control system was set up in the USA during the year. In 2007, the facility will be expanded so that even more Protector production will take place in the USA. This will help protect the Group against currency fluctuations as a larger share of our added value will be created in local currency at the same time as we will be closer to one of our most important defence customers.

Our international operations are flourishing in the offshore industry and the merchant fleet market. This has resulted in the Group moving to building new premises in both Singapore and South Korea.

Through the acquisition of Gallium and Fantoff, we have built up our presence in Canada and India, respectively.

Kongsberg currently has more than 40 operations in 24 countries.

Ambitions

Kongsberg has the financial wherewithal as well as the expertise and capacity to grow. The Group’s goal is to double its operating revenues in a 3- to 5-year perspective. This growth will take place organically and through acquisitions. The increase in new orders and the acquisitions completed in 2006 provide a firm
platform for further organic growth. We will continue to invest efforts in identifying and following up possible candidates for acquisition.

Our profitability goal has been switched from being a fixed target to targeting continuous improvement. From 2004 to 2005, our operating profit (EBIT) improved by 58.2 per cent, and then by another 22.8 per cent from 2005 to 2006. Throughout the entire corporation, initiatives are being implemented to improve profitability. Consequently, we expect our performance to continue to improve in 2007.

We also stand for value
We do not merely create value; we also stand for value. Groups like Kongsberg have plenty of guidelines, instructions and procedures. The important thing is which choices we make with a view to what we want to stand for, and which attitudes and standards of conduct we strive to achieve. Besides working with attitudes, we have made choices about how to document the standards that best express those attitudes. As a result, we joined the UN’s Global Compact in 2006. The initiative covers areas such as human rights, the environment and corruption in a manner that is fully commensurate with the Group’s guidelines and attitudes. KONGSBERG has decided to publish its 2006 Annual Report and Sustainability Report as a single document. This choice reflects our desire to show that sustain- ability and corporate social responsibility are integral parts of the Group’s business strategy and routine operations.

2007 – an exciting year
2006 was a great year for Kongsberg. We believe that our success will continue in 2007 for both BAs.

The world’s demand for oil and gas products will continue to grow, meaning the market for exploring for oil and gas, surveying, developing, producing, transporting and overhauling/upgrading/main- taining will remain strong over time. We also believe the need to transport raw materials and cargo by sea will grow since the amount of cargo is growing, especially in Europe, and because there are political initiatives being taken to move more cargo from the roadways to the seaways.

As mentioned earlier, we expect to conclude a production contract for the new Naval Strike Missile (NSM) in 2007. We are also making active efforts to sell the NSM to countries other than Norway. It may also be possible to integrate the NSM into the new Norwegian fighter aircraft expected to be ordered. In that connection, we have signed a marketing agreement with Lockheed Martin of the US. It will be exciting to take the product from the development phase, which has spanned the past 10 years, and out onto the market. We have great expectations for this product’s commercial potential.

I must also mention KONGSBERG’s prospects with a view to Norway’s procurement of new fighter aircraft. Even though Norway will only be procuring a relatively small number of planes, the authorities and Kongsberg are working to ensure that Norwegian industry can supply of components for the entire series of air-planes to be built. Consequently, to be part of the project, it may be necessary to sign conditional contracts already in 2007. Such relatively large-scale industrial initia- tives can potentially generate earnings for Kongsberg for several decades.

The development of oil and gas resources at northerly latitudes will also afford interesting business opportunities. Kongsberg has a number of products of interest in conjunction with oil and gas activities in the Barents region. The Group’s products cover every link in the value chain from seabed surveying, seismic, field and process simulation, field development, and process control including integrated operations, to satellite-based monitoring and all electronics-based guidance and control systems on board the vessels, rigs and floating pro-duction units to be used in the area. We exist to add value. In 2007, our ambition is to add even more value than we did in 2006. This means that we will strive to pave the way for more short-term benefits for all stakeholders, at the same time as we build up our potential for further growth and profitability. Doesn’t that sound exciting?

Jan Erik Kongsberg
CEO

HIGHLIGHTS

The Group
Improved profitability
Kongsberg had operating revenues of NOK 6 720 (MNOK 5 791) and an operating profit (EBIT) of MNOK 464 (MNOK 379) in 2006. Revenues climbed by 10 per cent, and profitability was up 22.6 per cent from 2005. Sales orders added up to NOK 7.6 billion in 2006. At year end, the backlog was valued at NOK 5.4 billion, i.e. more than NOK 1 bil- lion more than at year-end 2005.

Quarters 1-4, 2006
Kongsberg Maritime
Bergenising activity in 2006
Offshore & Merchant Marine had a very good inflow of new orders in 2006. The business was booming in the offshore market and the market for commercial vessels. Among other orders, the business area handed an order for integrated con- trol systems for safety and automation on vessels for floating production that BP will be operating on the Skarv field. At year end, new orders reached a record high: MNOK 3 014.

Quarters 1-4, 2005 and
Quarter 1, 2007
Kongsberg Defence & Aerospace
The NSM missile is ready for serial production
In July/August 2005 and in early 2007, in a total of four successful launches, the NSM (Naval Strike Missile) were conducted in California in the US. Development of the missile commenced in 1998, and it is now ready for serial production. In January 2007, a marketing agreement was signed with Lockheed Martin that applied to the adaptation of the missile for the JFS fighter aircraft.

Quarters 1-4, 2006
Kongsberg Defence & Aerospace
Protector sold to seven countries
Deployed on armoured personnel carriers, the Protector weapon system control has been sold to a total of seven countries: the US, Canada, Australia, Finland, Norway, Ireland and Southeast. Contracts valued at a total of NOK 1.2 billion were signed in 2006. Altogether, contracts valued at NOK 2.8 billion have been signed since the first delivery in 2000.

Q4 2006
Kongsberg Defence & Aerospace
NASAMS air defence system to the Netherlands
The Norwegian-developed NASAMS II (Norrwegian Advanced Surface to Air Missile System) was sold to the Dutch Army in December. The contract is worth MNOK 345 and the system will be delivered in 2009. The Netherlands is considered an important customer reference as regards the possibility to sell NASAMS to other countries.

Q1 2007
Kongsberg Maritime
Integrated control systems to Gps
In January 2007, Kongsberg Maritime was awarded a contract valued at approx. MNOK 80 for Integrated Control Systems for safety and process automation on board a semi-submersible production plat- form that will be used on the Gps oil and gas field in the North Sea. The field and the platform will be developed by Statoil, although the contract was concluded with Alvor Kvaerner Stord. Gas de France Norway will be operator of the field.

Q1 2007
Kongsberg Maritime
Breakthrough in the cruise market
In January 2007, a contract was concluded with Alex Yacht Finland for significant deliveries of automation equipment to the world’s largest cruise ship. The vessel is being built for the Royal Caribbean International.

Q1 2007
Kongsberg Defence & Aerospace
Framework agreements related to JFS production
In January 2007, a long-term framework agreement was signed with Lockheed Martin and Northrop Grumman of the US for the production of composite products for the new JFS (Joint Strike Fighter). The agreements are conditional upon Norway choosing the JFS in 2008. The framework agreements are based on final scope of MNOK 1 300 and MNOK 150, respectively.
**THIS IS KONGSBERG**

Kongsberg Gruppen (KONGSBERG) is a multinational, knowledge-based corporation with 3,650 employees in more than 20 countries. The Group delivers high-technology systems to discerning customers in offshore oil and gas production, the merchant marine, and the defence and aerospace industries. KONGSBERG is listed on the Oslo Stock Exchange, and the Norwegian State is the principal shareholder, with a 50.001 per cent stake. Headquartered in Kongsberg, the Group had a turnover of NOK 6.7 billion in 2006.

**Primary objective**

Kongsberg’s primary objective is to promote shareholder value over time by engaging in profitable, growth-oriented industrial development in a long-term perspective.

**Employees by region**

- Norway 90.3%
- Europe 5.3%
- Asia 8.9%
- USA 1.5%
- Canada 3.9%

Growth is a key part of the Group’s strategy to reach its objective. The corporate goal for growth and profitability implies a doubling of sales revenues in a 3- to 5-year perspective and continuous improvement in all units, regardless of previous profitability levels. The Group’s overall profitability target is an operating margin of 10 per cent.

The Group intends to reach its target by focusing on knowledge-based products and services in selected market segments, and by being ethically, environmentally and socially responsible.

**Products**

As a leading Norwegian technology enterprise, the Group has one of Norway’s largest industrial engineering communities. Its range of products is characterised by a high technology content. The products have to function under demanding conditions; from multibeam echosounders for surveying the seabed at depths down to 11,000 metres to mechanisms for steering the solar panels on space probes hurling through space for years in orbits 36,000 kilometres above the Earth. Consequently, our reliability standards are high.

**Markets**

Kongsberg has a good geographical distribution of earnings. Markets outside Norway account for a growing share of total operating revenues. In 1995, 40 per cent of operating revenues were generated outside Norway. In 2006, this figure had increased to 72 per cent.

Customer proximity is necessary to accommodate local market needs. Operations and growth abroad are expected to continue expanding.

**Business areas**

Kongsberg’s two business areas (BAs), Kongsberg Maritime and Kongsberg Defence & Aerospace, are engaged in the same areas of technology. Both BAs have their core competencies in signal processing, engineering cybernetics, software development services and systems integration. Both deliver decision-support systems, from command and weapon control systems to communications solutions and automation and surveillance systems.

**Operating revenues by region**

Kongsberg Maritime delivers products and systems for dynamic positioning, navigation and automation for merchant vessels and offshore installations, as well as products and systems for seabed surveying, surveillance, training simulators and for fishing vessels and fisheries research.

The business area is a market leader in these areas. Important markets include countries with large-scale offshore and shipyard industries. Kongsberg Maritime emphasises the advantages of using the Group’s common technology base to stay at the forefront in terms of new products and applications. In 2006, Kongsberg Maritime earned operating revenues of NOK 3.6 billion and...
had 2 009 employees, 72 per cent of operating revenues were earned outside Norway.

Kongsberg Defence & Aerospace

Kongsberg Defence & Aerospace is Norway’s premier supplier of defence and aerospace-related systems. The Norwegian Armed Forces is the Group’s most important customer. Solutions developed in collaboration with the Armed Forces have proved competitive on the international arena and achieved a substantial export share in recent years. All defence-related exports are subject to the approval of the Norwegian authorities. One key element of the Group’s marketing strategy is to form alliances with major international defence suppliers.

Kongsberg Defence & Aerospace delivers systems for command and weapons control, weapons guidance and surveillance, as well as communications solutions and missiles. Kongsberg Defence & Aerospace earned operating revenues of NOK 3.0 billion and had 1 547 employees in 2006. 71 per cent of its operating revenues were earned outside Norway.

Expertise

Kongsasec is a knowledge enterprise. Having the right expertise promotes added value and is decisive for the Group’s competitiveness. The Group has devoted special attention to the processes relating to hiring, developing and managing employees to nurture and develop the Group’s collective knowledge. Of Kongsasec’s 3 650 co-workers, 70 per cent have higher education.

Shareholder policy

Kongsasec’s primary goal is to enhance shareholder value over time. The Group’s policy is to return 30 per cent of its annual profit from ordinary operations to shareholders as dividends. A dividend of NOK 2.50 per share is proposed for 2006.

HISTORY

Kongsberg is a knowledge-based corporation that currently consists of two business areas: Kongsberg Maritime and Kongsberg Defence & Aerospace. After restructuring and acquisitions, the Group consists of many different companies, each with its own history and geographical origins. A glance at the Group’s history nonetheless reflects its strong ties to the city of Kongsberg over the centuries.

1824-1828

The discovery of silver

The town of Kongsberg was founded in 1624 by King Christian IV. After silver was discovered in the area, Kongsberg’s silver works and silver mines played a pivotal role in Norwegian history from the late 1820s until the early 1860s. The silver works was Norway’s largest enterprise. In about 1720, its aggregate earnings accounted for 20 per cent of the government budget.

1814-1935

Kongsberg Viperfabrikken and the maritime community at Horten

An economic slump at the Silver Works led to the establishment of Kongsberg Viperfabrikken (a munitions factory) in 1814. The most gifted mining engineers were assigned the task of developing the new ammunition enterprise.

In the late 1930s, the company introduced the Krigsjægeren rifle which was subsequently chosen as the main weapon for the US Army. The deal was one of Norwegian industry’s first major export contracts. Norway’s main naval yard was established in Horten in 1846, laying the foundation for a strong maritime community.

1955-1967

Industrial locomotive

Kongsberg Viperfabrikken played a key role in building up Norwegian industry after World War II. From 1960 to 1967, the company evolved from a mechanical engineering company into an enterprise engaged in considerable product development, targeting several markets with strict performance standards. The market areas included the defence, automotive, gas turbine, 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”.

1967-1992

Crisis and revitalisation

In 1967, Kongsberg Viperfabrikken was restructured, and all civilian activities were sold. Still based in the community of Kongsberg, the units sold at that time have experienced healthy growth and profitability.

Defence activities continued under the banner of Norsa Forsvarsrobotikk AS, which formed the core of today’s corporation, Kongsasec.

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

1993-2006

Maritime campaign, stock exchange listing and growth

In 1992, the Group acquired the Navantia companies. This augured 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 Svesta Group, followed by Navia in 2000. The maritime efforts were a prerequisite for stock exchange listing and partial privatisation in 1999. The company changed its name to Kongsberg Gruppen (Kongsasec) in 1995.

Kongsasec’s strategy for the maritime segment is to concentrate on industrial markets. In 2005, The Group sold the yachting segment and now focuses on the two business areas Kongsberg Maritime and Kongsberg Defence & Aerospace.

In 2006, Canadian Galvan Visual Systems Inc. was acquired by Kongsberg Defence & Aerospace, while Kongsberg Maritime acquired Pantofli Process Technologies AS and Sense Intellifield AS.
VISION, OBJECTIVES AND STRATEGY

STRATEGIC CHOICES

If you don't know where you're going, any port in the storm will do...
Making prudent choices calls for knowledge and courage: Knowledge about markets, opportunities and challenges, and the courage not to make choices that make no difference.
Vision

WORLD CLASS – through people, technology and dedication

Objectives

Kongsberg is to be an internationally-oriented technology enterprise headquartered in Norway. Shareholders’ investments will be protected and increased by using the Group’s high level of knowledge to develop attractive solutions for the market and to constantly improve operations:

- Continuous improvement measures will be implemented to increase profitability.
- Growth and profitability will be generated organically and through acquisitions and structural initiatives.
- The business will be operated in an ethical, environment-friendly and socially responsible manner, with a well-defined image and a good reputation.

Strategy

Important initiatives for achieving the objectives include:

- Markets – Kongsberg’s markets are characterised by high standards for performance, quality and operational reliability. The Group earned some 70 per cent of its operating revenues outside Norway. It is always an objective for Kongsberg to develop its marketing system to effectively help satisfy customers’ needs. Customer proximity and cooperation on the development of optimal solutions play key roles. Strategic alliance-building is a prerequisite for success in several of Kongsberg’s product areas.

- 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. The Group considers these areas thoroughly to conserve assets to the greatest possible extent.

- Acquisitions – Acquisitions are a key part of the corporate growth strategy in the core areas. The goal of acquisitions is to exploit common technologies and achieve market synergies. The strategy is also motivated by the desire to augment the range of products, and to gain admission to new markets or access to specialised technology. Constant improvement in the Group’s strategic market position plays a key part in its acquisition strategy.

- Expertise – Knowledge and expertise are Kongsberg’s most important competitive parameters. Opportunities for human resources development are crucial to positive performance trends, making them a high priority. It is essential to offer attractive, challenging jobs. The Group offers systematic leadership development programmes.

- Corporate Social Responsibility and ethics – Kongsberg has a corporate code of ethics, an environmental policy and a policy for corporate social responsibility. These are basic elements in the efforts to achieve a corporate culture that supports profitable sustainable development.

- Technology – Kongsberg spends about 10 per cent of its operating revenues on product development. A high level of technology in this field is considered a prerequisite for profitable organic growth. Product development may be funded by customers and/or equity-financed. The needs of the market invariably determine our direction, ambitions and solutions for product development. Kongsberg’s products are largely based on the following core competencies: software development, engineering cybernetics, systems integration and signal processing.

- Financial strategy – The Group attaches importance to maintaining the financial strength required to ensure its freedom of action. 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.

Why?

An international presence is decisive for Kongsberg in the offshore and merchant marine markets. As markets move geographically, we must follow Customer proximity translates into market power. That creates continuity.

One example is the massive build-up of shipyard capacity in Asia. Similarly, we see how important it is to be present when new markets open in countries such as India. A tightening up of safety requirements has consolidated Kongsberg’s position and facilitated adittance to the Indian market.

Markets outside Norway are growing fast and becoming more important for the Group. In 1995, 40 per cent of our operating revenues were generated outside Norway. By 2006, this figure had increased to 77 per cent and the trend is expected to continue.

How?

Kongsberg Maritime has operations in 14 countries. In some of these markets, it is useful to work together with local partners. The authorities want to maximise local added value, create local jobs and build expertise. These requirements are also in line with Kongsberg’s Policy for Corporate Social Responsibility. It is easier to meet these requirements when we have a local partner that can speak on our behalf and provide advice on business and the political climate.

This map shows the locations of Kongsberg Maritime’s global operations.

Operating revenues Kongsberg Maritime

<table>
<thead>
<tr>
<th>Region</th>
<th>Operating revenues (NOK millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside Norway</td>
<td>3,000</td>
</tr>
<tr>
<td>Norway</td>
<td>2,000</td>
</tr>
</tbody>
</table>

Facts

There are long waiting times for newbuildings at most shipyards, but shipyard capacity is being expanded rapidly, driven primarily by China and South Korea. Both countries are building new shipyards while improving the productivity of established shipbuilders. In addition, new shipyards are being built in Vietnam, the Philippines and India. The shipyard industry has a huge backlog of orders, and newbuilding prices increased throughout 2006.
**STRATEGIC DIRECTION**

**To offer more products and services to existing markets**
Kongsberg Maritime

**Why?**
Kongsberg Maritime’s products are often described as the ‘intelligence’ in the overall products or systems ordered by customers. Notwithstanding, our deliveries account for only a small part of the overall costs customers pay for finished products. Accordingly, the Group aspires to offer customers more complete packages, allowing us to increase our share of value creation.

**How?**
We expand the number of products, systems and services we supply to each individual customer. When we sell a positioning system for a vessel, platform or rig, we also offer our automation and navigation systems. With equipment on 17,000 vessels, we have vast market potential. In addition, we will strive to maximise orders by supplying other services such as engineering, training in the use of our systems, maintenance, support and upgrades.

The product portfolio will also be expanded through acquisitions and investments in companies with products that fit our portfolio.

**STRATEGIC DIRECTION**

**To develop attractive products for delivery directly to oil and gas companies**
Kongsberg Maritime

**Why?**
Kongsberg’s strategy is to have a range of products which makes us a direct, more significant supplier to oil and gas companies. This will facilitate increases in our added value. Adequate knowledge of the entire oil and gas market is a prerequisite for climbing higher up the value chain. It is decisive for Kongsberg to develop products and systems that are interrelated and of importance to the end user.

**How?**
To make its way up the value chain, Kongsberg will further develop proprietary products and services. Moreover, we will make acquisitions and invest in established companies that have products for delivery directly to oil and gas companies. Thus we will strengthen the Group’s position and relations.

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**STRATEGIC DIRECTION**

**To develop new opportunities through offset agreements**
Kongsberg Defence & Aerospace

**Why?**
The defence market is a protectionistic political market that is affected from the EEA’s equal opportunity competition requirements. This means that most countries either choose national suppliers or attach offset requirements to international procurements.

In Norway, offsetting is essential if the country is to maintain a viable national defence industry. When Norway places orders for major defence procurements with foreign industry, offsetting is used actively to ensure contracts for Norwegian industry.

Earlier large-scale procurements of e.g. air defence systems and frigates resulted in new alliances and partners for Kongsberg. Such projects also give employees and the organisation valuable inspiration in terms of knowledge and technology.

Although Kongsberg is Norway’s premier supplier of high-technology defence systems, the Group is small by international standards and is heavily impacted by individual projects.

The Storting (Norwegian parliament) is scheduled to decide in 2008 which fighter aircraft to buy. This contract will be Norway’s largest procurement of defence material ever, making it profoundly important for the Norwegian defence industry. Kongsberg works actively with potential development projects in connection with the various alternatives.

The Government poses strict offsetting requirements. As the largest Norwegian defence enterprise, Kongsberg has historically been awarded by far the largest part of the offset agreements concluded in Norway. In 2006, Kongsberg used approximately 2000 Norwegian subcontractors for its defence activities.

**How?**
Any purchase of fighter craft can become one of the most important projects for many years. In this context, Kongsberg is maintaining a good, active dialogue with Norway’s political authorities, the Armed Forces and our international partners.

The Norwegian authorities pose offset requirements in connection with major material procurements. Such ‘door openers’ are often decisive for gaining access to markets outside Norway.

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**Offset agreements**
When the Norwegian Armed Forces sign contracts with foreign vendors for the purchase of defence material, they also sign contracts to obligate the contractor in turn to buy Norwegian goods and services.

- **Offset agreements** are still an important element of international trade.
- **Norway** operates with the same regime as other European countries. The Norwegian Government Declaration states: “The Government will require offsetting and industrial participation in connection with major defence procurements to a greater extent than today.”
- **The Armed Forces’ future investment plans suggest increased imports (e.g. new fighter aircraft).** This opens the possibility for new offset agreements which, in turn, will facilitate access to new geographical markets.
- **All Armed Forces contracts with foreign vendors valued at more than NOK 75 generally generate 100 percent offsetting**.

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**Fighting aircraft**

- **JAS Gripen (Sweden)**
- **F-35 Joint Strike Fighter (USA)**
Strategic Direction

A stronger international presence along with alliance partners
Kongsberg Defence & Aerospace

Why?

Kongsberg Defence & Aerospace and the Norwegian Armed Forces have time-honoured traditions of working together to develop unique systems for the defence market. The Armed Forces have a positive attitude to the export of these products. Exports mean more users to share the cost of upgrading and maintenance. Through our international alliance partners, we gain access to more markets for our niche products.

How?

During 2007, we expect to conclude a production agreement for the NSM anti-ship missile. The NSM is one of Norway’s most technologically advanced development projects. Several countries have shown considerable interest in the NSM, and that may open doors to new markets.

Protector is a Remote Weapon Station (RWS) for armoured personnel carriers. It was developed to protect military personnel. Besides deliveries to the Norwegian Armed Forces, Kongsberg Defence & Aerospace has won contracts with the US Armed Forces and a number of other countries. Kongsberg Defence & Aerospace has set up operations in the US to ensure better customer proximity and to be able to offer customers good service and follow up. The facility will undertake maintenance and upgrading of equipment that has been delivered.

The alliance with Raytheon of the US has brought international recognition for anti-aircraft command and control systems. In 2005, we signed a new 10-year cooperation agreement with Raytheon that promises for a huge potential for future deliveries of air defence systems.

The world is devoting more attention to fighting terrorism and environmental crime, and to supervising vulnerable natural resources. Kongsberg has good qualifications for achieving a strong position. We have maritime and land-based surveillance systems for civilian, military and other public installations at the national and international levels. Kongsberg’s goal is to continue developing and exploiting this market potential to enter into new markets and alliances.

Why?

If Kongsberg is to sustain its competitiveness, the Group is dependent on co-workers with appropriate knowledge and competence. Even though there is keen competition for qualified labour, Kongsberg is currently an attractive employer for graduates with tertiary technical training. We must nevertheless work hard to maintain and improve this position. With fewer science students, the competition for graduates will be even keener.

Many countries in Asia are making tremendous efforts to build up their own local knowledge and expertise. Low costs, combined with access to human and material resources, have led many Western companies to escalate their operations in these countries.

How?

To acquire the requisite expertise, we must gain access to more international technological communities. Kongsberg will do this by further developing the technology communities we have built up organically and through the acquisition of companies. The Group currently has centres of expertise in Norway, Great Britain, Poland, Bulgaria, the USA, Canada, India, South Korea, China and Singapore. Technical knowledge is being built up the world over, as intellectual capital is becoming increasingly international. To prevail against the competition, our way of working, our culture and the prudent use of expertise are essential. This creates a need for skilled leaders with appropriate expertise, who have the ability to recognise and take advantage of cultural differences among employees, and to build up working environments with the right attitudes.
The future belongs to those who have the determination and ability to improve continuously.

A firm foundation is a good point of departure, but no excuse for not acting. The will to achieve, improve and take a long-term perspective will produce tomorrow’s winners.
2006 was a year of progress for Kongsberg. Revenues climbed by 16 per cent to NOK 6.7 billion, the backlog of orders increased by NOK 1 billion to NOK 6.5 billion, and the EBITA rose by 22.8 per cent to NOK 464. Earnings per share for continuing operations came to NOK 8.30 (NOK 7.19). The Board proposes a dividend of MNOK 2.50 per share.

General review of 2006
Both business areas (BA) posted higher operating revenues and EBITAs than in 2005. Sales orders were good for both Offshore & Merchant Marine and Defence & Aerospace. The backlog of orders at Offshore & Merchant Marine was MNOK 3,054 at year end, the highest ever for the BA.


The BA Offshore & Merchant Marine posted good results and reported a strong inflow of new orders. Sales orders for dynamic positioning aggregated NOK 1.2 billion and contracts were signed for the delivery of equipment to a total of 29 drilling rigs. The BA also signed several strategically important contracts. For example, the BA landed an order for integrated control systems for safety and automation on vessels for floating production that BP will be operating on the Skar and Iddn Field on Hattenbanken. Orders were up by more than 50 per cent for Defence & Aerospace compared with 2005. Major contracts were signed for remote weapons systems, communications and air defence. In 2006, the Division for Remote Weapons Systems booked new orders worth approx. NOK 1.2 billion. Contracts for the systems have been signed with seven countries. The improvement in the situation for communications solutions was also gratifying in 2006. The development of the new Naval Strike Missile (NSM) is in the final phase, having demonstrated its most important features during successful test firings in 2006 and January 2007.

Comments on the result
Growth in sales
The Group had a turnover of MNOK 6,720, up 16.0 per cent compared with 2005. Both BA’s achieved sales growth. Offshore & Merchant Marine had a turnover of MNOK 3,553, up 17.1 per cent. Defence & Aerospace had a turnover of MNOK 2,997 in 2006, up 13.1 per cent.

EBITA trend
The EBITA came to MNOK 464 in 2006. That marked an increase of MNOK 86 compared with 2005. The increase was achieved in both BA’s. Defence & Aerospace improved its performance by MNOK 47, with the most pronounced improvement in communications and remote weapons systems. Offshore & Merchant Marine improved its performance by MNOK 67. All divisions in the BA showed improved performance.

Net financial items
Net financial expenses came to MNOK 58, which is comparable to 2005. The financial expenses reflect that fixed rates of interest were agreed on a higher level of net interest-bearing debt than what existed at 31 December 2006. The Group has fixed-rate agreements on gross debt of NOK 1 billion.

Performance
Earnings before tax (EBT) added up to MNOK 390, compared with MNOK 314 in 2005, and the consolidated net profit from continuing operations was MNOK 252 (MNOK 215). Earnings per share from continuing operations were NOK 8.30 (NOK 7.19).

The Board is satisfied with the progress made in 2006 and therefore decided in February 2007 that all employees would be paid a bonus.

Market conditions and parameters
Kongsberg achieved growth in Norway and abroad in 2006. Notwithstanding, future growth opportunities are considered greatest at the international level, especially in Asia. The Board therefore attaches importance to continued efforts on the international arena. Further development of the operations in Asia plays a key role, especially for Offshore & Merchant Marine. The BA Offshore & Merchant Marine has a significant market share for its ship’s systems in the rig market. This market grew rapidly in 2006 but is expected to slow down slightly in 2007. However, growth is expected in the market for floating production, and Kongsberg has excellent qualifications for being competitive in that market. The acquisitions of Fantofo Process Technologies and Sense Intellifeed are key elements in the efforts to address the petroleum industry. These acquisitions strengthen Kongsberg’s position in the area of integrated operations.

Orders for new merchant vessels and offshore vessels were high in 2006, creating a strong potential for new orders in the short term. Meanwhile, shipyard capacity is limited, leading to long delivery times for new vessels. The Group has good market positions and good customer proximity. This means we are well prepared to meet steadily growing demand from local competitors, especially in Asia. Norway’s maritime industry has a strong position, and is important to the export industry.

In collaboration with Kongsberg, the Norwegian Armed Forces have developed solutions over time that have proven highly competitive on the international market. For the Group, it is of great importance that this cooperation continues. At the international level, there are many contract prospects, especially for the RWS, air defence, military communications and missiles.

In the market for remote weapons systems, many exciting international programmes will be decided on suppliers in 2007 and subsequent years. At present, Kongsberg has a strong share of this market but the competition is becoming keener. As the Norwegian market’s largest, most seasoned contractor, Kongsberg’s chances should nonetheless be good for winning contracts under several of the upcoming programmes.

The development of the new Naval Strike Missile (NSM) is in the final phase and the last two test firings were conducted in the USA in January 2007. The first contract for the missile is expected to be signed with the Norwegian Armed Forces in the early half of 2007. Kongsberg envisages substantial market potential for the missile. A joint marketing agreement was signed with Lockheed Martin to market the missile in combination with the Joint Strike Fighter. A study is in progress to adapt the missile to the aircraft. Predictability is crucial when it comes to export regulations and the way in which the authorities practice them. Offsetting national defence spending is an established practice internationally and the entire defence industry is cognisant of this. It is of great importance to Kongsberg that the rules that apply to offsetting be continued and practised by the Norwegian authorities. The nation faces the largest defence investment in its history, i.e. new fighter aircraft. Favourable offset agreements will benefit Kongsberg, the Group’s subcontractors and the Norwegian defence industry as a whole.

Technology and R&D
A substantial percentage of Kongsberg’s added value consists in the development of high-technology solutions for national and international markets. In this context, the Group’s high-level expertise is essential for its competitiveness. Technology-sharing also creates valuable synergies within Kongsberg. The Group’s systems and products generally revolve around four core competencies: Signal processing, systems integration, cybernetics (engineering cybernetics), and software development. Kongsberg’s extensive knowledge of dynamic positioning is based on expertise developed in connection with guidance systems for submarines and missiles. Kongsberg focuses continuously on product development. In 2006, product development costs were equivalent to about 11 per cent of operating revenues.
Wavefield Innes AS for a total of MNOK 59. Furthermore, a large payment was received in connection with the sale of Simrad Yachting in 2005.

The cash flow from operating activities in 2006 was on a par with the figure for 2005. The EBITDA increased by MNOK 91 to MNOK 627, and working capital increased as a result. In terms of operating revenues, working capital increased by more than 20 per cent on the year.

Dividends of MNOK 65 (MNOK 60) were paid in 2006.

Currency

Kongsberg has a service pension plan that covers all Group employees in Norway. As of 31 December 2006, 3,019 employees were covered by the scheme. The plan is insured with Gjensidige NORD, and entities an employee to 65 per cent of his or her salary upon retirement, including benefits from the National Insurance Scheme until the age of 77, at which time the service pension will be cut by 50 per cent. The accrual period is 30 years.

Kongsberg’s consolidated foreign subsidiarys have deposit-based schemes that comply with local legislation.

Net pension obligations came to MNOK 747 (MNOK 665) as of 31 December 2006. Actuarial gains/losses on pension expenses after tax are recognised directly in equity. In 2006, MNOK 85 was recognised directly in equity. The main reason for the actuarial gains/losses in 2006 was the introduction of new, more accurate estimates for life expectancy, as well as an increase in anticipated wage growth of 0.5 percentage points relative to the discounting rate. Since the introduction of IFRS, accumulated unrealised actuarial gains/losses on pension expenses recognised directly in equity have added up to MNOK 790.

Acquisitions

Acquisitions constitute an important part of Kongsberg’s growth strategy. In 2006, the Group contributed to buy 100 per cent of the shares in the companies Fanfot Process Technologies AS and Sense Intellifield AS. Both acquisitions are in line with the Group’s strategy for stronger focus on the petrochemical and gas industry. The acquisition of the defence enterprise Gallium Visual Systems Inc. was concluded in May 2006.

Fanfot delivers dynamic process simulators and real-time systems for oil and gas fields, LNG installations and transportation pipelines. The company has a total of 50 employees, 30 of whom work in Norway. Sense Intellifield supplies products and services related to integrated operations to the international oil and gas market. The business is engaged in the development, marketing and sale of highly sophisticated systems for real-time remote operation of drilling and production operations for the petroleum industry. Among other products, the company has developed software to retrieve, transport, store and display data from well and drilling services on rigs. The acquisition of Sense Intellifield gives Kongsberg a wider variety of products in the rapidly growing market for integrated operations. Integrated operations are having a growing impact on exploration as well as production in the oil and gas industry. Sense Intellifield has grown at a satisfactory pace since the company was founded in June 2003, and has 70 employees at its main office in Kristiansand and operations in Stavanger, Oslo, Trondheim, Houston as well as in Austria. The company has established relations with several of the world’s leading oil and gas companies.

Gallium has 65 employees and is well-known for its map graphics tool for military command and control systems. The acquisition will strengthen Defence & Aerospace’s surveillance systems for civilian and military markets alike. Gallium has its head office in Canada.

Operations and markets, by BA

Kongsberg’s two BAs, Offshore & Merchant Marine and Defence & Aerospace, posted operating revenues of MNOK 3 553 and MNOK 2 997, respectively.

Offshore & Merchant Marine

The BA posted operating revenues of MNOK 3 553 in 2006, an increase of 17.1 per cent from the previous year. The EBITA was MNOK 329 (MNOK 262), with an EBIT margin of 9.3 per cent (8.6 per cent).

The segment had smooth operations, with performance improvement in all divisions compared with 2005, a situation expected to continue in 2007. Improved profitability was achieved due to positive market conditions and emphasis on efficient performance. Moreover, improvement profitability was obtained by moving some valuable activities closer to customers.

New orders aggregated MNOK 4 408 in 2006, up 23.6 per cent from 2005. The backlog of orders at the end of 2006 aggregated MNOK 3 054 (MNOK 2 158) for delivery from 2007 to 2009, increasing predictability for the segment. Part of the reason why orders are backed up is that shipyard capacity is currently limited.

Kongsberg’s systems are installed relatively late in the building phase and most of the world’s shipyards are currently operating with several years’ waiting time for new vessels. Offshore & Merchant Marine’s order books reflect this. The BA’s order backlog has expanded every year since 2002. At year end 2006, the backlog exceeded the NOK 3 billion mark for the first time.

The offshore market is still booming. More than 60 per cent of the BA’s new orders came from this market in 2006. New orders for dynamic positioning totalled more than NOK 1.2 billion in 2006. Kongsberg booked orders for deliveries to 29 drilling rigs in 2006. The core of a rig order generally consists of dynamic positioning and navigation. A typical rig delivery also includes a global positioning system (GPS) from Kongsberg Seasat, hydroacoustics from the Subsea Division in Horten, and security systems and process automation from the Process Automation Division, as well as user management systems from Kongsberg SeaTask.

Rig orders are the type of deliveries that reflect the diversity of Kongsberg’s products within Offshore & Merchant Marine. The BA often pro-

This level is considered necessary for achieving a sufficiently modern, cost-effective product portfolio. Roughly half the Group’s product development is customer-funded, largely from the Norwegian Armed Forces. The competition for good engineering resources in Norway is becoming sharper, but access to expertise was satisfactory in 2006. More attention is being devoted to taking advantage of the Group’s international operations to improve access to expertise.

The financial situation and capital structure

Cash flow

The consolidated cash flow was MNOK -25 in 2006 (MNOK 563). The change in the cash flow compared with 2005 was mainly due to the change in the cash flow from investing activities. The acquisitions of Fantof and Gallium-entailed disbursements of MNOK 67 and MNOK 157, respectively. In addition, Kongsberg acquired shares in Remora ASA and

Currency hedging portfolio at 31 Dec. 2006

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<th>Currency</th>
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<th>EUR/Producers</th>
<th>USD/Orders</th>
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Net interest-bearing debt/EBITDA

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<td>MNOK 282</td>
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1) The figures are IFRS compliant (International Financial Reporting Standards) and jointly controlled operations are consolidated using the proportionate method.
2) The figures have been adjusted for effects at the translation to IFRS and the sale of purchasing activities, and jointly controlled operations are consolidated using the proportionate method.
3) The figures are not adjusted for effects of the translation to IFRS, but are presented according to NCAAP. Jointly controlled operations are reported as associates.

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vides engineering services to accompany the delivery of systems. The merchant marine market, including gas carriers (LNG), is maintaining a stable high level. To keep its strong position in this market, Koncerna is continuing its efforts in Asia. In South Korea, the world’s largest shipbuilding nation today in terms of new orders, shipbuilding results in commercial vessels. Koncerna has a strong position in South Korea, where it has 107 employees.

As part of the campaign in the oil and gas market, the BA has devoted additional attention to integrated operations. Integrated operations involve applying advanced technology and work processes that make it possible to increase production and reduce drilling and operating costs in the oil and gas industry. Integrated operations represent a relatively new market, and are expected to have a growing impact on the oil and gas industry in the years ahead. According to the Norwegian Oil Industry Association, the market for integrated operations is expected to enhance value creation on the Norwegian Continental Shelf by more than NOK 200 billion. Investments associated with this are estimated at NOK 25 billion over the next 15 years. Koncerna’s objective is to be one of the leading players in this area. The acquisitions of Fartsco and Sense Intelliforce strengthen Koncerna’s chances of achieving this goal.

Defence & Aerospace

Operating revenues totalled MNON 2 997, i.e. an increase of 13.1 per cent. The EBITA came to MNON 182 (MNON 135), with an increase of 37.1 per cent (5.3 per cent). The improvement in performance was mainly generated by remote weapons systems and communications activities. Remote weapons systems performed better owing to a good market and higher volumes, in addition to which the product is now more mature. Emphasis on performance has had a favourable effect on the profits generated by the communications segment. The BA booked new orders valued at MNON 3 071 (MNON 1 980). Several of the divisions have contributed to the strong influx of new orders. Remote weapons systems booked new orders valued at NOK 1.2 billion in 2006. A contract valued at MNON 345 for air defence systems was concluded with the Netherlands in Q4. Total new air defence orders aggregated MNON 450 in 2006. The communications segment booked MNON 450 worth of new orders in 2006. Defence & Aerospace’s backlog of orders at the end of 2006 came to MNON 3 253 (MNON 3 124). Defence & Aerospace’s largest development project ever, the naval strike missile (NSM), will be concluded in 2007. In 2006 and January 2007, several successful test firings were conducted, demonstrating the missile’s most important features. Thus project risk was mitigated further. In the fiscal budget for 2007, the Government has stated that it will be procuring NSM missiles. Negotiations are in progress with the Norwegian Armed Forces for production contracts, and it is assumed that the contract will be signed in the early half of 2007.

The new fighter aircraft could potentially represent Norway’s largest defence procurement ever. It is necessary for the Norwegian defence industry that emphasis be attached to negotiating favourable offset agreements in connection with defence spending abroad. When the Armed Forces choose to spend large amounts of money with foreign contractors, it is up large parts of the defence budget, limiting investments with national contractors as a result. To ensure a competitive Norwegian defence industry, it is important that Norwegian participants be included in the fighter craft programme. A good offset agreement will facilitate this. The current government has underlined the importance of offsetting.

As Norway’s premier defence enterprise, there is a strong probability that parts of such an offset agreement will benefit the Group. An offset agreement with Koncerna would also translate into orders for several of the BA’s nearly 1 500 subcontractors. The choice of new fighter aircraft will most likely be made by 2008. Koncerna has signed a framework agreement with Lockheed Martin and Northrop Grumman for the production of parts in titanium and composite materials for the US aircraft alternative, the Joint Strike Fighter. This agreement is contingent upon Norway selecting the US alternative. Composite production would also be an alternative if the AAS Grippen or Eurofighter were chosen. In any event, an offset agreement in connection with the procurement of fighter aircraft will translate into more added value and activity in the years ahead.

Risk factors and risk management

The Group is exposed to different types of risk, and the Board monitors trends in the various risk areas closely. The Board has established an Audit Committee to help deal with the accounts, including appurtenant discretionary items, internal control and risk management.

The Board reviews operational reports on a monthly basis, and the quarterly risk reports drawn up by the administration. The Board is of the opinion that there is a good balance between overall risk and the Group’s capacity to deal with risk.

Financial risk

The Board of Directors adopts Koncerna’s financial policy, which is intended to optimise the Group’s financial risk. The Group’s most distinct exposure to financial risk is related to currency fluctuations. About 70 per cent of the Group’s earnings are generated outside Norway, and 30 per cent of the Group’s expenses are in foreign currency. This results in net foreign currency exposure of 40 per cent. A systematic, well-established hedging strategy gives the Group time to adapt to fluctuations in currency exchange rates. Short-term fluctuations have less impact, and there is time to make operational adjustments to accommodate changes. The efforts to reduce the effect of currency fluctuations take place continuously, regardless of whether the value of a currency has increased or decreased over a period of time. Stepping up activities abroad is an important policy instrument for mitigating the effect of currency fluctuations. By increasing the percentage of expenses in foreign currency, the Group’s net foreign currency exposure will be reduced and the effects of short- and long-term fluctuations on the Group’s results will be mitigated further.

Koncerna’s financial policy assumes that activities will have access to predictable funding at any given time. The Group’s financial policy is to have a financial structure that is well-liquidity risk.

Koncerna is responding to changes in the economy, with a view to retaining profitability in the long term.

The backlog of orders increased in both 2006, exceeding operating revenues.

Shares and shareholders

Koncerna’s share price climbed from NOK 124 at year-end 2005 to NOK 175 at year-end 2006. This gives a market capitalisation of MNON 5 250. Including the dividend of NOK 2.15 per share, the return on investments in 2006 came to 42.9 per cent. During the same period, the All-Share Index climbed by 32.4 per cent. At 31 December 2006, Koncerna had 4 530 shareholders, an increase of 690 from the year before. The share had 210 foreign owners, all in the final phase. Successful test firings conducted in 2006 and in January 2007 demonstrated the missile’s most important features, further mitigating project risk.

Business risk

Business-related risk is related to market conditions, competitors and other general business conditions prevailing in the markets in which we operate. The shipbuilding market fluctuates over time, impacting Koncerna’s deliveries of ships’ systems. The market is currently expanding, especially in Asia. The competition is growing keener and the shipyards in Asia are focusing to a greater extent on taking a higher percentage of their orders outside the region. Koncerna is monitoring trends closely.

The level of investment in the oil and gas industry is another important parameter for Koncerna. This market is booming. Koncerna has maintained its market share, but the competition is getting sharper.

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

A total of 2 989 796 Koncerna shares were traded in 1 980 transactions in 2006.

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1) The figures are IRS compliant (International Financing Reporting Standard) and jointly controlled operations are consolidated using the proportionate method.
2) The figures have been adjusted for effects of the transition to IRS and the sale of packaging activities, and jointly controlled operations are consolidated using the proportionate method.
3) The figures are not adjusted for effects of the transition to IRS, but are presented according to NAPA. Jointly controlled operations are reported as associates.
Liquidity is at a low level, but the company is working actively to promote interest in the share by devoting more attention to investor relations.

The Group’s annual employee share programme was conducted in spring 2006 for the 10th time. A total of 83,987 shares were sold at a price of NOK 120 (20 per cent discount from the market price). 379 employees took advantage of the offer. See Note 24 to the annual accounts and the section on ‘Shares and shareholders’ for a more detailed description of the share programme.

At 31 December 2006, a total of approx. 750 employees owned more than 550,000 shares in Konsebenc. This corresponds to roughly 1.8 percent of the shares.

Health, Safety and the Environment (HSE)

The Board ensures that health, safety and the environment are handled in a manner that promotes considerable job satisfaction and a safe working environment. One basic principle for working with HSE is that the work should be preventative. Responsibility, commitment and good routines at every level in the organisation are prerequisites for success in this area.

The Board follows up HSE work closely, reviewing the HSE report every quarter. In 2006, special attention was devoted to HSE training for line supervisors and safety representatives, and to improving HSE policy and processes in the BAS, as well as reporting routines from the foreign subsidiaries. As from 2006, our international units’ figures for absence due to illness and work-related accidents are included in the HSE report.

In 2006, there were a total of 21 work-related accidents in the Group. Seven of them were minor accidents that did not call for any type of treatment or follow up. Twelve were accidents that required medical attention. Two accidents were classified as high-risk incidents that led to changes in routines. In addition, there were three near-accidents that required follow up. No occupational diseases or work-related fatalities were recorded in 2006. Total work-related accidents entailled 160.5 lost working days that required medical certificates. Total absence due to illness declined from 3.1 per cent to 2.7 per cent in 2006.

HSE work is central in the individual BAS. The Group has entered into collaboration with Help 24. As from 1 January 2007, Help 24 is the designated supplier of company health services for all our business operations in Norway where Help 24 offers services of satisfactory scope and quality.

Konsebenc has 646 employees outside Norway. Konsebenc’s growing international presence requires more attention to and insight into HSE issues in the countries in which we operate.

Personnel and organisation

Continuous efforts are made to adapt the organisation to Konsebenc’s markets. At 31 December 2006, the Group had 3,650 employees (337/2), 646 (516) of whom worked outside Norway. At year end, the parent company, Kongsberg Gruppen ASA, had 35 employees. Access to skilled labour has been satisfactory.

One important prerequisite for long-term success is that Konsebenc manages employees’ expertise in a satisfactory manner. To enhance the Group’s ability to revitalise and improve decision-making processes, the goal is to cultivate diversity so that people of different backgrounds, cultures, educations and ways of thinking are represented. Active efforts are made to exchange expertise and employees between the BAS. Offering good development opportunities is an important policy instrument for recruiting and retaining employees. Konsebenc works continuously with human resource development. The Kongsberg School facilitates and co-ordinates courses and training programmes. In 2006, the project ‘Leadership at Konsebenc’ was initiated and given a mandate to improve Konsebenc’s leadership principles and leadership requirements. A joint resource group working to develop qualified leadership talent in the Group offers a portfolio of management programmes through the Kongsberg School.

At year end, there were 558 women (19 per cent) employed by the Group (20 per cent in 2005). Of the total number of managerial positions in the Group, 79 (12 per cent) were occupied by women (9 per cent in 2005). This is a gratifying development since the last year. The percentage of women recruited to the Group is on a par with the percentage of women educated in the areas of technology that are most pre-dominant at Konsebenc. Generally speaking, there are still too few women in senior managerial positions so Konsebenc will continue to strive to increase the percentage of female leaders and to promote the recruitment of women to technical positions. As for the Board of Directors, two of the five shareholder-elected directors are women.

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

Corporate social responsibility and the environment

The Board of Directors emphasises that Konsebenc is to operate in an ethical, environment-friendly and socially responsible manner. Konsebenc aspires to achieve sustainable development, i.e. a good balance between financial results and corporate social and environmental responsibility. The Board focuses on compliance with the Group’s Policy for Corporate Social Responsibility, its Environmental Policy and the corporate Code of Ethics.

During 2007, the Group will draw up a new strategy to promote corporate social responsibility, and the Policy for Corporate Social Responsibility and the Environmental Policy will be evaluated. The background for this is the Group’s increased international activities and generally more attention being devoted issues related to corporate social responsibility.

Konsebenc’s operations mainly consist of software development and systems integration. The Group is only marginally affected by environmental regulations. Notwithstanding, it is important to the Board that the Group focuses on active environmental measures. These have largely involved energy conservation associated with the real property occupied by the Group, as well as source separation of waste. The two UN climate reports presented thus far in 2007 identify severe challenges related to climate change. Konsebenc must do its part to face these challenges. During the year, the Group will consider how to further improve the situation.

For a more detailed description of the Group’s work with corporate social responsibility and the environment, please see the Sustainability Report at the back of this report.

Corporate governance

Good corporate governance and leadership will ensure the greatest possible value creation, at the same time as the Group’s resources will be used in an efficient, sustainable manner. The added value will benefit shareholders, employees and the community. The Board emphasises that the Group’s corporate governance documents are reviewed annually and updated so that they comply with the Norwegian Recommendation for Corporate Governance insofar as possible. To comply with the final revised version of the Recommendation, several amendments and adaptations were made in 2006. The Board made an in-depth review of corporate governance in 2006.

A more detailed description is given on pages 92–105 of this report.

Remuneration to the directors and the CEO is stated in Note 30 to the consolidated financial statements.

Prospects for 2007

Konsebenc’s maritime markets remain buoyant, as does the offshore market.

Efforts to address the offshore market will continue in 2007 and the percentage of Konsebenc’s earnings generated on this market is expected to increase. In the market for merchant vessels, shipyards are experiencing high capacity utilisation and, as a result, delivery times for new vessels are longer than usual. Konsebenc expects a continued strong influx of new orders in these markets.

Kongsberg, 15 March 2007

Flora Johnsen
Chair
Benedicta Berg Schnibben
Deputy Chair
Benjamin Curfass
Director
Jan Hetan
Director
John Grønlieh
Director
Kongsberg – Annual Report and Sustainability Report 2006

The company’s distributable equity totalled NOK 384 at 31 December 2006.

More new orders are expected for Defence & Aerospace in 2007. The strong influx of new orders for remote weapons systems is expected to continue and several new countries are expected to sign contracts. There is also considerable potential in countries that have already signed contracts for the system. The development of Naval Strike Missle, NSM, is approaching conclusion and it is expected that a production contract will be signed with the Norwegian Armed Forces in the early half of 2007.

Both operating income and the operating margin are expected to be better in 2007 than in 2006.
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED
31 DECEMBER 2006 KONGSBERG GRUPPEN (THE GROUP)

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>6,728</td>
<td>5,791</td>
<td>5,904</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>7</td>
<td>(2,880)</td>
<td>(3,730)</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>8</td>
<td>(2,510)</td>
<td>(2,041)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>16</td>
<td>(565)</td>
<td>(664)</td>
</tr>
<tr>
<td>Earnings before interest, tax, depreciation and amortisation (EBITDA)</td>
<td>627</td>
<td>536</td>
<td>410</td>
</tr>
<tr>
<td>Depreciation</td>
<td>11</td>
<td>(169)</td>
<td>(193)</td>
</tr>
<tr>
<td>Earnings before interest, tax and amortisation (EBIT)</td>
<td>464</td>
<td>378</td>
<td>239</td>
</tr>
<tr>
<td>Amortisation</td>
<td>12</td>
<td>(7)</td>
<td>(7)</td>
</tr>
<tr>
<td>Earnings before interest and tax (EBIT)</td>
<td>446</td>
<td>371</td>
<td>232</td>
</tr>
<tr>
<td>Financial income</td>
<td>15</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>15</td>
<td>(64)</td>
<td>(96)</td>
</tr>
<tr>
<td>Profit from continuing operations before tax</td>
<td>252</td>
<td>215</td>
<td>109</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>16</td>
<td>(138)</td>
<td>(99)</td>
</tr>
<tr>
<td>Profit from continuing operations, net after tax</td>
<td>252</td>
<td>215</td>
<td>109</td>
</tr>
<tr>
<td>Profit from discontinued operations</td>
<td>5</td>
<td>47</td>
<td>9</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>257</td>
<td>262</td>
<td>118</td>
</tr>
</tbody>
</table>

Attributable to:
- Equity holders of the company | 249 | 250 | 120 |
- Minority interests | 3 | 2 | (2) |

Earnings per share, in NOK:
- profit for the year, net | 17 | 8.30 | 8.70 | 4.03 |
- profit for the year, diluted | 17 | 8.30 | 8.60 | 4.03 |
- from continuing operations, net | 17 | 8.30 | 7.19 | 3.66 |
- from continuing operations, diluted | 17 | 8.30 | 7.19 | 3.66 |

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2006
KONGSBERG GRUPPEN (THE GROUP)

<table>
<thead>
<tr>
<th>Assets in MNOK</th>
<th>Notes</th>
<th>31 Dec 2006</th>
<th>31 Dec 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>11</td>
<td>1,088</td>
<td>1,001</td>
</tr>
<tr>
<td>Goodwill</td>
<td>12, 13</td>
<td>1,147</td>
<td>1,095</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>12</td>
<td>191</td>
<td>40</td>
</tr>
<tr>
<td>Available-for-sale shares</td>
<td>16</td>
<td>283</td>
<td>139</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>18</td>
<td>117</td>
<td>116</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>2,806</td>
<td>2,390</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>7</td>
<td>1,012</td>
<td>847</td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
<td>1,464</td>
<td>1,233</td>
</tr>
<tr>
<td>Projects in progress</td>
<td>21</td>
<td>1,268</td>
<td>1,293</td>
</tr>
<tr>
<td>Financial instruments</td>
<td>24</td>
<td>135</td>
<td>127</td>
</tr>
<tr>
<td>Cash and short-term deposits</td>
<td>23</td>
<td>712</td>
<td>736</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td></td>
<td>4,550</td>
<td>4,196</td>
</tr>
<tr>
<td><strong>Shareholders’ equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td></td>
<td>2,425</td>
<td>1,684</td>
</tr>
<tr>
<td><strong>Minority interests</strong></td>
<td></td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td></td>
<td>2,435</td>
<td>1,694</td>
</tr>
</tbody>
</table>

Kongsberg, 15 March 2007

Pål Johnsen Chairman
Bent Helleberg Deputy Chairman
Erik Moei Director
Sølvi Matting Director
John Grønholt Director
Rolf Martinussen CEO
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006 KONGSBERG GRUPPEN (THE GROUP)

Amounts in MNOE Notes 2006 2005
Receipts from customers 6,064 5,995
Payments to suppliers and employees (5,045) (5,354)
Income taxes paid (16) (8)
Net cash flows from operating activities 605 631
Cash flows from investing activities
Proceeds from sale of property, plant and equipment 11 7 12
Purchase of property, plant and equipment 11 (221) (128)
Net receipts on disposal of normal Yachting 5 466
Net payments for the acquisition of shares and undertakings 5, 12, 16 (289) (82)
Net cash flows from (used in) investing activities (543) 367
Cash flows from financing activities
Repayment of debt (13) (228)
Net interest paid (46) (86)
Net receipts related to the sale/purchase of treasury shares (3) 10
Dividends paid to equity holders of the parent (95) (82)
Dividends paid to minority interest
Net cash flows from (used in) investing activities (177) (175)
Net change, cash and short-term deposits (20) 153
Cash and short-term deposits at 1 January 711 736
Cash and short-term deposits at 31 December 711 736

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2006 KONGSBERG GRUPPEN (THE GROUP)

Amounts in MNOE Notes 2006 2005 2004
Change, fees for value of financial instruments and hedge instruments for cash flow hedges
- Change, cash flow hedges (8) (121) -
- Change, interest rate agreements 21 18 -
- Change, shares available for sale 87 7 -
Reignanced actual gains/losses on pension expenses (98) (227) (54)
Translation differences, currency (25) (5) -
Implementation effect IAS 39
- Excess value, cash flow hedges - 181 -
- Negative value, interest rate agreements (49) -
- Excess value, shares available for sale 21 -
Income and expenses recognised directly in equity (5) (171) (55)
Profit for the year 352 262 118
Total recognised income and expenses 21 247 89 60
Attributable to Equity holders of the parent 241 193 52
Minority interests 3 0 (2)
All figures are presented after tax.
Classification
The Group classifies financial assets and liabilities in the following categories:
(a) Financial assets and liabilities at fair value through profit or loss (FVTPL).
(b) Financial assets and liabilities at amortised cost (FAC).
(c) Financial assets and liabilities at fair value through other comprehensive income (FVTOCI).
(d) Financial assets and liabilities at cost (FACost).

Impairment of financial assets
Where there is objective evidence that a financial asset’s value is lower than its cost, the asset will be impaired through profit or loss. Impairment in the value of assets measured at amortised costs is calculated by taking the difference between the carrying amount and the net present value of the estimated future cash flows discounted by the original effective interest rate. As regards available-for-sale assets, an asset is impaired when its present fair value is lower than its cost and the impairment is regarded as significant or not to be a prolonged decline. Ordinarily, we would consider an impairment of more than 20 per cent of the cost as significant and a prolonged decline in value as one lasting for more than nine months. All impairments are recognised, including impairments in the values of available-for-sale assets. Accumulated losses recognised directly in equity will also be transferred through profit or loss on the impaired assets. Impairment can be reversed if the revised forecast numbers have improved after the impairment was recognised. For financial assets measured at their amortised cost and available-for-sale bonds, any reversal will be recognised through profit or loss. Upon the reversal of impairment, any impairment losses in equity instruments, the reversal will be recognised directly in equity.

Derivatives
Konica Minolta's derivatives encompass forward foreign exchange contracts, currency options and interest rate swaps. Upon initial recognition, derivatives are measured at fair value, and identifiable transaction costs are recognised as being a part of the fair value of derivatives recognised through the profit and loss, unless they qualify for hedge accounting.

Provisions
Provisions are recognised when the Group has an obligation as a result of past events, and when it is probable that there will be a financial settlement as a result of the obligation and the amount can be measured reliably. Generally speaking, provisions are based on historical data and a weighing of possible outcomes against the probability that they will occur. If the time value is significant, the provision will be the net present value of the amount expected to be required to meet the obligation.

Guarantees
Guarantees are provisions recognised when the Group has guaranteed others, the underlying products or services are sold. They are based on historical guarantees and a weighing of possible outcomes against the probability that they will occur. Guarantees are provisions based on an ongoing basis on the degree of completion of the projects, and are thus in provisions for guarantees upon delivery.

Restructuring
Provisions for restructuring are recognised when the Group has approved a detailed, formal restructuring plan, and restructuring has either started or been announced publicly and to the parties involved.

Segmentation
The Group is organized into two business areas: Device & Aerospace and Defense & Maritime. The business areas constitute the basis for the Group’s primary reporting by segment. Financial information concerning the segments and the geographical regions is presented in Note 8. "Information by segment".

Earnings per share
The Group presents ordinary earnings per share and earnings per share after dilution. Ordinary earnings per share are calculated as the ratio between the net result for the year that accrues to the ordinary shareholders and the number of average ordinary shares outstanding. The figure for diluted earnings per share is the result that accrues to the ordinary shareholders, and the number of weighted average ordinary shares outstanding has been adjusted for all diluting effects related to share options.

IFRS and IFRIC have been adopted by the EU/EEA but not yet implemented
IFRS 7, Financial instruments: Disclosure requirements: IFRS 7 introduces new disclosure requirements to improve reported information relating to financial instruments. The Group will be compliant with IFRS 7 and the amendment to IAS 1 for the annual accounts from 1 January 2007.
The consolidated accounting principles and notes require the calculation of fair value for financial and non-financial assets and liabilities. For both measurement and disclosure purposes, fair value has been estimated as described below in the notes. Where relevant, further information will be provided in the notes about the assumptions used to calculate fair value on the individual assets and liabilities.

Intangible assets
The fair value of intangible assets, such as technology, which have been acquired by business combination, is based on the discounted future cash flow from the asset and any sale of the asset. Brand names acquired through a business combination are based on calculating an estimated royalty fee for using the brand name.

Property, plant and equipment
The fair value of property, plant and equipment is its market value. The market value of property is based on what the property would be sold for on the day of valuation between a willing buyer and a selling in an arm's length transaction. The market value of property and equipment is calculated by obtaining an assessment from an independent assessor. For smaller equipment and plants, an assumption is made in a business combination that the carrying amount is an estimate of market value.

Inventories
The fair value of inventories acquired in a business combination is estimated based on the expected selling price for ordinary operations less selling costs and a reasonable profit for the sales efforts.

Investments in equity instruments
The fair value of financial assets, i.e. fair value through profit or loss or available-for-sale assets, is measured using the final price listed on the day of balance sheet recognition. Listed shares consist of those listed on the Oslo Stock Exchange and on the Norwegian Securities Dealers Association's OTIC list. For unlisted investments, the most recent price of a share transaction or share issue will be used to estimate fair value. Where there have been no transactions, the discounted cash flow on the share is used. For investments not of significant value, acquisition cost is used to estimate fair value.

Trade receivables and other receivables
The fair value of trade receivables and other receivables is estimated as the net present value of future cash flows discounted by the market interest on the day of balance sheet recognition.

Derivatives
The fair value of forward foreign exchange contracts is based on market values, if available. Where no listed price is available, fair value is calculated by discounting the difference between the agreed forward contract price and the current forward contract rates to the present value of the contract using the risk-free interest rate.

The fair values of interest swap agreements and currency options have been obtained from banks that are contracting parties.

Share-based payment
The fair value of employees’ options is estimated using the Black-Scholes model. The model requires the following input data: share price on the date of balance sheet recognition, strike price, expected volatility, expected dividends and the risk-free interest rate based on government bonds.

The consolidated accounting principles and notes require the calculation of fair value for financial and non-financial assets and liabilities. For both measurement and disclosure purposes, fair value has been estimated as described below in the notes. Where relevant, further information will be provided in the notes about the assumptions used to calculate fair value on the individual assets and liabilities.

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Derivatives
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Property, plant and equipment
The fair value of property, plant and equipment is its market value. The market value of property is based on what the property would be sold for on the day of valuation between a willing buyer and a selling in an arm’s length transaction. The market value of property and equipment is calculated by obtaining an assessment from an independent assessor. For smaller equipment and plants, an assumption is made in a business combination that the carrying amount is an estimate of market value.

Inventories
The fair value of inventories acquired in a business combination is estimated based on the expected selling price for ordinary operations less selling costs and a reasonable profit for the sales efforts.

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Share-based payment
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Business segment data

<table>
<thead>
<tr>
<th>Income statement</th>
<th>Offshore &amp; Merchant Marine</th>
<th>Defence &amp; Aerospace</th>
<th>Unallocated/Other activities</th>
<th>Eliminations</th>
<th>Total, continuing operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from external customers</td>
<td>3,528</td>
<td>3,009</td>
<td>2,911</td>
<td>3,068</td>
<td>2,955</td>
</tr>
<tr>
<td>Intra-Group transactions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total revenues</td>
<td>3,553</td>
<td>3,044</td>
<td>3,016</td>
<td>3,089</td>
<td>2,969</td>
</tr>
<tr>
<td>Earnings before interest, tax, depreciation and amortisation (EBITDA)</td>
<td>412</td>
<td>334</td>
<td>324</td>
<td>351</td>
<td>260</td>
</tr>
<tr>
<td>Depreciation</td>
<td>83</td>
<td>90</td>
<td>92</td>
<td>87</td>
<td>85</td>
</tr>
<tr>
<td>Earnings before interest, tax and amortisation (EBIT)</td>
<td>412</td>
<td>334</td>
<td>324</td>
<td>351</td>
<td>260</td>
</tr>
<tr>
<td>Amortisation</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total results</td>
<td>412</td>
<td>334</td>
<td>324</td>
<td>351</td>
<td>260</td>
</tr>
<tr>
<td>Net financial expenses</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax expenses</td>
<td>(138)</td>
<td>(96)</td>
<td>(77)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit from discontinued operations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>252</td>
<td>215</td>
<td>108</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Cont. income statement

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from external customers</td>
<td>8,730</td>
<td>7,581</td>
<td>5,901</td>
<td>-</td>
<td>411</td>
<td>575</td>
<td>575</td>
<td>575</td>
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<tr>
<td>Intra-Group transactions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total revenues</td>
<td>8,730</td>
<td>7,581</td>
<td>5,901</td>
<td>-</td>
<td>411</td>
<td>575</td>
<td>575</td>
<td>575</td>
<td>575</td>
</tr>
<tr>
<td>Earnings before interest, tax, depreciation and amortisation (EBITDA)</td>
<td>627</td>
<td>536</td>
<td>410</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Depreciation</td>
<td>183</td>
<td>158</td>
<td>171</td>
<td>-</td>
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<td>-</td>
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<tr>
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<td>536</td>
<td>410</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
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<td>536</td>
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<td>-</td>
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<tr>
<td>Amortisation</td>
<td>(18)</td>
<td>(7)</td>
<td>(2)</td>
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<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Total results</td>
<td>627</td>
<td>536</td>
<td>410</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td>Net financial expenses</td>
<td>(54)</td>
<td>(47)</td>
<td>(35)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax expenses</td>
<td>(138)</td>
<td>(95)</td>
<td>(77)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit from discontinued operations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>252</td>
<td>215</td>
<td>108</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Assets and liabilities

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment assets</td>
<td>4,069</td>
<td>3,453</td>
<td>2,141</td>
<td>2,000</td>
<td>-</td>
<td>-</td>
<td>6,410</td>
<td>5,452</td>
<td>-</td>
</tr>
<tr>
<td>Unallocated assets</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total assets</td>
<td>4,069</td>
<td>3,453</td>
<td>2,141</td>
<td>2,000</td>
<td>-</td>
<td>-</td>
<td>6,410</td>
<td>5,452</td>
<td>-</td>
</tr>
<tr>
<td>Segment, non-interest-bearing liabilities</td>
<td>2,303</td>
<td>1,621</td>
<td>1,397</td>
<td>1,055</td>
<td>-</td>
<td>-</td>
<td>4,604</td>
<td>3,482</td>
<td>-</td>
</tr>
<tr>
<td>Unallocated liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>2,303</td>
<td>1,621</td>
<td>1,397</td>
<td>1,055</td>
<td>-</td>
<td>-</td>
<td>4,604</td>
<td>3,482</td>
<td>-</td>
</tr>
<tr>
<td>Investments in property, plant and equipment</td>
<td>103</td>
<td>84</td>
<td>110</td>
<td>35</td>
<td>8</td>
<td>9</td>
<td>221</td>
<td>128</td>
<td>-</td>
</tr>
<tr>
<td>Inventories in intangible assets</td>
<td>89</td>
<td>-</td>
<td>173</td>
<td>40</td>
<td>-</td>
<td>-</td>
<td>242</td>
<td>40</td>
<td>-</td>
</tr>
<tr>
<td>Cash-flow</td>
<td>221</td>
<td>248</td>
<td>110</td>
<td>165</td>
<td>145</td>
<td>110</td>
<td>350</td>
<td>253</td>
<td>152</td>
</tr>
</tbody>
</table>

Financial segments (continuing operations)

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from external customers</td>
<td>1,882</td>
<td>1,920</td>
</tr>
<tr>
<td>Revenue as a percentage of total</td>
<td>28%</td>
<td>33%</td>
</tr>
<tr>
<td>Segment assets</td>
<td>5,068</td>
<td>5,703</td>
</tr>
<tr>
<td>Investments</td>
<td>295</td>
<td>277</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>7,360</td>
<td>5,986</td>
</tr>
</tbody>
</table>

Inventories

Consolidated aggregate inventories, divided into raw materials and finished product, are distributed as follows:

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>31 Dec 2004</th>
<th>31 Dec 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
<td>776</td>
<td>637</td>
</tr>
<tr>
<td>Work in progress</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>Finished products</td>
<td>235</td>
<td>183</td>
</tr>
<tr>
<td>Total</td>
<td>1,217</td>
<td>647</td>
</tr>
<tr>
<td>Depreciation on inventories during the period</td>
<td>95</td>
<td>23</td>
</tr>
</tbody>
</table>

Personnel expenses and number of employees

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

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>1,718</td>
<td>1,612</td>
</tr>
<tr>
<td>Social security tax</td>
<td>267</td>
<td>248</td>
</tr>
<tr>
<td>Pension expenses, defined benefit plans</td>
<td>128</td>
<td>101</td>
</tr>
<tr>
<td>Pension expenses, defined contribution plans</td>
<td>(Note 9)</td>
<td>9</td>
</tr>
<tr>
<td>Other expenses</td>
<td>145</td>
<td>79</td>
</tr>
<tr>
<td>Total personnel expenses</td>
<td>2,326</td>
<td>2,040</td>
</tr>
</tbody>
</table>
| Other expenses for 2006 include MNOK 68 in bonuses to all Group employees and key management personnel. A more detailed description of the bonuses for key management personnel is provided in Note 30 'Related parties'.

Options for employees

Options for 2006 include MNOK 68 in bonuses to all Group employees and key management personnel. A more detailed description of the bonuses for key management personnel is provided in Note 30 'Related parties'.

Average number of employees (FTEs – full-time equivalents)

<table>
<thead>
<tr>
<th>Amounts in 2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>2,983</td>
<td>2,888</td>
</tr>
<tr>
<td>Europe</td>
<td>188</td>
<td>195</td>
</tr>
<tr>
<td>Asia</td>
<td>171</td>
<td>119</td>
</tr>
<tr>
<td>Other</td>
<td>207</td>
<td>172</td>
</tr>
<tr>
<td>Total</td>
<td>1,640</td>
<td>1,400</td>
</tr>
</tbody>
</table>

The figures represent FTEs for 2006 and the number of employees in 2005 and 2004. The number of employees has been adjusted for the disposal of yachting activities.

MNIK 4, including social security, was recognized as expense for options for employees in 2006. The comparable amounts were MNOK 3 and NOK 0 in 2005 and 2004, respectively.
Outstanding options carry the following terms and conditions

<table>
<thead>
<tr>
<th>Expiration date</th>
<th>Strike price in NOK</th>
<th>Number</th>
<th>Value per option in NOK at 31 Dec 06</th>
<th>Liability in NOK at 31 Dec 06</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>106</td>
<td>71,218</td>
<td>70</td>
<td>3.9</td>
</tr>
<tr>
<td>2008</td>
<td>188</td>
<td>41,999</td>
<td>20</td>
<td>0.2</td>
</tr>
<tr>
<td>Total options outstanding</td>
<td>394</td>
<td>113,219</td>
<td>91</td>
<td>4.5</td>
</tr>
</tbody>
</table>

The fair value of the options is estimated using Black-Scholes' option pricing model. The option value is calculated as the fair value on 31 Dec, 2006, as the options are cash-settled. The market value of the share was NOK 124 at 31 Dec, 2005 and NOK 175 at 31 Dec, 2006. The market value of the share on the date of exercise was NOK 148.50. A volatility of 17 per cent is assumed, based on the Konsberg share's historical volatility back to 1993. It is assumed that historical volatility is an indication of future volatility. The volatility of the share has been relatively similar from year to year. The calculation is based on a risk-free interest rate of 4.2 per cent and an estimated dividend yield of 1.7 per cent. The estimated dividend yield is the average for the past two years. This is an estimate of the expected future dividend share. It is assumed that all employees will exercise their options on their maturity date. The options' expected term to maturity is two years from the date on which the options were granted. The remaining terms to maturity are 5 and 17 months.

Change in net pension liabilities recognised on the balance sheet

<table>
<thead>
<tr>
<th>Amounts in NOK</th>
<th>2006</th>
<th>Unutilised</th>
<th>Total</th>
<th>2005</th>
<th>Unutilised</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change, gross pension liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross pension liabilities at 1 Jan</td>
<td>1,514</td>
<td>160</td>
<td>1,674</td>
<td>1,218</td>
<td>133</td>
<td>1,351</td>
</tr>
<tr>
<td>Net change in social security expenses</td>
<td>10</td>
<td>1</td>
<td>11</td>
<td>23</td>
<td>3</td>
<td>26</td>
</tr>
<tr>
<td>Acquisitions/disposal of activities</td>
<td>17</td>
<td>11</td>
<td>28</td>
<td>(2)</td>
<td>(2)</td>
<td>(2)</td>
</tr>
<tr>
<td>Buy-out upon termination</td>
<td>(92)</td>
<td>(92)</td>
<td>(92)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net current value of assets for the year</td>
<td>87</td>
<td>9</td>
<td>96</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Interest expenses on pension liabilities</td>
<td>58</td>
<td>5</td>
<td>63</td>
<td>58</td>
<td>5</td>
<td>63</td>
</tr>
<tr>
<td>Premium payments, plan changes</td>
<td>(14)</td>
<td>(14)</td>
<td>(14)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuarial loss/gain</td>
<td>54</td>
<td>22</td>
<td>76</td>
<td>217</td>
<td>17</td>
<td>234</td>
</tr>
<tr>
<td>Payment pensions/paid-out policies</td>
<td>(18)</td>
<td>(18)</td>
<td>(18)</td>
<td>(18)</td>
<td>(18)</td>
<td>(18)</td>
</tr>
<tr>
<td>Gross pension liabilities at 31 Dec.</td>
<td>1,624</td>
<td>175</td>
<td>1,799</td>
<td>1,514</td>
<td>102</td>
<td>1,616</td>
</tr>
</tbody>
</table>

The mortality and disability assumption is based on official tables and observations regarding disability at Konsberg.

The probability that an employee in a given age group will become disabled or die within one year and life expectancy is as follows:

<table>
<thead>
<tr>
<th>Age</th>
<th>Disability (%)</th>
<th>Mortality (%)</th>
<th>Projected Life expectancy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Man</td>
<td>Woman</td>
<td>Max</td>
</tr>
<tr>
<td>20</td>
<td>0.1</td>
<td>0.2</td>
<td>80</td>
</tr>
<tr>
<td>40</td>
<td>0.3</td>
<td>0.4</td>
<td>60</td>
</tr>
<tr>
<td>60</td>
<td>1.4</td>
<td>1.9</td>
<td>45</td>
</tr>
<tr>
<td>80</td>
<td>6.2</td>
<td>4.5</td>
<td>67</td>
</tr>
</tbody>
</table>

The disability rate in 1975 was chosen because it offers the best approach to Konsberg’s disability statistics. For quite some time, the Group has been recommended for about 25 to 30 per cent of the annual premium through an international pool.

The year’s pension costs were calculated as follows:

<table>
<thead>
<tr>
<th>Amounts in NOK</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service cost</td>
<td>95</td>
<td>75</td>
<td>68</td>
</tr>
<tr>
<td>Interest cost on pension liabilities</td>
<td>63</td>
<td>63</td>
<td>56</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>(47)</td>
<td>(44)</td>
<td>(48)</td>
</tr>
<tr>
<td>Amortization of past cost service</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Accrued social security expenses</td>
<td>16</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Total net pension expenses</td>
<td>128</td>
<td>101</td>
<td>92</td>
</tr>
<tr>
<td>Expenses related to defined contribution pension plans outside Norway</td>
<td>5</td>
<td>5</td>
<td>9</td>
</tr>
</tbody>
</table>

The percentage distribution of pension plan assets by investment categories at 31 Dec. 2009 and earlier years

The age limits for taking an early retirement pension (APF) 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 propriety. 25 per cent employer financing and otherwise the same assumptions as apply to ordinary pensions. Changes in actuarial contributions as a result of final funding can lead to changes in the final pension liabilities.

Pensions for the year are estimated based on the financial and actuarial assumptions that apply at the beginning of the year. Gross pension liabilities are based on the financial and actuarial assumptions made at year end.

The gross value of pension plan assets include an expected return of five per cent for 2006.

Pension expenses for 2007 are expected to total NOK 190. The Group’s Norwegian companies have collective service pension schemes that entitle employees to certain future pension benefits in accordance with net benefit plans.

Pension benefits depend on the individual employee’s number of years of service and salary level upon reaching retirement age. Net pension liabilities are stipulated on the basis of actuarial estimate predicated on assumptions related to the discount rates, future wage-growth, pension adjustments, expected return on pension fund assets, and employee turnover. These assumptions are updated annually. The discount rate is stipulated on the basis of the long-term government bond interest rate with a markup that reflects the time frame for paying out the pension obligation.

The balance sheet shows net pension liabilities including social security.
Intangible assets

<table>
<thead>
<tr>
<th>Amounts in MNKD</th>
<th>Goodwill</th>
<th>Patents and licences</th>
<th>Technology</th>
<th>Proprietary intangible assets</th>
<th>Other intangible assets</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost price</td>
<td>1 Jan. 2005</td>
<td>1 086</td>
<td>45</td>
<td>-</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Translation differences</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Additions</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4</td>
</tr>
<tr>
<td>Discontinued operations</td>
<td>(20)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(20)</td>
</tr>
<tr>
<td>Acquisition of businesses/minority interests</td>
<td>36</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>36</td>
</tr>
<tr>
<td>31 Dec. 2005</td>
<td>1 515</td>
<td>47</td>
<td>-</td>
<td>-</td>
<td>10</td>
<td>1 572</td>
</tr>
<tr>
<td>Translation differences</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acquisition of businesses/minority interests</td>
<td>71</td>
<td>2</td>
<td>141</td>
<td>8</td>
<td>-</td>
<td>226</td>
</tr>
<tr>
<td>31 Dec. 2006</td>
<td>1 587</td>
<td>49</td>
<td>141</td>
<td>25</td>
<td>10</td>
<td>1 812</td>
</tr>
</tbody>
</table>

Accumulated amortisation and impairment losses

| 1 Jan. 2005 | 473 | 8 | - | - | 2 | 483 |
| Amortisation and impairment losses | - | - | - | - | - | - | - |
| Discontinued operations | (15) | - | - | - | - | (15) | - |
| 31 Dec. 2005 | 420 | 15 | - | - | 2 | 437 | - |
| Translation differences | - | - | - | - | - | - | - |
| Additions | - | 7 | 8 | - | 1 | 16 | - |
| Discontinued operations | - | - | - | - | - | - | - |
| 31 Dec. 2006 | 420 | 22 | 8 | - | 3 | 453 | - |

Carpentry amount

| 1 Jan. 2005 | 1 212 | 35 | - | - | 8 | 1 255 |
| 1 Jan. 2006 | 1 090 | 32 | - | - | 8 | 1 125 |
| 31 Dec. 2006 | 1 167 | 27 | 131 | 25 | 7 | 1 359 | - |

Useful life

4–5 years 6–15 years 3–4 years 15 years Remaining useful life

2–5 years 5–14 years 3–4 years 10 years

Technology is largely attributable to the acquisition of Caflum and Femtotof. Of Note 5 ‘Changes in Group structure’. With the exception of goodwill, intangible assets are amortised on a linear basis over their useful life. Acquired I&L and patents and licences are related to the acquisition of Applied Radiog Physics, where the Group increased its stake from 40.3 per cent to 55.6 per cent.

Research and development

Expenses related to self-financed research and development:

<table>
<thead>
<tr>
<th>Amounts in MNKD</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product costs</td>
<td>87</td>
<td>87</td>
</tr>
<tr>
<td>Development</td>
<td>320</td>
<td>265</td>
</tr>
<tr>
<td>Total</td>
<td>407</td>
<td>352</td>
</tr>
</tbody>
</table>

- Offshore & Maritime Marine: 71 | 71 |
- Defence & Aerospace: 16 | 17 |
- Total: 87 | 88 |
Kongsheng’s research and development activities cost the equivalent of about 11 per cent of operating revenues. Of that amount, MNDK 330 million or about 4.8 per cent of operating revenues is in self-financed development. Expenses related to product maintenance are expensed on an ongoing basis. Customer-financed projects entail permanent commercial rights. It is important that development activities be aligned at the Group’s core areas.

Assessments of the fulfillments of the criteria for capitalizing development costs are made at a pace commensurate with the progress of the ongoing development projects. Defence & Aerospace operates in a market where customers fund parts of product development. This means self-financed development projects at Defence & Aerospace normally become customer-financed before they fulfill the criteria for balance sheet capitalization. Where the customer funds development, efforts are made to obtain ownership rights to the developed product. Offshore & Merchant Marine undertakes self-financed development projects through to the finished product. Based on technical success and market assessments, a decision is made during the development phase about whether to complete development and begin capitalization.

At 31 December, MNDK 17 million in proprietary R&D had been capitalised, and MNDK 8 million in connection with business combinations. Proprietary R&D is related to the development of radio wire communications by Defence & Aerospace. Development is scheduled for completion in 2007. As regards Offshore & Merchant Marine, R&D basically consists of many projects carrying small price tags, relatively speaking. These development projects are not considered to meet the rigorous criteria for capitalising proprietary R&D. Many of the projects also entail considerable uncertainty as to whether they are technologically feasible and how the final solution will be. As long as there is uncertainty about the final technological solution, there will also be uncertainty about what the market will be looking for. For this reason, technological solutions will usually be put into place later in the process, meaning that remaining expenses are usually not high enough to qualify for capitalisation.

Defence & Aerospace

Revenues are based on the individual countries’ defence-related procurement plans, and Defence & Aerospace’s percentage of these plans is used as the basis for estimated operating revenues. Market potential is assigned an average growth rate of 12 per cent. The gross margin is based on historical trends. All orders are hedged in NOK through the purchase of forward exchange contracts so that future operating revenues and the gross margin for the cash flow are predictable.

The discounting rate of 10.1 per cent is based on assumptions corresponding to those applied to Offshore & Merchant Marine. See the more detailed description above.

The terminal value is estimated using the previous plan-year’s cash flow as a normalised cash flow and assuming nominal growth of 1 per cent. Significant shifts in the normalised net cash flow and growth rate will affect the overall value.

Sensitivity

Offshore & Merchant Marine

At 31 December, the value in use of Offshore & Merchant Marine was significantly higher than the carrying amount. This shows that the calculations are not sensitive to impairment loss of goodwill if significant changes are made in the assumptions.

Defence & Aerospace

At 31 December, the value in use of Defence & Aerospace was significantly higher than the carrying amount. This shows that the calculations are not sensitive to impairment loss of goodwill if significant changes are made in the assumptions.

Investments in jointly controlled entities

Kongsheng Satellite Services AS and Kongsheng Telesat AS are consolidated using the proportionate method as a result of a change in the policies applied to the consolidation of jointly controlled entities. Comparative figures for the income statement, balance sheet, statement of recognised income and expense, cash flows and notes for 2005 and 2004 have been adjusted as a result of the change in policies. The remaining associates are not of significant value, and the investments have now been reclassified as available-for-sale shares, cf Note 16 “Available-for-sale share”. The carrying amount of the reclassified assets is MNDK 2. The profit they produced was approximately 0. The figures for 2005 have been reclassified accordingly.

Summary of financial information on the individual associates and jointly controlled entities:

<table>
<thead>
<tr>
<th>Amounts in MNDK</th>
<th>Current assets</th>
<th>Non-current assets</th>
<th>Current liabilities</th>
<th>Non-current liabilities</th>
<th>Equity</th>
<th>Revenue</th>
<th>Profit for the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offshore &amp; Merchant Marine</td>
<td>23</td>
<td>93</td>
<td>33</td>
<td>24</td>
<td>59</td>
<td>70</td>
<td>12</td>
</tr>
<tr>
<td>Kongsheng Telesat AS 50% (Kongsheng)</td>
<td>1.4</td>
<td>10</td>
<td>1</td>
<td>6</td>
<td>33</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Kongsheng Satellite Services and Kongsheng Telesat show Konseksen’s percentage of the items mentioned. The companies are not listed, meaning they have no observable market values.

Net financial items

<table>
<thead>
<tr>
<th>Amounts in MNDK</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Gain on disposal of shares</td>
<td>2</td>
<td>5</td>
<td>31</td>
</tr>
<tr>
<td>Financial income</td>
<td>6</td>
<td>9</td>
<td>36</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>(3)</td>
<td>(5)</td>
<td>(3)</td>
</tr>
<tr>
<td>Impairment loss on available-for-sale shares</td>
<td>(5)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Other financial expenses</td>
<td>(8)</td>
<td>(5)</td>
<td>(13)</td>
</tr>
<tr>
<td>Financial expenses</td>
<td>(8)</td>
<td>(6)</td>
<td>(43)</td>
</tr>
<tr>
<td>Net financial items</td>
<td>(56)</td>
<td>(57)</td>
<td>(56)</td>
</tr>
</tbody>
</table>

Income tax expense

<table>
<thead>
<tr>
<th>Tax expense</th>
<th>2005</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax payable</td>
<td>16</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Change, deferred tax</td>
<td>122</td>
<td>91</td>
<td>85</td>
</tr>
<tr>
<td>Tax expense</td>
<td>138</td>
<td>99</td>
<td>71</td>
</tr>
<tr>
<td>Effective tax rate</td>
<td>35%</td>
<td>32%</td>
<td>46%</td>
</tr>
</tbody>
</table>

Impairment test of goodwill

Goodwill obtained through business combinations is allocated to the following cash-generating units:
- Offshore & Merchant Marine
- Defence & Aerospace

The cash-generating units for impairment testing of goodwill were changed in 2006. Fishery became more closely integrated into the other activities at Offshore & Merchant Marine in 2006. Consequently, goodwill was reclassified to Offshore & Merchant Marine. Defence Communications was merged with Defence & Aerospace in 2006, and goodwill was therefore reclassified to this undertaking. Goodwill amounts attached to the acquisition of Parmth and Gallum were allocated to Offshore & Merchant Marine (MNDK 46 million) and Defence & Aerospace (MNDK 24 million).

These operations’ cash flows are considered to be closely integrated with the cash flows from Offshore & Merchant Marine and Defence & Aerospace. See also Note 6 “Information by segment” for more detailed information about the business area.

Value in use and the main assumptions

Impairment tests for goodwill are based on the value in use from the cash-generating units. The value in use is determined using the present value of the projected cash flow. The projected cash flow is based on the unit’s strategic plan document. Subject to the approval of the Board of Directors and corporate management, the plan document covers a five-year period. Ordinarily, the cash flow that is used for impairment tests for goodwill is adjusted somewhat lower than in the strategic planning document, since accounting rules require that future improvements to products and new developments not be reflected in future cash flows. After the five years, a terminal value is calculated on the basis of a conservatively growth rate.

Offshore & Merchant Marine

Operating revenues are based on expected trends in the overall market in which Offshore & Merchant Marine operates and the company’s expected share of the market. A constant market share is assumed initially, although the individual subsidiaries can reflect increases or decreases. The overall market is based on external information, e.g. the number of planned newbuildings of vessels and rigs. The market is expected to expand by approximately 5 per cent. Operating revenues will depend on the accuracy of the assumptions, and changes in assumptions will also affect the future value of the unit. The Group’s booking of orders is relatively high, and a larger percentage of future revenues is covered by the booking of orders now than before.

The gross margin is based on historical trends. All orders are hedged in NOK through the purchase of forward exchange contracts so that future operating revenues and the gross margin for the cash flow are predictable.

KLINGHOLM · ANNUAL REPORT AND SUSTAINABILITY REPORT 2006
17 Earnings per share

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit from continuing operations before tax</td>
<td>390</td>
<td>314</td>
<td>180</td>
<td>180</td>
</tr>
<tr>
<td>Estimated tax based on a tax rate of 28% of the profit before tax</td>
<td>109</td>
<td>88</td>
<td>50</td>
<td>50</td>
</tr>
</tbody>
</table>

The not profit for the year attributable to the shareholders, in MNOK:
- Profit from continuing operations, net of tax | 252 | 215 | 108 |
- Minority share of the profit | 8 | 2 | 2 |
- Profit/(loss), discontinued operations | 0 | 0 | 47 | 0 |

Net profit for the year/diluted profit attributable to owners of ordinary shares | 249 | 260 | 120 |

Average weighted number of shares outstanding at 31 Dec. in millions of shares (Note 24):
- Ordinary shares issued at 1 Jan. | 30.00 | 30.00 | 30.00 |
- Effect of treasury shares | 0.05 | (0.05) | 0.05 |

Average weighted number of ordinary shares at 31 Dec. | 30.00 | 29.94 | 28.90 |

Average weighted number of ordinary shares at 31 Dec. - diluted | 30.00 | 29.97 | 28.90 |

Earnings per share in MNOK:
- Earnings from continuing operations per share | 0.80 | 0.79 | 3.66 |
- Earnings from continuing operations per share, diluted | 0.80 | 0.79 | 3.66 |
- Earnings per share for the year | 0.90 | 0.89 | 4.02 |
- Earnings per share for the year, diluted | 0.90 | 0.89 | 4.02 |

18 Available-for-sale shares

<table>
<thead>
<tr>
<th></th>
<th>31 Dec</th>
<th>31 Dec</th>
<th>31 Dec</th>
<th>31 Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts in MNOK</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Translation losses</td>
<td>(2)</td>
<td>(7)</td>
<td>(2)</td>
<td>(7)</td>
</tr>
<tr>
<td>Pension</td>
<td>(34)</td>
<td>(86)</td>
<td>(34)</td>
<td>(86)</td>
</tr>
<tr>
<td>Cash flow hedges</td>
<td>5</td>
<td>(76)</td>
<td>5</td>
<td>(76)</td>
</tr>
<tr>
<td>Other</td>
<td>(1)</td>
<td>(7)</td>
<td>(1)</td>
<td>(7)</td>
</tr>
<tr>
<td>Total</td>
<td>(32)</td>
<td>(162)</td>
<td>(32)</td>
<td>(162)</td>
</tr>
</tbody>
</table>

Available-for-sale shares are recognised at fair value. Listed shares consist of 19.1% of the shares in Kion ASA. The shares are recognised at market price on the stock exchange. The average carrying amounts were MNOK 67 in 2008 and MNOK 7 in 2009. Shares in Renova ASA, acquired in 2006 for MNOK 29, and Waveshield Telecom AS, acquired for MNOK 31 are quoted on the OTC stock list. The value of these shares were adjusted by MNOK 6 and MNOK 13, respectively, for 2009. As a percentage of total market value, listed and unlisted OTC shares accounted for 94% per cent of the available-for-sale shares.

The payment of dividends to the parent company’s shareholders has no impact on the Group’s payable or deferred tax. No deferred tax has been recognised for latent tax liabilities (withholding tax) related to investments in foreign subsidiaries.

19 Other non-current assets

<table>
<thead>
<tr>
<th></th>
<th>31 Dec</th>
<th>31 Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts in MNOK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans to employees</td>
<td>12</td>
<td>21</td>
</tr>
<tr>
<td>Receivables in connection with the disposal of businesses</td>
<td>66</td>
<td>54</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>24</td>
<td>31</td>
</tr>
<tr>
<td>Total other non-current assets</td>
<td>117</td>
<td>118</td>
</tr>
</tbody>
</table>

20 Receivables

<table>
<thead>
<tr>
<th></th>
<th>31 Dec</th>
<th>31 Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts in MNOK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td>1,339</td>
<td>795</td>
</tr>
<tr>
<td>Other receivables</td>
<td>125</td>
<td>240</td>
</tr>
<tr>
<td>Prepayments to suppliers</td>
<td>50</td>
<td>29</td>
</tr>
<tr>
<td>Total</td>
<td>1,414</td>
<td>1,223</td>
</tr>
</tbody>
</table>

21 Projects in progress

The Group’s main business activity is to develop and manufacture products and systems based on orders received. The Group reports gross balance sheet values associated with long-term production contracts. Costs incurred from customers for contract work (Projects in progress) are classified as an asset, and gross amounts due to customers for contract work (Prepayments from customers) are classified as a liability.

Projects in progress are the net amount of accumulated earned operating revenues less accumulated invoicing for all current contracts, where accumulated operating revenues exceed accumulated invoicing. Prepayments from customers are the net amount of accumulated earned operating revenues less accumulated invoicing for all current contracts where accumulated invoicing exceeds accumulated operating revenues.

<table>
<thead>
<tr>
<th></th>
<th>31 Dec</th>
<th>31 Dec</th>
<th>31 Dec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts in MNOK</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings in progress</td>
<td>1,206</td>
<td>1,253</td>
<td></td>
</tr>
<tr>
<td>Prepayments from customers</td>
<td>1,768</td>
<td>1,617</td>
<td></td>
</tr>
<tr>
<td>Net projects in progress</td>
<td>(560)</td>
<td>(394)</td>
<td></td>
</tr>
</tbody>
</table>
22 Financial Instruments

Corporate Policy
The Group deals with financial risk at the corporate level. The Board has adopted a ‘Treasury Policy’ that provides guidelines for the Group’s financial risk management. Konica Minolta aims to optimise financial risk.

Interest rate risk
Konica Minolta hedges its loans through fixed-interest loans and interest rate swaps.
At 31 Dec 2006, the Group had the following fixed-interest loans and interest rate swaps (henceforward to fixed interest):

<table>
<thead>
<tr>
<th>Fixed rate agreements</th>
<th>Due date</th>
<th>MNIK</th>
<th>Years remaining</th>
<th>Interest rate</th>
<th>Exports (¥) / negative value (-)</th>
<th>Exports (¥) / negative value (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MNIK 500,000 yen</td>
<td>24 Sep 07</td>
<td>300</td>
<td>0.8</td>
<td>5.2%</td>
<td>(3)</td>
<td>(6)</td>
</tr>
</tbody>
</table>

At 31 Dec 2006, interest rate swaps with a total of MNIK 100,000,000 yen are to cover interest rate risk on the floating part of the Group’s debt portfolio, if the specification below on loans interest rate swap agreements establishes certificate rates for MNIK 100,000,000 yen and fixed rate agreements 2 and 3 cover a bond issue with floating interest (MNIK 400,000,000 yen at 31 Dec 2006). The interest hedges are defined as cash flow hedges and earnings/losses are recognised directly in equity. The fixed interest loan is measured at its amortised value.

Interest rate swaps

<table>
<thead>
<tr>
<th>Interest rate swap agreements</th>
<th>Due date</th>
<th>MNIK</th>
<th>Years remaining</th>
<th>Interest rate</th>
<th>Exports (¥) / negative value (-)</th>
<th>Exports (¥) / negative value (-)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreement 1</td>
<td>19 Dec 07</td>
<td>300</td>
<td>1.0</td>
<td>6.8%</td>
<td>(7)</td>
<td>(20)</td>
</tr>
<tr>
<td>Agreement 2</td>
<td>17 June 06</td>
<td>300</td>
<td>2.5</td>
<td>5.4%</td>
<td>(4)</td>
<td>(17)</td>
</tr>
<tr>
<td>Agreement 3</td>
<td>17 Dec 06</td>
<td>300</td>
<td>2.0</td>
<td>5.4%</td>
<td>(2)</td>
<td>(5)</td>
</tr>
<tr>
<td>Total interest rate swap agreements</td>
<td>700</td>
<td>(13)</td>
<td>(43)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,000</td>
<td>(16)</td>
<td>(40)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other interest rate swaps
Konica Minolta has fixed interest rate swaps from floating to fixed interest for a nominal amount of MNIK 150,000,000 yen. The agreements signed in conjunction with leases for sale and leaseback agreements as mentioned in Note 29 “Sale and lease-back”. Negative value on interest swap agreements has been recognised as part of an ongoing basis as part of the expected loss on the sale and leaseback agreements, but is shown separately on balance sheet as a negative value on financial instruments.

Funding risk and loan
The Group aims to have an average term to maturity on its long-term loan parameters (loan or loan parameters with at least one year to maturity) of more than 2 years. The Group also strives to ensure that short-term loans in the money market never exceed available long-term credit limits.

Term to maturity

<table>
<thead>
<tr>
<th>Normal amounts at 31 Dec 06</th>
<th>Non-maturity interest rate</th>
<th>To maturity</th>
<th>Normal amounts at 31 Dec 05</th>
<th>Non-maturity interest rate</th>
<th>To maturity</th>
</tr>
</thead>
</table>
| Certificate loan 1          | 100                       | 21 Feb 07   | 3.7%                        | 0.1                       | 100         | 15 March 06 | 2.6%            | 0.2
| Certificate loan 2          | 100                       | 27 March 07 | 3.5%                        | 0.2                       | 100         | 15 March 06 | 2.6%            | 0.2
| Certificate loan 3          | 100                       | 21 April 07 | 4.9%                        | 0.3                       | 100         | 21 June 07 | 2.7%            | 0.5
| Bond loan JPN 00101 9017 1F | 300                       | 28 Sept 07  | 5.2%                        | 0.7                       | 300         | 28 Sept 07 | 5.2%            | 1.7
| Bond loan JPN 00101 9018 4F | 450                       | 10 June 09  | 4.6%                        | 2.4                       | 450         | 10 June 09 | 3.2%            | 5.4
| Other non-current loans      |                           |             |                             |                           |             |             |                     |
| Total                        | 1,803                     | 3.9          | 1,816                      | 3.9                      | 1,100       | 3.2          |

Projects are fully hedged upon signing an agreement. Minor contracts and ongoing sales can be guaranteed through hedges of forecasted sales. The following table shows how project hedging is distributed over time (forecast sale of foreign currency for project hedging at 31 Dec 2006):

<table>
<thead>
<tr>
<th>Value based on agreed exchange rates</th>
<th>Value based on agreed exchange rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts in MNIK</td>
<td>3,040</td>
</tr>
<tr>
<td>Value (¥) / negative value (-)</td>
<td>27</td>
</tr>
<tr>
<td>Exports (¥) / negative value (-)</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>3,067</td>
</tr>
</tbody>
</table>
Investments in companies other than subsidiaries, associates and jointly controlled entities
The shares shall be measured at market value on the balance sheet date. The market value is calculated as follows:
1) Latest traded price on the stock exchange or latest traded price on the OTC or Norwegian Securities Dealers’ Association’s Over The Counter list.
2) The price of the final share transactions for the sale/purchase or issue of unlisted shares.
3) Valuation based on the discounted cash flow.
4) Cost of acquisition as an estimate of market value. This refers to investments that are not of significant value.
5) Of a total carrying amount of MNOK 263, shares measured at market price on the stock exchange or the price from the OTC list account for approx. MNOK 243 (94 per cent of carrying amount). Shares whose historical cost is used to estimate market value account for about 6 per cent of overall market value. See Note 18 ‘Available-for-sale shares’ for a more detailed explanation.

<table>
<thead>
<tr>
<th>Summary, financial instruments</th>
<th>Carrying amount</th>
<th>Market value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 Dec 05</td>
<td>31 Dec 05</td>
</tr>
<tr>
<td>Financial assets</td>
<td>31 Dec 05</td>
<td>31 Dec 05</td>
</tr>
<tr>
<td>Cash and short-term deposits</td>
<td>711 716 711 738</td>
<td>711 716 711 738</td>
</tr>
<tr>
<td>Available-for-sale shares</td>
<td>263 138 263 138</td>
<td>263 138 263 138</td>
</tr>
<tr>
<td>Forward foreign exchange contracts, fair value hedge</td>
<td>35 26 35 26</td>
<td>35 26 35 26</td>
</tr>
<tr>
<td>Forward foreign exchange contracts, cash flow hedge</td>
<td>80 101 80 101</td>
<td>80 101 80 101</td>
</tr>
<tr>
<td>Currency options</td>
<td>2 - - 2 -</td>
<td>2 - - 2 -</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest-bearing debt</td>
<td>(1 000) (1 016) (1 000) (1 022)</td>
<td>(1 000) (1 016) (1 000) (1 022)</td>
</tr>
<tr>
<td>Interest rate swap agreements to hedge debt</td>
<td>(13) (13) (13) (13)</td>
<td>(13) (13) (13) (13)</td>
</tr>
<tr>
<td>Interest rate swap agreements attached to sale and forward-basis</td>
<td>(10) (10) (10) (10)</td>
<td>(10) (10) (10) (10)</td>
</tr>
<tr>
<td>Forward foreign exchange contracts, cash flow hedges</td>
<td>(23) (23) (23) (23)</td>
<td>(23) (23) (23) (23)</td>
</tr>
<tr>
<td>Forward foreign exchange contracts, equity hedges</td>
<td>- - - -</td>
<td>- - - -</td>
</tr>
</tbody>
</table>

Changes in the fair value of financial instruments during the year, where the changes have been recognised directly in equity

<table>
<thead>
<tr>
<th>Hedge of forecasted sale and</th>
<th>Interest rate swap</th>
<th>Available-for-sale shares</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedging effect in MNOK</td>
<td>agreements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Euros/(negatives) value at 1 Jan</td>
<td>135 (40) 28 120</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in euros/(negatives) value during the period</td>
<td>17 80 87 112</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recognised gain during the period</td>
<td>26 (6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Euros/(negatives) value 31 Dec:</td>
<td>124 (15) 115 228</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Deferral gain or cash flow hedge attributed to projects. The gains arise when the hedges of forecasted sale/forward and forward exchange contracts are agreed for the projects.
Any gains/losses that are not deferral gains are deferred with the progress of the projects. For that reason, hedges of forecasted sale must be stated in connection with deferral gains.

Credit risk
Kémoe has a relatively low exposure to credit risk. The Group’s credit risk is mainly related to credit risk on receivables from customers, debtors, and for currency risk, the naira.

Credit concentrations
The Group has, as of 31 December 2005, a number of customers with more than 5% of the total receivables from customers. The largest customer, however, accounts for less than 5% of the total receivables from customers.

The largest exposures in the Group’s balance sheet are to customers from the oil and gas field.

Changes in the fair value of financial instruments during the year, where the changes have been recognised directly in equity

Position in the interest and foreign exchange market
Kémoe's policy is that it takes limited positions in the interest and currency markets. All positions are recognised at market value. Actual gains/losses and changes in market value are recognised through profit or loss. The company’s positions are handled in separate portfolios, separate from hedge transactions. With the exception of a currency option and an open interest position of MNOK 40 attached to the sale and forward-back activities discussed above, at 31 December 2006, the Group had no interest rate or foreign currency positions.

Capital structure
The Group expresses its shareholdings in terms of the number of shares, the share capital and the share value. The dividend paid to MNOK shareholders is based on the total dividend paid per share. The shareholders are all residents of Norway. The Board of Directors has proposed dividends of MNOK 25 per share.

<table>
<thead>
<tr>
<th>The principal shareholders at 31 Dec 2006</th>
<th>Shares held</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Norwegian State as repr. by the Ministry of Trade and Industry</td>
<td>15 509 400</td>
<td>50.00%</td>
</tr>
<tr>
<td>The National Insurance Fund</td>
<td>2 722 060</td>
<td>8.00%</td>
</tr>
<tr>
<td>A/S Fondskonsulent AS</td>
<td>2 055 822</td>
<td>6.55%</td>
</tr>
<tr>
<td>MF Pension</td>
<td>1 200 350</td>
<td>4.05%</td>
</tr>
<tr>
<td>Skagen Fonder</td>
<td>941 350</td>
<td>3.14%</td>
</tr>
<tr>
<td>DNB Fonds</td>
<td>915 000</td>
<td>3.05%</td>
</tr>
<tr>
<td>DNB Fonds</td>
<td>798 797</td>
<td>2.65%</td>
</tr>
<tr>
<td>Fort AS</td>
<td>650 000</td>
<td>2.17%</td>
</tr>
<tr>
<td>DNB AS</td>
<td>642 350</td>
<td>2.15%</td>
</tr>
<tr>
<td>DNB Nord</td>
<td>285 000</td>
<td>0.94%</td>
</tr>
<tr>
<td>Total</td>
<td>25 215 479</td>
<td>84.05%</td>
</tr>
</tbody>
</table>

| Other (state or private banking) | | 4 794 361 | 15.95% |

Total number of shares 30 000 840 | 100.00% |

<table>
<thead>
<tr>
<th>Shareholders, by size of holding</th>
<th>Number of shares owned</th>
<th>Holding (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 100</td>
<td>2 046</td>
<td>0.18%</td>
</tr>
<tr>
<td>101 - 1 000</td>
<td>2 035</td>
<td>0.33%</td>
</tr>
<tr>
<td>1 001 - 10 000</td>
<td>396</td>
<td>0.15%</td>
</tr>
<tr>
<td>10 001 - 100 000</td>
<td>42</td>
<td>0.07%</td>
</tr>
<tr>
<td>100 001 - 1 000 000</td>
<td>13</td>
<td>0.01%</td>
</tr>
<tr>
<td>More than 1 000 000</td>
<td>4</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Total 4 730 | 100.00% |

Of the 4 730 shareholders at 31 December 2006, 210 foreign shareholders owned a total of 3 980 per cent of the shares.

Treasury shares
At year end, Kémoe has 3 000 treasury shares for the employee share programme. The shares were purchased under the authorization issued by the AGM, allowing the buy-back or up to 5 per cent of the shares outstanding. The purchase must take place at prices between NOK 20 and NOK 210 per share.

<table>
<thead>
<tr>
<th>Number of</th>
<th>Holding of treasury shares at 31 Dec 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 000</td>
<td>2 583</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of</th>
<th>Purchase of treasury shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 000</td>
<td>Treasury shares cost per employee</td>
</tr>
<tr>
<td>98 795</td>
<td>Holding of own shares at 31 Dec 2006</td>
</tr>
<tr>
<td>3 000</td>
<td></td>
</tr>
</tbody>
</table>

Dividends
The Board of Directors has proposed dividends of 2006 of MNOK 25 per share. This is equivalent to NOK 2.50 per share.
Equity

Consolidated reconciliation of equity

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>Equity holders of the parent</th>
<th>Translation differences</th>
<th>Share premium</th>
<th>Treasury shares</th>
<th>Hedging</th>
<th>Shares, for foreign currency</th>
<th>Other equity</th>
<th>Total</th>
<th>Minority interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity at 1 Jan 2006</td>
<td>150 852</td>
<td>(1)</td>
<td>170 21</td>
<td>436</td>
<td>1 608</td>
<td>18</td>
<td>1 626</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury shares</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
<td>12</td>
<td>13</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(6)</td>
<td>(6)</td>
<td>(6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend, minority interests</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change, minority interests</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity at 31 Dec 2005</td>
<td>150 852</td>
<td>-</td>
<td>87 28</td>
<td>(5)</td>
<td>423</td>
<td>1 495</td>
<td>10</td>
<td>1 505</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total recognised income and expenses</td>
<td>13</td>
<td>87</td>
<td>(24)</td>
<td>164</td>
<td>244</td>
<td>3</td>
<td>247</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treasury shares</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(6)</td>
<td>(6)</td>
<td>(6)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend, minority interests</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change, minority interests</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity at 31 Dec 2006</td>
<td>150 852</td>
<td>-</td>
<td>60 115</td>
<td>(25)</td>
<td>522</td>
<td>1 674</td>
<td>10</td>
<td>1 684</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Provisions

Long-term provisions

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>Sale and leaseback</th>
<th>Guarantee</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Jan 2006</td>
<td>81</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provided</td>
<td>40</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disclosed</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision used</td>
<td>(7)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 Dec 2000</td>
<td>123</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Short-term provisions

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>Guarantee</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Jan 2006</td>
<td>119 58</td>
<td></td>
<td>177</td>
</tr>
<tr>
<td>Provided</td>
<td>200 21</td>
<td></td>
<td>229</td>
</tr>
<tr>
<td>Disclosed</td>
<td>(1)</td>
<td></td>
<td>(1)</td>
</tr>
<tr>
<td>Provision used</td>
<td>(16)</td>
<td></td>
<td>(17)</td>
</tr>
<tr>
<td>31 Dec 2005</td>
<td>240</td>
<td>40</td>
<td>280</td>
</tr>
</tbody>
</table>
entitled to full salaries until they assume a new position, limited to up to one year after severance. Corporate management has an early retirement agreement from the age of 60. The benefits give them 90 per cent of their salary upon retirement at age 60, reducing by 10 per cent per year to 60 per cent of their salary from age 63 to age 65. In 2003, a group of executives (13 individuals) with considerable leadership responsibility signed an agreement entitling them to early retirement from age 62, with remuneration equaling 65 per cent of their salary up to age 67. As of 2006, new rules apply to severance for new employees in such posts. The new rules entail that the opportunity not to work has increased by two years, while the accrual period has increased from 10 to 15 years, and benefits have reduced to 85 per cent.

The new bonus system:
In 2006, Kongskilde’s Board introduced a new bonus system for key management personnel that rewards good performance. Kongskilde’s top executives and most important division/managers have been given direct financial interests in Kongskilde’s progress, and have compensation arrangements that provide incentives for improvement. The long-term bonus schemes are scaled by the Board, and expressed as notional amounts.
The bonus system is linked to performance and expenditure. Bonuses are weighted between the separate spheres of responsibility and the overall level.
In addition, a certain bonus will be paid for achieving personal, non-financial targets.
The bonus system rests on three independent components, of which the changes in this year’s EBIT are the most important. Thus the accrued bonus will be positive when performance improves and negative in the event of significant setbacks. The year’s accrued bonus, positive or negative, is credited to the bonus bank, and then 1/3 of any positive balance in the bonus bank will be paid out once the accounts have received final approval from the Board of Directors. The bonus system distinguishes between accrued bonuses (credited to the bonus bank) and paid bonuses (disbursed from the bonus bank). Individual participants’ annual accrual to the bonus bank can account for a maximum of 75 per cent of their regular salary, while the disbursement of funds from the bonus bank can account for a maximum of 50 per cent of their regular salary. The bonus scheme is designed so that managers who perform well over time will earn a bonus of 20–30 per cent of their regular salary. The scheme encompasses 90 managers.

In the consolidated accounts for 2006, the accrued bonus, excluding social security, was NOK 42 million.

### Expended salaries and other benefits paid to the members of corporate management for 2006

<table>
<thead>
<tr>
<th>Amounts in NOK / 100</th>
<th>Wages</th>
<th>Pension</th>
<th>Bonus</th>
<th>Total</th>
<th>Options</th>
<th>Accrued</th>
<th>Other benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate management</strong></td>
<td>2 640</td>
<td>428</td>
<td>140</td>
<td>3 212</td>
<td>12</td>
<td>1 875</td>
<td>796</td>
</tr>
<tr>
<td>Arne Solberg, CFO</td>
<td>1 466</td>
<td>207</td>
<td>142</td>
<td>1 815</td>
<td>12</td>
<td>1 042</td>
<td>207</td>
</tr>
<tr>
<td>Styg Engebretsen, EVP Business Development</td>
<td>1 415</td>
<td>197</td>
<td>137</td>
<td>1 750</td>
<td>12</td>
<td>983</td>
<td>770</td>
</tr>
<tr>
<td>Even Aas, EVP Corporate Communications</td>
<td>1 099</td>
<td>173</td>
<td>137</td>
<td>1 367</td>
<td>12</td>
<td>799</td>
<td>440</td>
</tr>
<tr>
<td>Ellen Christine Grung Nathvik, EVP Human Resources</td>
<td>1 227</td>
<td>197</td>
<td>135</td>
<td>1 559</td>
<td>12</td>
<td>886</td>
<td>643</td>
</tr>
<tr>
<td><strong>Total salary, bonus and benefits to corporate management, Kongskilde Gruppen AS</strong></td>
<td>7 852</td>
<td>1 292</td>
<td>720</td>
<td>9 386</td>
<td>54</td>
<td>5 554</td>
<td>2 966</td>
</tr>
<tr>
<td>Torfinn Kjærgaard, President, Kongskilde Maritime</td>
<td>1 956</td>
<td>284</td>
<td>159</td>
<td>2 411</td>
<td>12</td>
<td>1 380</td>
<td>1 018</td>
</tr>
<tr>
<td>Tom Birch Gathard, President, Kongskilde Defence &amp; Aerospace</td>
<td>1 852</td>
<td>261</td>
<td>129</td>
<td>2 242</td>
<td>12</td>
<td>1 513</td>
<td>330</td>
</tr>
<tr>
<td><strong>Total salary, bonus and benefits to corporate management</strong></td>
<td>11 682</td>
<td>2 197</td>
<td>1 918</td>
<td>14 427</td>
<td>78</td>
<td>8 257</td>
<td>3 959</td>
</tr>
</tbody>
</table>

### Transactions between related parties

The State is the largest owner. For years as per: the Ministry of Trade and Industry is the Group’s largest owner (85.81 per cent of the shares in Kongskilde Gruppen AS). The State is represented by the Ministry of Defense is an important customer for the Group. Sales to the Armed Forces are regulated by the EEA agreement and the Procurement Regulations for the Armed Forces, which guarantee equal treatment for all vendors. At 31 Dec. 2006, Kongskilde has a balance outstanding from State-owned customers of NOK 61 million.

### List of Group entities

The following entities are included in the consolidated financial statements:

<table>
<thead>
<tr>
<th>Company name</th>
<th>Home country</th>
<th>Stake (%)</th>
<th>Stake (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kongskilde Gruppen AS</td>
<td>Norway</td>
<td>Parent</td>
<td>Parent</td>
</tr>
<tr>
<td>Kongskilde Defence &amp; Aerospace AS</td>
<td>Norway</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Kongskilde Defence Communications AS</td>
<td>Norway</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Kongskilde Systems AS</td>
<td>Norway</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Kongskilde Satellite Services AS</td>
<td>Norway</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Kongskilde Proteus AS</td>
<td>Norway</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Kongskilde Teritech AS</td>
<td>Norway</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Kongskilde Procurement Center AS</td>
<td>Norway</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Kongskilde Næringsråd AS</td>
<td>Norway</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Kongskilde Axcel Management AS</td>
<td>Norway</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Kongskilde Næringsverkstaden AS</td>
<td>Norway</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Kongskilde Næringskurven AS</td>
<td>Norway</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Kongskilde Næringspilot AS</td>
<td>Norway</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Kongskilde Næringsål AS</td>
<td>Norway</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Kongskilde Næringsplan AS</td>
<td>Norway</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Kongskilde Næringslinjer AS</td>
<td>Norway</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Kongskilde Næringsjern AS</td>
<td>Norway</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Kongskilde Næringsverktøy AS</td>
<td>Norway</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Kongskilde Råd &amp; Arbeid AS</td>
<td>Norway</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Kongskilde Marine AS</td>
<td>Norway</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Kongskilde Maritime AS</td>
<td>Norway</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Kongskilde Maritime AS</td>
<td>Norway</td>
<td>100</td>
<td>0</td>
</tr>
</tbody>
</table>

1) Excluding paid since result from 2006. The bonus was expressed as 2006.
2) Benefits after that cash-ref to express discounts or shares in connection with the employee share programmes, the taxable portion of accident and injury insurance, the interest rate advantage on car loans, and the advantage of having a few car for those who do not have a car loan.
3) Accrued bonuses are related to the new bonus system. Of the accrued bonus amount 1/2 is paid out in 2007, while the remaining 2/3 is transferred to an individual’s bonus bank, and future disbursements will be conditional upon future goal achievement, as described in the notes to the financial statements.

### Contingent liabilities

Kongskilde Gruppen AS has been used for compulsory damages for losses due to the late payment of an amount assessed by the Court. Kongskilde Gruppen AS won the case in the City Court. The plaintiff has appealed the case and the court date for this appeal has been set for May 2007.
### Foreign exchange rates

<table>
<thead>
<tr>
<th>Exchange rate</th>
<th>Average exchange rate</th>
<th>Exchange rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Jan 2008</td>
<td>1.0490</td>
<td>1.0490</td>
</tr>
<tr>
<td>31 Dec 2008</td>
<td>1.0470</td>
<td>1.0470</td>
</tr>
</tbody>
</table>

### Exchange after the balance sheet date

**Conclusion of the Scammar case**

In September, the Aegir Court of Appeals handed down a unanimous ruling in favour of Scammar AS and two of its employees who had been accused of acting at variance with good business practice. The plaintiff was also awarded to pay legal costs amounting to NOK 1.5 million. The case was appealed to the Supreme Court in October 2007. The Scammar Committee of the Supreme Court rejected the appeal on 15 January 2008. The Aegir Court of Appeals’ ruling of 27 September 2006 is thereby being binding.

### INCOME STATEMENT, BALANCE SHEET AND STATEMENT OF CASH FLOW

**Kongsberg Gruppen ASA**

**Income statement for the year ending 31 December 2006**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount in NOK</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues</strong></td>
<td>72,710</td>
<td></td>
</tr>
<tr>
<td><strong>Personal expenses</strong></td>
<td>4,515</td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>71,200</td>
<td></td>
</tr>
<tr>
<td><strong>Other operating expenses</strong></td>
<td>5,546</td>
<td></td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>72,970</td>
<td></td>
</tr>
<tr>
<td><strong>Operating profit/(loss)</strong></td>
<td>(129)</td>
<td>(23)</td>
</tr>
<tr>
<td><strong>Interest from Group companies</strong></td>
<td>81,150</td>
<td>(23)</td>
</tr>
<tr>
<td><strong>Gain on disposal of shares</strong></td>
<td>2,520</td>
<td>(23)</td>
</tr>
<tr>
<td><strong>Repayment on shares</strong></td>
<td>5,452</td>
<td>(23)</td>
</tr>
<tr>
<td><strong>Currency trading gains/(losses)</strong></td>
<td>5,452</td>
<td></td>
</tr>
<tr>
<td><strong>Interest to Group companies</strong></td>
<td>3,215</td>
<td></td>
</tr>
<tr>
<td><strong>Other interest expenses</strong></td>
<td>6,000</td>
<td></td>
</tr>
<tr>
<td><strong>Group contribution received</strong></td>
<td>78,950</td>
<td></td>
</tr>
<tr>
<td><strong>Net financial income</strong></td>
<td>49,500</td>
<td></td>
</tr>
<tr>
<td><strong>Earnings before tax (EBT)</strong></td>
<td>(6)</td>
<td>(11)</td>
</tr>
<tr>
<td><strong>Tax income/(expense)</strong></td>
<td>0</td>
<td>(12)</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>(19)</td>
<td>(5)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount in NOK</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Distributable reserves and equity reserves</strong></td>
<td>(76)</td>
<td>(25)</td>
</tr>
</tbody>
</table>

**Statement of cash flows**

**Amounts in NOK**

<table>
<thead>
<tr>
<th>Description</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Earnings before tax</strong></td>
<td>(6)</td>
<td>(23)</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>3,215</td>
<td>3,215</td>
</tr>
<tr>
<td><strong>Repayment on shares</strong></td>
<td>5,452</td>
<td>5,452</td>
</tr>
<tr>
<td><strong>Repayment on shares</strong></td>
<td>5,452</td>
<td>5,452</td>
</tr>
<tr>
<td><strong>Not cash flows from operating activities</strong></td>
<td>(4)</td>
<td>(6)</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td>(85)</td>
<td>(21)</td>
</tr>
<tr>
<td>Acquisition of property, plant and equipment</td>
<td>(23)</td>
<td>(23)</td>
</tr>
<tr>
<td><strong>Cash flows from (used in) investing activities</strong></td>
<td>(85)</td>
<td>(21)</td>
</tr>
<tr>
<td><strong>Net cash flows from financing activities</strong></td>
<td>(179)</td>
<td>(23)</td>
</tr>
<tr>
<td><strong>Repayment of loans</strong></td>
<td>(55)</td>
<td>(25)</td>
</tr>
<tr>
<td><strong>Net disbursement of funds/paid for the purchase of treasury shares</strong></td>
<td>(3)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Change in bank accounts</strong></td>
<td>(250)</td>
<td>(250)</td>
</tr>
<tr>
<td><strong>Change in cash and short-term deposits</strong></td>
<td>(250)</td>
<td>(250)</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and short-term deposits</strong></td>
<td>0</td>
<td>(250)</td>
</tr>
<tr>
<td><strong>Cash and short-term deposits at 1 January</strong></td>
<td>(250)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Cash and short-term deposits at 31 December</strong></td>
<td>(250)</td>
<td>0</td>
</tr>
</tbody>
</table>

---

**Balance sheet at 31 December 2006**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount in NOK</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Debtors</strong></td>
<td>3,767</td>
<td></td>
</tr>
<tr>
<td><strong>Property, plant and equipment</strong></td>
<td>3,017</td>
<td></td>
</tr>
<tr>
<td><strong>Shares in subsidiaries</strong></td>
<td>3,017</td>
<td></td>
</tr>
<tr>
<td><strong>Other current assets</strong></td>
<td>18,903</td>
<td></td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>25,700</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>4,079,249</td>
<td></td>
</tr>
<tr>
<td><strong>Equity and liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Share capital</strong></td>
<td>150,150</td>
<td></td>
</tr>
<tr>
<td><strong>Share premium</strong></td>
<td>817,932</td>
<td></td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>862,082</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>2,217,267</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>4,079,249</td>
<td></td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>4,079,249</td>
<td></td>
</tr>
</tbody>
</table>

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**Kongsberg** - Annual Report and Sustainability Report 2006
NOTES KONGSBERG GRUPPEN ASA

1 Accounting Principles

The financial statements for Kongsberg Gruppen ASA have been prepared in accordance with the provisions of the Norwegian Accounting Act of 1986 and generally accepted accounting practices in Norway.

Subsidiaries/associates

Subsidiaries and associates are measured using the cost method of accounting in the parent company accounts. The investment is valued at the acquisition cost of the shares unless impairment loss has been necessary. Such assets are impaired to fair value when the decrease in value is not considered to be of a temporary nature and must be deemed necessary based on generally accepted accounting principles. Impairment loss is reversed when the reason for the impairment no longer applies.

Dividends and other disbursements are recognised as income in the same year as they are set aside by the subsidiary.

Classification and valuation of balance sheet items

Current assets and short-term liabilities include items that fall due for payment within one year after the date of acquisition, as well as items associated with commodity flows. Other items are classified as fixed assets/non-current liabilities.

Current assets are valued at cost or fair value, whichever is lower. Current liabilities are recorded at their nominal values on the date of acquisition.

Fixed assets are valued at acquisition cost less depreciation, but are impaired to fair value when the decrease in value is not expected to be of a temporary nature. Non-current liabilities are recognised on the balance sheet at nominal amounts at the time the debt is incurred.

Receivables

Trade and other receivables are recognised on the balance sheet at nominal amounts less provisions for expected losses. Provisions for bad debts are made on the basis of individual risk assessments of the individual debts. In addition, a general provision is made to cover potential losses on other trade receivables.

Foreign exchange

Financial items in foreign currencies are translated based on exchange rates at the close of the fiscal year.

Short-term investments

Short-term investments (shares and units considered current assets) are valued at acquisition cost or fair value on the date of balance sheet recognition, whichever is lower. Dividends and other allocations of profit from the companies are reported under "Other financial income".

Pensions

Pension expenses and pension liabilities are calculated using linear accrual based on estimated salary level at retirement. Pension expenses and pension liabilities are based on assumptions regarding discount rates, future salary adjustments, pensions and benefits in respect of the National Insurance Scheme and future interest income on pension fund assets, as well as on actuarial assumptions regarding mortality and turnover. Pension fund assets are assessed at their fair value, less non pension liabilities on the balance sheet.

As from 2006, actuarial gains/losses have been recognised directly in equity.

Tax

Tax expense in the income statement includes payable taxes and the change in deferred taxes during the period. Deferred taxes are estimated as 25% per level of the base for the temporary differences that arise between balance sheet items used for accounting purposes and those used for tax purposes, as well as the asset-related deficits to be carried forward at the end of the fiscal year. Temporary differences that increase or decrease taxes and have been reversed or can be reversed during the same period, are assessed. Net deferred tax assets are recognised on the balance sheet to the extent it is likely that they can be realised.

Statement of cash flows

The statement of cash flows has been drawn up using the indirect method.

Cash encompasses cash reserves, bank deposits and other short-term liquid assets.

2 Reconciliation of equity

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>Share capital</th>
<th>Share premium</th>
<th>Treasury shares</th>
<th>Retained earnings</th>
<th>Total equity</th>
</tr>
</thead>
</table>

Equity at 31 Dec 2004

- 150 032 (1) 588 1 589

Net profit for the year

- 16 18

Treasury shares

- - 1 12 13

Dividends for 2005

- - - 85 85

Actuarial gains/losses on pension expenses

- - 11 10 10

Equity at 31 Dec 2005

- 150 032 - 537 1 519

Net profit for the year

- - - 19 19

Treasury shares

- - - -

Dividends for 2006

- - - 75 75

Actuarial gains/losses on pension expenses

- - - 31 31

Equity at 31 Dec 2006

- 150 032 - 422 1 404

3 Shares in subsidiaries

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>Year of acquisition</th>
<th>Main office</th>
<th>Shares/ voting interest %</th>
<th>Recognised on the balance sheet 31 Dec</th>
</tr>
</thead>
</table>

Kongsberg Defence & Aerospace AS

Kongsberg Polaris AS

Kongsberg Smeary AS

Kongsberg Firemark AS

Kongsberg MTH AS

Kongsberg Asset Management AS

Kongsberg Næringsepensjon AS

Kongsberg Næringsmarksløp AS

Kongsberg Næringsmarksløp 1 AS

Kongsberg Næringsmarksløp 2 AS

Kongsberg Næringsmarksløp 3 AS

Kongsberg Næringsmarksløp 4 AS

Kongsberg Konsulentbyrå AS

Kongsberg Gruppen KH AS

Kongsberg Remsures Ltd

Kongsberg Procurement Center AS

Total

2 101

1) The remaining 1% of the shares in Kongsberg Nærings AS are owned by Kongsberg Gruppen AS.
2) The remaining 80% of the shares in Kongsberg Gruppen KH AS are owned by Kongsberg Defence & Aerospace AS.

4 Personnel expenses and remuneration

As regards salary and remuneration to corporate management and the directors, reference is made to Note 30 'Related parties' to the consolidated financial statements.

Auditor’s fees

<table>
<thead>
<tr>
<th>Amounts in NOK 1,000</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
</table>

Corporate auditor Ernst & Young

Mandatory audits

875 802

Other assurance services

0 352

Tax consultancy

0 12

Services other than auditing

0 179

Total fees, Ernst & Young

875 1 381

Pensions

Kongsberg is required by the Act relating to Obligatory Service Pensions to have a service pension plan. Kongsberg’s service pension satisfies the requirements under the law and covers all Group employees in Norway. At 31 December 2006, 3,019 employees were covered by the scheme. Parts of pensions are covered by payments from the National Insurance Scheme. Such payments are calculated using the National Insurance Scheme’s base amount (CI), stipulated annually by the Norwegian parliament. Pension benefits depend on the individual employee’s number of years of service and salary level upon retirement. Pension costs are distributed over the employee’s vested period. The scheme provides 95 per cent of salary, including National Insurance benefits, until the age of 77, then the pension level is reduced to 92 per cent.

Members of corporate management have an early retirement agreement from the age of 60. The benefits give thee 80 per cent of their salary upon retirement at age 60, decreasing by 10 per cent per year to 60 per cent of their salary from age 65 to 67.

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

- Discount rate 4.5% 4.0%
- Expected rate of return 5.5% 5.5%
- Wage adjustments 4.0% 3.0%
- Pension base level adjustment 4.0% 3.0%
- Pension adjustment 1.5% 3.0%
- Turnover 4.0% 3.0%
### Long-term liabilities to credit institutions

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificate loan 1</td>
<td>215</td>
<td>215</td>
</tr>
<tr>
<td>Certificate loan 2</td>
<td>215</td>
<td>215</td>
</tr>
<tr>
<td>Bond loan/ISIN 087011 01014 (fixed interest)</td>
<td>360</td>
<td>360</td>
</tr>
<tr>
<td>Bond loan/ISIN 097011 26384 (floating interest)</td>
<td>280</td>
<td>280</td>
</tr>
<tr>
<td>Total</td>
<td>1,850</td>
<td>1,850</td>
</tr>
</tbody>
</table>

The certificate loans were issued in NOK and are listed on the Oslo Stock Exchange. The overdraft facility is a syndicated credit facility for a total of MNOK 900. The agreement was signed with five banks: DnB Norden, Nordea, SEB, Nordbanken and ATP. The agreement was made through Nord Til训neam (Norwegian Trustee) and will mature in March 2006. The credit facility is currently unused. It can be used to compensate for any borrowing in the money market if that market becomes less attractive or inaccessible, and it is a contingency reserve that can be used for small- and medium-sized acquisitions.

The syndicated credit facility entails the following covenants related to key financial figures:

- Earnings before interest and tax (EBIT) plus interest income must be twice as high as reported interest.
- Net interest-bearing debt shall not exceed three times the EBITDA, but can be up to 3.5 times the figure for three consecutive quarters at the most.

The covenants in the loan agreements are satisfied.

All borrowing in the Group is centralised to Kongsberg Gruppen ASA and handled by the Group’s corporate financial services unit, Kongsberg Finance.

### Guarantees

The subsidiaries Kongsberg Nærøysund AS and Kongsberg Nærøysund AWV AS have in 1999, 2001, 2002 and 2008 sold some pieces of real estate in Kongsberg Industrial Park. The properties have been leased back on long-term leases that will apply until 2014, 2016, 2017 and 2021, respectively. The leasebacks are considered operational leasing agreements.

The total rental for which the parent company has guaranteed, that is attached to the sale and leaseback agreements is MNOK 950.

### Prepayment and completion guarantees

Consolidated companies have furnished guarantees for prepayments and completion in connection with projects. The guarantees are issued by Norwegian and foreign banks and insurance companies. Kongsberg Gruppen ASA is responsible for all guarantees.

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepayments and completion guarantees in respect of customers</td>
<td>189</td>
<td>189</td>
</tr>
</tbody>
</table>

Kongsberg Gruppen ASA has non-comitted framework agreements for guarantees with banks and insurance companies.
DECISION-MAKING TOOLS

Action calls for decisions. Decisions call for knowledge.
The right decisions require correct information when and where it counts.
2006 has been a year with bustling activity and strong growth in most fields. Sales orders in the offshore industry and the merchant marine market were record-high, exceeding MNOK 4.040 in 2006. The backlog of orders at year-end 2006 came to MNOK 3,054, the highest ever. The EBIT came to MNOK 329, the best ever for the business area.

The high level of activity in the market for drilling rigs is one of the reasons for the boom in new orders. Nearly 50 drilling projects have been initiated, and Kongsberg Maritime is involved in more than 80 per cent of them. The projects are important to us, and involve most of Kongsberg’s products.

Kongsberg Maritime has a strong position in dynamic positioning and manoeuvring systems. There have never been more contracts signed for dynamic positioning than in 2006, and the deliveries included a preponderance of medium- and large-sized systems.

Improvements
Kongsberg Maritime works continuously to further develop and improve its products. Product development takes place in close cooperation with our customers, collaboration which has been constructive for many years. We also work closely with groups of shipyards to streamline the installation and commissioning of our systems. Meanwhile, the company is strengthening its global customer support activities.

Challenges
Kongsberg is getting more involved in the offshore oil and gas industry. To deal with these challenges, Kongsberg Maritime acquired the companies Fantoff Process Technologies and Sense Intellifield in 2006. Fantoff Process Technologies delivers dynamic process simulators and real-time systems for oil and gas fields, LNG installations and transportation pipelines. Sense Intellifield delivers products and services in the field of integrated operations for the oil and gas market.

The acquisition of Fantoff Process Technologies and Sense Intellifield also gives Kongsberg Maritime a broader portfolio of products in the rapidly growing market for integrated operations. Integrated operations are having a growing impact on the oil and gas industry with a view to both exploration and production. Kongsberg Maritime has gathered our hydroacoustics activities into a single division, Subsea. We expect this to facilitate more efficient utilisation of technology. Products will continue to be marketed under the Simrad and Kongsberg brands.

Kongsberg Maritime is constantly in search of new areas of application for our knowledge and technology. The high level of activity at Kongsberg Maritime called for the recruitment of 200 new co-workers in 2006. This has brought us more new knowledge and, together with existing knowledge, has raised the company’s level of expertise.
KONGSBERG MARITIME IN BRIEF

The business area (BA) makes systems for positioning, surveying, navigation and automation for commercial vessels and offshore installations.

Kongsberg Maritime AS

**Offshore & Merchant Marine**
- Process Automation
- Subsea
- Positioning

Kongsberg Maritime is a market leader in dynamic positioning systems, automation and surveillance systems, process automation, satellite navigation and hydroacoustics. Important markets include countries with significant offshore and shipyard industries. In 2006, all divisions improved their performance, as new orders aggregated more than NOK 1 billion in each and every quarter of 2006. The BA posted operating revenues of MNOK 3 553 in 2006, compared with MNOK 3 034 in 2005. This translates into an increase of 17.1 per cent. The operating profit (EBITA) was MNOK 329 in 2006, as against MNOK 262 in 2005. The backlog of orders has expanded steadily for eight consecutive quarters. At year-end 2006, it reached a record-high MNOK 3 054.

**Employees by level of education**
- Operating revenues: 3 300
- Operating revenues, outside Norway: 2 900
- Earnings before interest, tax and amortisation: 250

Q2 2005

**Acquisition of Fantoft Process Technologies**

Fantoft Process Technologies AS was acquired for MNOK 87 in June 2006. The company makes dynamic process simulators and real-time systems for oil and gas fields, LNG installations and transportation pipelines. The acquisition is compatible with Kongsberg Maritime’s strategy for placing more focus on the oil and gas industry. Fantoft is headquartered in Sandvika near Oslo.

Q4 2004

**Acquisition of Sense Intellifield**

Kongsberg Maritime acquired 100 per cent of the technology enterprise Sense Intellifield AS for approx. MNOK 250 on a debt-free basis. Sense Intellifield delivers products and services in the field of integrated operations, e.g. for the international oil and gas market. Combined with the acquisition of Fantoft Process Technologies and Kongsberg Maritime’s own businesses in oil and gas, the acquisition of Sense Intellifield will reinforce Kongsberg Maritime’s position in the international oil and gas industry.

Q1 2007

**Integrated control systems for Gyoe**

In January 2007, Kongsberg Maritime was awarded a contract valued at approx. MNOK 80 for Integrated Control Systems for safety and process automation on board a suls-avenable production platform that will be used on the Gyoe oil and gas field in the North Sea. The field and the platform will be developed by Statkraft, although the contract was concluded with Alar Kunstverk. The vessel will be operated by the field.

Q1 2007

**Breakthrough in the cruise market**

In January 2007, the company signed a contract with Aker Yards Finland for substantial deliveries of automation equipment to the world’s largest cruise ship. Designated a Sunclass Class vessel, the ship is being built for Royal Caribbean International. The first vessel is scheduled for delivery in 2009. The vessel is 360 metres long and can carry 5 400 passengers.
KONGSBERG’S POSITION IN THE OFFSHORE MARKET

The offshore market encompasses exploration and production at sea, and the landing of oil and gas. It also includes support functions such as supply and support services. Kongsberg’s contracts for all segments of the offshore industry.

The world faces a shortage of energy. Oil and gas account for about 50% of overall energy consumption. Economic growth in Asia will ensure growth in this area in the years ahead.

In 2006, new orders for the offshore market totalled MNOK 2 700. Due to the high utilisation of shipyard capacity, and since Kongsberg’s products are installed late in the production phase, existing contracts do not generate revenues for two or three years after contracts are signed. Kongsberg’s signed contracts cover activities for 29 rigs in 2006. The rig boom has lasted longer than expected, and the boom is continuing. Since it began, Kongsberg has won contracts for 40 rigs. The pace of contracting is expected to slow in 2007. Kongsberg expects an increase in orders for floating production vessels, where we can potentially become a major equipment supplier.

Dynamic positioning is one of Kongsberg’s most important, most recognised products. New orders for dynamic positioning totalled about MNOK 1,000 in 2006. To face increasing competition, especially in Asia, Kongsberg must maintain continuous emphasis on improving products and offering more complete solutions. Operations in Asia must also be improved, and Kongsberg expects to have 250 employees in this area by the end of 2007.

KONGSBERG’S POSITION IN THE MERCHANT MARINE MARKET

The market for merchant vessels encompasses all types of ships, from simple dry cargo carriers to more advanced tankers for gas and chemicals. The contracting of this type of vessel is closely related to the expected development of the demand for transport. The growth in the world economy we are witness to in China, for example, leads to more demand for energy and raw materials. That calls for additional tonnage for carriage. The pace of contracting vessels in the global market is fast and expected to pick up momentum for most types of vessels up to 2010.

In 2006, Kongsberg registered significant growth in new orders for merchant vessels. Kongsberg delivers systems for dynamic positioning, navigation, marine automation, surveillance and positioning for different types of merchant vessels. The deliveries to each individual vessel increase in proportion to the complexity of the vessel. The Group is a global market leader in systems integration, automation and surveillance systems for merchant vessels.

Kongsberg is a strong brand name in international maritime communities. The company has built up a comprehensive distribution and service network, and we have our own local subsidiaries in the main growth markets. It is important to be represented in these markets since vendors with a firm local footing often have an advantage.

Market competition is keen. Kongsberg supplies the ‘brains’ of the systems, and by including as many functions as possible, the Group gains a competitive edge. Another important competitive edge is our world-wide 24/7 support centre that ensures that our customers can get help anytime and anywhere, whenever they need it.

MARKET DRIVER AND TRENDS

Investment activity in the value chain

The investment level is cyclical and traditionally varies at a pace commensurate with the demand for and price of oil. Investment activity in the value chain varies considerably over time.

- Anticipated increases in future exploration, especially in the deepwater segment.
- A number of smaller fields are expected to be developed, providing oil prices remain at the current level.
- Increasingly more undersea activity drives the demand for hydroacoustics.

Growth in different geographical areas

Investments often vary considerably between different geographical areas. They are often determined by oil reserves and the level of exploration and production activity.

- Brazil and West Africa are international growth areas. In the not too distant future, the Barents Sea will be a growth area.
- The North Sea basin is increasingly considered a single area (which may make it more acceptable to foreign players).
- Several fields in the North Sea are expected to reach the first production phase in the next five years.

New technology – new market niches

- More demanding oil and gas fields create new market niches. This generates a need for new technological solutions.
- More tail production and focus on producing smaller fields.
- Better utilisation of existing infrastructure.
- Improved production technology and methods.
Offshore & Marine is the largest division at Kongsberg, delivering systems for dynamic positioning and navigation, marine automation, cargo management and level sensors.

2006 was a good year for the division. There was growth in all areas, and the backlog of orders will keep the division busy for the next three to four years.

Dynamic positioning systems (DP systems) for offshore vessels have been a successful product for many years, and the segment is continuing to grow rapidly. Our DP systems are installed on supply ships and floating oil installations and gaining popularity on cruise ships, supply vessels and lighter construction vessels. Originating in the North Sea, this market has developed at the international level, especially in China, India, the US and Brazil. Kongsberg has a leading global position in this market, and we expect to maintain it. In the past, Kongsberg has a strong position in positioning, navigation (bridge) and automation.

Marine automation (vessel automation) for merchant vessels and offshore vessels encompasses systems for controlling the engine, cargo and propulsion. There is a tremendous need for carriage, and we envisage robust growth in the merchant marine. Kongsberg’s tangible presence at and good relations with shipyards in China and South Korea contribute significantly to the strong influx of new orders and large backlog.

The market for automation and steering systems for LNG (Liquefied Natural Gas) carriers saw a high level of activity again in 2006. Kongsberg Maritime is currently involved in more than 70 LNG carriers on order, under construction or in operation. It is important for Kongsberg Maritime to be present and help develop the new generation of LNG carriers to maintain its position in the market.

Navigation encompasses bridge equipment for merchant vessels and offshore vessels, completing the division’s range of products. By integrating the various sub-systems and converting everything to the same technology platform, Kongsberg can accommodate more of its customers’ needs.

In 2007, the division will concentrate on upgrading the equipment on older merchant marine vessels and on the offshore market. Another target area is global sourcing. In other words, the division will outsource the procurement of produced equipment to local suppliers in the areas in which it is most cost effective to purchase and manufacture the products.

Dynamic positioning is a means of keeping a vessel in a fixed position relative to the seabed using the vessel’s own propellers rather than anchors. Dynamic positioning systems collect data about wind, waves, the effects of currents, direction and current position. Through advanced engineering and software, computers then calculate how much engine power should be fed to the propellers and rudders to keep the vessel in a constant position and ensure a steady operation.

Kongsberg’s dynamic positioning (DP) system was named the 20th century’s second most important engineering heat in Norway. These days, DP systems are used on many types of vessels, from drilling and production vessels to cruise ships. Kongsberg supplies the full range of DP systems. The systems are designed to reduce fuel consumption and strain on the propulsion system, while enhancing safety. The supply ships used in the oil and gas industry are examples of vessels that utilize dynamic positioning. Any collision between a supply vessel and an oil platform would be dramatic, not to mention disastrous. DP systems ensure that vessels remain at a safe, appropriate distance from platforms.

Given the situation in the North Sea, the market has expanded at the international level, especially in China, India, the US and Brazil. 2006 was a record year for dynamic positioning contracts. Kongsberg has a leading global position in this market, and we expect to maintain it.
DIVISION POSITIONING

The division consists of two separate private limited companies: Kongsberg Seatex in Trondheim, which is wholly-owned by Kongsberg Maritime, and Seatex in Åker, 80 per cent of which is owned by Kongsberg Maritime. Kongsberg Seatex delivers advanced position reference systems to maritime vessels and offshore installations, while Seatex delivers engineering and software solutions to oil companies. The division offers a wide variety of services related to design and engineering, and to the development and operation of riser and subsea systems. Both companies saw a positive trend in 2006, increasing operating revenues and profits for the year. The influx of orders has been good, and the backlog is high.

Kongsberg, a European leader in satellite navigation. That has led to a prestigious contract with ESA (the European Space Agency) for Kongsberg Seatex. Seatex will be developing, building and supplying 22 reference stations for the Galileo satellite navigation system the world over.

Galileo will be a positioning system under civilian control, independent of the American GPS system. Once the system is completed in 2010, it will be highly stable, offer good coverage and facilitate many new services.

In 2007, the division will work to expand its oil and gas target area. Growing exploration is creating more need for new technologies and methods in this sector. One challenge for 2007 will be to take advantage of our positive growth in 2006, applying existing technology to new fields or perhaps using it in combination with other Kongsberg technologies.

DIVISION SUBSEA

The Subsea Division operates within the product areas underwater positioning and communication (HIPAP), hydrography and seabed seismic (EM series), autonomous underwater vehicles (HUGIN) and sonars for offshore and defence.

2006 was a good year in terms of operations and new orders. One example is the framework contract with the US Armed Forces for upgrading EM equipment and support.

The division has long traditions in hydroacoustics, as well as robust basic technology used in the area of product areas and adapted to a variety of market segments. Maintaining market position is contingent on engaging in continuous product development and applying existing technology in new ways. We do this by concentrating on expertise and proprietary development, not least through binding cooperation with research institutions and dedicated researcher training.

The division actively takes advantage of its position to expand into new markets and to apply technology in new ways to create growth for its customers. One example is the development and industrialisation of the autonomous underwater vehicle HUGIN. It started as a collaborative project that included the Norwegian Defence Research Establishment and Statoil in 1995. Today, Kongsberg is a global supplier of autonomous underwater vehicles that can survey and explore the seabed down to depths of 4,500 metres with a degree of detail never before possible.

HUGINs have covered a distance of more than 120,000 km on the seabed for offshore survey companies. That is comparable to sailing around the world three times at the equator! HUGINs have been used for seabed surveys in connection with the Åsgard, Sleipner and Ormen Lange projects, as well as on most of the world’s other deepwater oil fields.

Subsea technology from Kongsberg to Ormen Lange

Kongsberg has supplied seabed surveying services to the Ormen Lange project using the autonomous underwater vehicle HUGIN. Since the surveying was completed, "landmarks" were set up so that the different development operations had common points of reference. Kongsberg supplied about 90 hydroacoustic transponders for the Ormen Lange project. These have been placed on stands on the seabed. Transponders transmit hydroacoustic signals that are "caught" by a receiving unit called a HIPAP (High Precision Acoustic Positioning and Underwater Navigation System). This results in a highly accurate underwater reference system in the area.

In addition, Kongsberg has also supplied a new type of positioning system called HYDRA (Hydroacoustic Raked Inertial Navigation) HIPAP, which further improves positioning accuracy using inertial navigation.
DIVISION PROCESS AUTOMATION

The division delivers complete computer-based systems for steering, control, optimisation and safety in connection with operations on oil platforms, production ships and drilling vessels. The computer-based security systems protect the equipment against the consequences of faulty equipment, inadvertent disruption of production, oil spills or personal injuries.

In 2006, activities were burgeoning and the backlog of orders increased considerably. Kontron’s framework agreement with Statoil has resulted in new contracts relating to the modification of the process control systems for oil and gas production on Statoft A, B and C. The facilities are moving into Late Phase, and new solutions will be developed for that. Kontron has a strong position in the Norwegian market for process automation and control systems. In addition to maintaining this position, the division will concentrate on markets outside Norway in 2007.

The company has a strong position in dynamic simulation in Norway. Kontron has developed valuable simulation tools for numerous engineering tasks, operator training systems and maintenance support systems related to large-scale development projects such as Ormen Lange and Snøhvit. In 2006, Kontron won contracts to supply process simulators and control systems for British Petroleum (BP). Besides maintaining a strong national position, our goal is to build up simulator activities at the international level. With the acquisition of Fantoft Process Technologies, the division has strengthened its advanced simulation environment for design, engineering, training and the optimisation of the oil and gas processes.

Integrated operations was a designated target area in 2006. The division will redouble its efforts to be a significant supplier of equipment and services for integrated operations at the national and international levels.

What has Kontron supplied to the Kristan platform?
At the very heart of Kristan’s integrated operations is the information management system (IMS). It collects data from the process computers and from different ‘smart’ field instruments and sensors. These data are stored, processed and structured in a manner that reduces work operations and feeds consistent information to technical staff.

The information management system is also linked to Statoil’s onshore organisation through a fibre optics network. This makes the same data available to the different groups that need the information. For example, data is transferred to Statoil’s SAP (Strategic Action Plan) to help plan maintenance operations. Once the data are onshore, the ‘load’ is very short to Kongsberg Maritime’s experts in Kongsberg.

The delivery to Kristan consists of a powerful server linked to the process data network, with 8–10 different IMS applications, as well as the transfer of data from ‘smart’ instruments to IMS.

INTEGRATED OPERATIONS

The oil companies on the Norwegian Continental Shelf consider integrated operations to be high-priority strategic tools to ensure the companies’ sustainable development. White Paper No. 56 defines integrated operations as “The use of information technology to change work processes to improve decision, remotely operate equipment and processes, and to move functions and personal onshore.” Several of the companies use other, closely related terms for the same type of operations, e.g., Smart Drift or Smart Operations (Process), eDrift or Applications (Hydro), Smart Field (Shell), Field of the Future (BP), Real Time Operations (Piolukartot), Smart Wells (Schlumberger), Digital Oil Field of the Future, or DOPF (CERA). The new feature of integrated operations is that it is used on a broad front as a strategic tool to streamline duties and decision-making processes in the oil and gas sector. Integrated operations entail total integration of the organisations that work offshore and onshore through comprehensive digitisation of all activities. Onshore- and offshore-based tasks mesh into each other. Oil and gas fields can be operated and serviced from onshore, raising the prospect of entirely new forms of cooperation within the oil companies as well as between suppliers and the oil companies. This will have far-reaching consequences for how tomorrow’s oil and gas fields will be operated. The goal of using integrated operations is to enhance recovery, accelerate and boost production, cut operating costs, extend life spans and improve safety.
2006 was a good year for Kongsberg Defence & Aerospace in several respects. The development of the new NSM (Naval Strike Missile) is on schedule, and the Protector RWS (Remote Weapon Station) is a success. Profitability improved for the business area as a whole, and the backlog of orders increased from MNOK 3 124 to MNOK 3 253 during the year.

Our market success
During the year, the company signed contracts with a total value of NOK 1.2 billion for the Protector RWS system. The US Army and General Dynamics Land Systems of the US are the main contract partners. The system has also been sold to Norway, Canada, Australia, Ireland, Finland and Switzerland.

During the year, we set up operations in the US, i.e. a factory where we manufacture, maintain and upgrade RWS equipment.

Improvements
We work continuously to improve the RWS in terms of capacity, technology and adaptation to vehicles in different weight classes. These efforts have benefited greatly from the Group’s vast store of technological expertise. We have successfully transferred partial designs from the NSM to the RWS.

Our largest development project
Kongsberg Defence & Aerospace’s largest development project, the NSM, has made good progress. We have conducted several successful test firings in California as part of the Norwegian Navy’s final approval of the development phase. The successful tests confirmed the missile’s highly-sophisticated properties, further mitigating project risk. As planned, the NSM will be ready for deployment on Norway’s new Nansen class frigates and missile torpedo boats.

Surveillance
In 2005, the Group’s surveillance expertise was organised as a new division: Land Systems and Surveillance. Coastal surveillance systems have been designated a target area for the new division. A Group-wide working group is examining how the enterprise can position itself relative to oil and gas activities in the Barents region.

Challenges
We expect to sign a production contract with the Norwegian Armed Forces for the NSM in 2007. The next step will be to sell the anti-ship missile to other countries. Integration of the NSM into any new fighter aircraft will further enhance export opportunities. Another challenge is to continue developing and taking advantage of our position in the market for remote weapons systems. The market is large and growing, and the competition is keener than ever. For the moment, ours is the system of choice thanks to its performance, quality and technology. It is also important to take advantage of the spin-off effect on the sale of the RWS by adapting it to vehicles in different weight classes.

We depend on maintaining the diversity in our range of products to win contracts with the Norwegian Armed Forces, our most important customer. To maintain diversity, it is crucial to be able to adapt to the market swiftly. This means we must have a flexible organisation so that we can rapidly exploit common technologies and resources across the divisions.
KONGSBERG DEFENCE & AEROSPACE IN BRIEF

Kongsberg Defence & Aerospace is Norway's premier defence enterprise when it comes to technological defence systems.

Key Figures

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</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>2,987</td>
<td>2,650</td>
<td>2,704</td>
<td>2,684</td>
<td>2,684</td>
</tr>
<tr>
<td>EBITA</td>
<td>182</td>
<td>135</td>
<td>13</td>
<td>43</td>
<td>93</td>
</tr>
<tr>
<td>Operating margins (%)</td>
<td>6.1%</td>
<td>5.1%</td>
<td>(10.5%)</td>
<td>(16.6%)</td>
<td>3.0%</td>
</tr>
<tr>
<td>Backlog of orders</td>
<td>3,253</td>
<td>3,124</td>
<td>3,646</td>
<td>3,548</td>
<td>4,852</td>
</tr>
<tr>
<td>New orders</td>
<td>3,071</td>
<td>1,980</td>
<td>2,500</td>
<td>2,500</td>
<td>3,705</td>
</tr>
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The business area (BA) has long traditions of developing and manufacturing sophisticated systems in close collaboration with the Norwegian Armed Forces.

Kongsberg’s anti-ship missiles, command and weapons control systems and communications solutions have proven competitive on the export market, even though Kongsberg is a small player by international standards. Alliances with major foreign defence enterprises are a key part of the BA’s international marketing strategy. The Protector weapons control system contributed significantly to revenues and results in 2006.

During the year under review, the BA earned MNOK 2,997 in operating revenues, compared with MNOK 2,650 in 2005. This translates into an increase of 13.1 per cent. The year’s operating profit (EBITA) was MNOK 182, compared with MNOK 135 in 2005. The backlog of orders climbed by 4.1 per cent, reaching MNOK 3,253 at year end, compared with MNOK 3,124 in 2005. Roughly 82 per cent of the orders booked in 2006 were for the export market. Kongsberg Defence & Aerospace had 1,547 employees at yearend. This was an increase of 146 during the year.

Quarters 1-4, 2006

The NNSM missile is ready for serial production

In July/August 2005 and in early January 2007, a total of four successful test firings of the NNSM (Neural Strike Missile) were conducted in California in the US. The NNSM is now ready for serial production. Tipping the scales at just more than 400 kg, the anti-ship missile is highly manoeuvrable. It can follow the lay of the land and sea at extremely low altitudes and it can be used against surface and land targets alike. Moreover, the NNSM is hard to detect on radar.

Quarters 1-4, 2006

Protector sold to seven countries

Deployed on armoured personnel carriers, the Protector Remote Weapon System (RWS) has been sold to a total of seven countries: USA, Canada, Australia, Poland, Norway, Ireland and Switzerland. Contracts valued at a total of NOK 1.2 billion were signed in 2006. Altogether, contracts valued at NOK 2.6 billion have been signed since the first delivery in 2000. The principle underlying the RWS is that the soldier can sit inside an armoured personnel carrier, and then remain protected from enemy fire.

Q4 2005

NASAMS air defence system to the Netherlands

The Norwegian-developed NASAMS II (Norwegian Advanced Surface to Air Missile System) was sold to the Dutch Army. The contract is worth MNOK 1.45 billion and the system will be delivered in 2009. Part of the contract refers to maintenance of the system from 2009 to 2014. The Netherlands is considered an important customer reference as regards the possibility to sell NASAMS to other countries.

Q1 2007

Framework agreements related to JSF production

In January 2007, long-term framework agreements were signed with Lockheed Martin and Northrop Grumman of the US for the production of composite products for the new JSF (Joint Strike Fighter). The agreements are conditional upon Norway choosing the JSF in 2008. The framework agreements have an initial scope of MNOK 1.3 billion and MNOK 0.5 billion, respectively. The agreements have a duration of 9 years. Full-scale production will mean that the scope can potentially increase to a total of NOK 5-8 billion.

Q1 2007

Marketing agreement for the aircraft version of the NNSM

Kongsberg has signed a joint marketing agreement for an aircraft version of the NNSM with Lockheed Martin of the US. Called the Joint Strike Missile (JSM), the unit is designed to be carried inside and fired outside the F-35 Lightning II Joint Strike Fighter (JSF). The JSM will take advantage of both GPS and inertial navigation, combined with a unique imaging infrared seeker and data link, in addition to which the missile features automatic target recognition.

HIGHLIGHTS
KONGSBERG’S POSITION IN THE DEFENCE MARKET

The defence market calls for products and ships’ systems for ground-based, air-based and sea-based defence. The market is political and protectionistic and excepted from international free trade agreements. The results in most countries: choosing national suppliers, or requiring offset agreements if suppliers are chosen from countries other than their own. The market is bureaucratic, with stringent regulation and safety and security requirements. As the world’s largest defence market, the US accounts for nearly 50 per cent of overall global defence spending. The market is nevertheless extremely difficult for foreign players to penetrate.

Kongsberg has carved out a position in the US market through direct deliveries of proprietary systems and through cooperation with US alliance partners. A total of about 25 per cent of Defence & Aerospace’s earnings are derived from the US market.

Today’s defence market is in the process of shifting from seeking equipment adapted to a traditional invasion defence, to a defence based on multinational operations to a greater extent. Moreover, growing emphasis is being placed on the monitoring of natural resources, as well as on protecting one’s own country against terrorist acts and environmental offenses.

Kongsberg is Norway’s premier defence enterprise in advanced, technological defence systems. We usually obtain a high proportion of the offset agreements generated by the Norwegian Armed Forces’ procurements from foreign vendors.

By international standards, Kongsberg is a small player. Small players in a market characterised by many large players must generally concentrate on niche products to achieve success. We have developed many systems and products that have proven competitive at the international level, both in collaboration with the Norwegian Armed Forces, international alliance partners and on our own.

MARIT MARKET DRIVERS AND TRENDS

The Norwegian Armed Forces’ level of investment.

• The Norwegian Armed Forces is undergoing comprehensive reorganisation. Among other things, it is expected that reorganisation will improve the efficiency of non-operational activities. The savings are expected to be used to give more priority to operations and investments in material. Full effect is not expected until 2008 at the earliest.

This means that investment funding will largely be tied-up in existing programmes for the next few years.

The Norwegian Armed Forces’ investment contracts to Norwegian suppliers.

• Approx. 40 per cent of the Armed Forces’ investment contracts go to Norwegian suppliers.

• Any decisions the Armed Forces might make to buy fighter aircraft will lock in a large part of the overall investment funding. In such case, however, the offset share is expected to increase considerably.

• Market protectionism.

• Due to strict security requirements and the protection of different countries’ domestic defence industries, it is often difficult for a defence supplier to win defence contracts outside its own borders. However, protectionism both in the US and Europe does not rule out possibilities through long-term relationships and niche products.

Operating revenues Naval Systems Division

The division delivers command and weapon control systems for naval vessels. The division’s results are good, and right in line with the targets set for the year. New orders were low in 2006. The division has several market prospects and an order backlog for 1–2 years.

In 2006, the division was in a transitional phase. The development components of major projects, e.g. deliveries of sub-systems for the new Norwegian Fridtjof Nansen class frigates and the new Norwegian Skjold class missile torpedo boats (MTB), are in the process of being completed. Thus far, the systems for four of a total of five frigates have been delivered on schedule. Delivery is taking place in collaboration with Lockheed Martin of the US and the Spanish shipyard Navantia, which is the Norwegian Armed Forces’ contract partner. Along with Umeå Mandal and Armas of France, Kongsberg is right on schedule for the Skjold class MTB.

In 2003, Kongsberg signed a contract with Lockheed Martin to supply software and service for an anti-submarine system (the KDX III programme). The delivery is part of a command and control system Lockheed Martin will be supplying to the South Korean Navy as the end user. This contract is the first export contract for Kongsberg based on the cooperation agreement signed with Lockheed Martin in connection with the frigate programme in 2000. The KDX III programme is on schedule, and is now in an important testing phase.

Deliveries of command and weapon control systems to German and Italian submarines are nearing completion. The systems provided under these contracts are similar to those developed and delivered to Norway’s Ulo class submarines. In 2006, the division has also entered into collaboration with the Norwegian Coastal Defence which is now testing a new-marine version of the Protector RMS (Remote Weapon Station), called the Sea Protector.

The frigate project.

The frigate project concerns a total price tag of roughly NOK 21 billion, making it the Norwegian Armed Forces’ largest investment project ever. The first frigate was delivered in spring 2006, and with one usual delivery already, all five frigates will be in service in 2010. The frigates are named after famous Norwegian explorers and scientists.

• V 110 KNM Fridtjof Nansen, spring 2006
• V 111 KNM Roald Amundsen, spring 2007
• V 112 KNM Otto Sverdrup, 2008
• V 113 KNM Helge Ingstad, 2009
• V 114 KNM Thor Heyerdahl, 2010

From the bridge of the Fridtjof Nansen. The new Norwegian frigates are replacing the aging (45-) Ode sound frigates. The new vessels will help strengthen the Norwegian Navy and Armed Forces in general. They are Norway’s first naval vessels to carry helicopters.
DIVISION DYNAMIC SYSTEMS

The main product is the Protector Remote Weapon Station (RWS) for armoured personnel carriers. The system was developed to protect military personnel in armoured vehicles. Weapons and sensors are mounted on the outside, while the operator remotely controls the system from a protected position inside the vehicle.

The division had an exceptionally good year. The influx of orders was good, and a substantial backlog of orders was built up during the year. Kongsberg has contracts for RWS deliveries to the Norwegian Armed Forces, the US, Canada, Ireland, Australia, Finland and Switzerland. Orders worth more than NOK 1.2 billion were booked in 2006. Several countries are planning to acquire similar systems. To penetrate the German market, the division signed an exclusive cooperation agreement with Rheinmetall Landsystems, Germany’s largest defence enterprise for ground forces.

A new production line has been set up in Norway to handle this market growth. The capacity of this line will be doubled in 2007, at the same time as production will be stepped up at the plant in the USA. The reason for building up a factory in the USA is to come closer to our largest customers and offer good service and follow up. Moreover, additional production capacity in the US will help mitigate currency risk.

The Remote Weapon Station is under continuous development and improvement. A new, lighter version has now been developed for smaller vehicles. Kongsberg is the first company in the world to offer this product on the market. The new version has been offered to 20 countries thus far, and the first contract has already been signed. In addition, a version called the Sea Protector is currently being tested by the Norwegian Coastal Defence.

![Operating revenues Dynamic Systems Division](image)

PROTECTING MILITARY PERSONNEL

The PROTECTOR Remote Weapon Station (RWS) was developed to protect military personnel inside armoured vehicles. Weapons and sensors are mounted on the outside of the vehicle, while the operator remotely controls the system from a protected position inside the vehicle.

The PROTECTOR has been in full-scale production since December 2001. A total of more than 1300 RWS units have been made since then. Today’s PROTECTOR is the 4th generation Remote Weapon Station qualified for international operations. The control system has been tested in the toughest war zones, and has rapidly become a world leader in its segment. Kongsberg has contracts for deliveries to the Norwegian Armed Forces, the US Army, Canada, Ireland, Australia, Finland and Switzerland.

The Remote Weapon Station can be mounted on all types of vehicles. PROTECTOR features power steering, and has integrated sensors for target observation, as well as advanced ballistics calculations and image processing.

The RWS is being developed and improved on a continuous basis. The Protector series currently consists of four main products. Protector M515, Protector Lite, Protector NM 221 and Sea Protector. The M515 has been the high-volume product thus far. It is lightweight, easy to integrate and does not require any reduction in a vehicle’s armour, offering great flexibility for customer-specific modifications. Protector NM 221 is the original product and differs from M515 and Lite in that the system allows the user to reload ammunition from the inside instead of using an external ammunition box. Launched in 2006, Protector Lite is well suited for smaller vehicles and armoured trucks armed with smaller calibre weapons. Kongsberg is first in the world to offer this product, and it has been well received by the market. In addition, a version called the Sea Protector is being tested by the Norwegian Coastal Defence. Sea Protector is based on the M515 and has been modified to endure the climate at sea.

![PROTECTOR](image)

Testing the Sea Protector during the winter exercise Cold Response.
DIVISION INTEGRATED AIR DEFENCE SYSTEMS

The Integrated Air Defence Systems division supplies command and control systems and fire control for air defence systems. 2006 was a good year. Sales orders increased, and the division entered 2007 with well-filled order books.

The acquisition of the Canadian software company Gallium Visual Systems Inc. was concluded in 2006. During the year, efforts were devoted to adopting and adapting Gallium’s software for electronic mapping systems (InterMAP فى) to systems in this and other divisions.

Along with the Norwegian Air Force and the American defence contractor Raytheon, the division has developed a mobile air defence system known as NASAMS (Norwegian Advanced Surface to Air Missile System). It is a highly effective, competitive solution for the international market. The strategic cooperation agreement with Raytheon generally involves Kontron supplying decision-support tools and command and control systems, while Raytheon supplies missiles, radars and other equipment for the air defence systems.

In December 2006, the division signed a contract with the Netherlands for the delivery of NASAMS II to the Dutch Army. This is the company’s second largest contract ever outside Norway. Part of the contract refers to maintenance of the system for the next five years. This means the division will keep the air defence system operational from 2009 to 2014, ensuring continuity for the project.

After-sales will be a target area for the division in the year ahead. The goal is to offer several countries maintenance contracts similar to the contract concluded with the Netherlands.

The division’s systems are easy to conform to new sensors and weapons. Kontron’s command centre already has a large part of the software required to take advantage e.g. of microwaves instead of conventional missiles as weapons.

This has opened up several opportunities for the division with a view to the Department for Homeland Security in the US, in cooperation with Raytheon. The goal is to develop a system for the defence of civilian airports in the US.

DIVISION COMMUNICATION

The division’s activities encompass tactical radio and communications systems. After restructuring and adapting the organisation to the prevailing market volume, in 2006, the division reached its targets after a year of steady growth.

The tactical communication segment operates exclusively on the export market, in competition with large international companies on the commercial market. The largest markets are in the Middle East and Eastern Europe.

There have been fewer customer-financed development projects in recent years, and the division has largely financed product renewal from its own pocket.

Several major contracts bear evidence to the fact that the division’s communication solutions have a strong foothold in the market.

In 2006, the division was awarded a significant contract for the delivery of a communications system to Romania. A communications contract was also signed with the Saudi Arabian authorities. This contract piggybacks on a larger communication system contract under which deliveries began in 1991.

The division is in the final phase of deliveries to the Norwegian Armed Forces of tactical radios (Multi Role Radio (MRR) and Light Multi Role Radio (LFR)).

The division provides civilian and military surveillance systems, simulators and tactical management systems for army units. In autumn 2006, the Group acquired NavTel in Horten, which was then merged with Kongberg Norcontrol IT.

The year’s results are in line with the targets set. The efforts to integrate Kongberg Norcontrol IT into the division and to adapt the company’s products to the division’s systems have resulted in synergies and opened up many opportunities. Substantial growth is expected in new orders and the backlog in 2007.

The surveillance of harbours, coastal waters and borders is a target area. NavTel has supplied a chain of coastal radars that form part of the Armed Forces’ surveillance of the coast off Northern Norway. Kongberg Norcontrol IT won a contract with the Norwegian National Coastal Administration for a new vessel traffic centre in Vardå. These assignments have improved the division’s position as a supplier of relevant surveillance systems for the High North, especially with a view to the development of oil and gas deposits in the region.

As a subcontractor for Boeing of the US, the division has also developed software for computer screens for operators on board AWACS surveillance aircraft.

A long-term contract was signed between NATO and Kontron for the maintenance and further development of this software. The agreement also includes training and maintenance of the systems.

A corresponding agreement for software development services was concluded with Boeing for their B-737 surveillance aircraft. These systems were initially developed for Australia, but have also been sold to Turkey and South Korea.

In the market for tactical command systems, Kontron has been the main contractor for the further development of NORTRAC-ZIFS, the Norwegian Army’s command, control and information system. The system is adapted to international operations, improving Norwegian units’ ability to exchange information with allied forces. The system has already attracted considerable international interest. The segment for simulation and training has had a strong influx of new orders, due not least to the development of a simulator for the Protector RWS (Remote Weapon Station). The market is showing more and more interest in simulators of this type.

DIVISION LAND SYSTEMS & SURVEILLANCE

Kongsberg - Annual Report and Sustainability Report 2006

Kongsberg - Annual Report and Sustainability Report 2006
**DIVISION MISSILES & SPACE**

**Missiles**
The division develops and manufactures anti-ship missiles. In 2006, test firings of the new NSM (Naval Strike Missile) were conducted in California in the USA. The American test firing field offers missile testing over land and sea alike. This is essential in order to test several functions of the NSM not featured on any other anti-ship missile. The test firings were successful, reaffirming the missile’s highly advanced properties. A 10-year development programme is approaching completion, and a contract for series production is expected to be signed in 2007. As planned, the NSM will be ready for deployment on the new Fridtjof Nansen class frigates and the new Norwegian Skjold class missile torpedo boats. The Penguin missile has been operational in Norway and the navies of several other countries for a number of years. The missile remains one of the world’s leading anti-ship missiles and can be deployed on helicopters, aircraft and vessels. Sales orders were low in 2006, but the missile is still attractive on the market.

**Space**
Aerospace activities are divided between Kongsberg and Tromsø. Kongsberg Defence & Aerospace is Norway’s largest supplier to the European Space Agency (ESA). The division has provided equipment for many space programmes, and for many of the satellites and booster rockets that carry satellites into outer space. The subsidiary Kongsberg Spacotec in Tromsø delivers ground systems for earth observation satellites, and is the international market leader in the development of technology for ground stations for receiving and processing satellite data.

Kongsberg Satellite Services is jointly and equally owned by Kongsberg and the Norwegian Space Center. The company downloads and analyses satellite data. Kongsberg Satellite Services is located in Tromsø, Svalbard and Antarctica.

![NSM - THE MOST ADVANCED MISSILE OF ITS KIND](image)

In December 1996, Kongsberg Defence & Aerospace concluded a contract with the Norwegian Navy for the development of a new Naval Strike Missile (NSM). The contract had a value of approx. NOK 1.5 billion. The NSM has been developed in collaboration with the Norwegian Defence Research Establishment and the Royal Norwegian Navy. It is one of Norway’s most advanced development projects, having required approx. 2 million working hours over the past 10 years. The NSM is a small autonomous aircraft that is 4 metres long and weighs about 400 kilos. It has a range of 1,950 kilometres. The missile has propulsion that enables it to follow the terrain at a very low altitude at high subsonic speeds. The missile is built of composite materials and has a surface and shape that make it very hard to detect by radar. The NSM is equipped with an infrared imaging seeker that represents the foremost seeker technology in the world. Using military satellite navigation (GPS), inertial navigation and a laser altimeter, the missile knows exactly where it is. The missile carries considerable computing power (corresponding to 15 powerful PCs). Using map data, the missile selects its trajectory to the target. The final phase of the flight pattern is unpredictable. The missile will continuously change directions, making it exceedingly difficult to shoot down.

The NSM will be the main weapon on the new Skjold class missile torpedo boats and the new Norwegian Fridtjof Nansen class frigates. Two highly successful test firings were performed in the US state of California in January 2007. A final design review began in February and is scheduled for completion by mid-year, and full-scale serial production is expected to begin in 2007.
TEAMWORK DEFINITELY PAYS

Teamwork is more than the sum of the individual players. All growth is achieved through sharing. By working across company lines, the Group can develop attractive solutions for the market. The protection and enhancement of values go hand-in-hand with operational improvements.
CORPORATE GOVERNANCE AT KONGSBERG

Kongsberg aspires to enhance shareholder value through profitable, sustainable business practices. Good corporate governance is intended to decrease business risk, maximise added value, and utilise the company’s resources in an efficient, sustainable manner. The value added should benefit shareholders, employees and the community. Kongsberg is listed on the Oslo Stock Exchange and is subject to Norwegian securities legislation and stock exchange regulations.

Definition of the concept

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 in a long-term, value-adding perspective. Corporate governance calls for effective collaboration between management and the Board, respect for the Group’s other stakeholders, and open, honest communication with the communities in which the Group operates.

Treatment of the topic in 2006

The topic of corporate governance is subject to annual reviews and discussions by the corporate Board of Directors. Among other things, the Group’s corporate governance documents are reviewed and revised annually and the text for this chapter of the annual report is reviewed in detail. When this chapter of the 2005 annual report was discussed, management was ordered to redress most of the points on which the Group deviated from the Recommendation.

The following are the amended Articles of Association as they will be presented at the Annual General Meeting (AGM) on 8 May 2007. Compared with earlier Articles of Association, §8, point 1, line 5 and several amendments have been made to §9 which deals with the Nominating Committee.

ARTICLES OF ASSOCIATION FOR KONGSBERG GRUPPEN ASA

About recently revoked by the ordinary Annual General Meeting on 8 May 2007

§ 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 the Kongsberg Gruppen ASA is to engage in technological and industrial activities in the maritime, defense 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 50,000,000 shares with a nominal value of NOK 3. 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 Board of Directors in private companies, three Directors and their Deputies shall be elected directly by and from among the employees.

§ 6 The Chair of the Board has the power to sign for the Company, or the Deputy Chair and another Director may do so.

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

§ 8 The ordinary AGM shall:

1. Adopt the financial statements and the Annual Report, including the payment of dividends.
2. Dispose of 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 the members of the Nominating Committee.
5. Elect one or more auditors, based on nominations read by the AGM.
6. Stipulate the Board’s remuneration and approve remuneration to the Auditor.

§ 9 The Nominating Committee shall consist of those members who shall be shareholders or representatives of shareholders. The members of the Nominating Committee, including the chair, shall be elected by the ordinary Annual General Meeting. The Nominating Committee shall submit its roster of candidates to the AGM to elect the members of the Nominating Committee. The term of office is two years. Based on a recommendation from the Board of Directors, the AGM shall stipulate the remuneration to be paid to the Nominating Committee’s members.

The Nominating Committee shall present to the AGM its recommendations for the election of and remuneration to the Directors and Deputy Directors on the Board. The Chair of the Board shall, without being reinfected to vote, be called in to at least one meeting of the Nominating Committee before the Nominating Committee presents its final recommendation.

The following elements underpin Kongsberg’s Corporate Governance Policy:

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

Kongsberg’s Corporate Social Responsibility is considered an integral part of the principles of good corporate governance. This is in line with the State’s vision, as expressed in the ‘Ownership Report’.
THE NORWEGIAN RECOMMENDATION

The following is a detailed discussion of each individual section of the Norwegian Recommendation. Each section starts by reiterating part of the text of the Recommendation. Then there is a description of the treatment of each item. The full treatment of each item is included in the booklets on the website at: www.oslobo.org/no/db/cg or NUES (the Norwegian Corporate Governance Committee): www.nues.no

The description of the individual items is generally structured like the Recommendation. As recommended, more details are provided on the individual points. Point 16, ‘Management and in-house procedures’, is not covered by the Recommendation. It has nonetheless been included because it is considered crucial to Kongsbergs’ discussion of corporate governance.

1 Principles of corporate governance

- The Board shall ensure that the company has good corporate governance.
- The Board is to provide an overall report on the Group’s corporate governance in the annual report. When the Recommendation is not followed, an explanation will be given.
- The Board should clarify the Group’s value platform and, in accordance with this, formulate ethical guidelines.

The Group has drawn up a separate policy for corporate governance, and the Board has decided to follow the Norwegian Recommendation for Corporate Governance. A discussion and clarification of the Group’s value platform can be found in the Sustainability Report, page 117, and at www.kongsberg.com.

The Group has drawn up its own corporate Code of Ethics, most recently revised in August 2005. For more details, see page 135, and the Group’s website at: www.kongsberg.com

Departures from the Recommendation: None

2 Activities

- The scope of the company’s activities should be defined in the Articles of Association.
- Within the parameters of the Articles of Association, the company should have other objectives and strategies for its operations.
- The objects chosen in the Articles of Association and the Group’s goals and main strategies should be presented in the annual report.

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 appear in §3 of Kongsbergs’s Articles of Association. The Group’s Articles of Association can be found on page 93 of the Annual Report and on the Group’s website at: www.kongsberg.com

The Group’s objectives and main strategies are discussed on page 14.

Departures from the Recommendation: None

3 Investment capital and dividends

- The company should have shareholders’ equity appropriate to its objectives, strategy and risk profile.
- The Board should choose a clear, predictable dividend policy as the basis for the dividend proposal to the AGM. The dividend policy ought to be published.
- Board authorisation to undertake the capital reserve ought to be limited to defined purposes and should not be granted for longer than to the next ordinary AGM. The same applies to Board authorisation for the acquisition of treasury shares.

Equity

At 31 December 2006, consolidated equity came to MNOK 1 684 (MNOK 1 548), accounting for 23 (24.8) per cent of total assets. The Board of Directors considers this satisfactory. The company’s need for financial strength is considered at any given time in the light of its objectives, strategy and risk profile.

Dividend policy

The Group will consistently strive to achieve an annual dividend of approx. 30 per cent of the net profit. The Annual General Meeting (AGM) stipulates the annual dividend, based on the Board’s recommendation. The proposal is the ceiling for what the AGM can adopt.

A dividend of NOK 2.15 per share was paid for 2005, and the Board will propose to the AGM that a dividend of NOK 2.50 per share be paid for 2006.

Capital increases

The Board has not been authorised to undertake share issues.

Purchase of treasury shares

The AGM can authorise the Board to purchase up to 10 per cent of its own shares. On 9 May 2006, the ordinary AGM authorised the Board to buy treasury shares for up to a nominal amount of MNOK 7 500,000. That is equivalent to 5 per cent of the share capital. The authorisation can be used more than once and applies for 12 months. The Board’s acquisition of shares pursuant to this authorisation can be exercised only between a minimum price of NOK 70 per share and a maximum price of NOK 210 per share.

At 31 December 2006, the Group owned a total of 3 808 shares, or 0.012 per cent of the total number of shares in the Group.

The shares were purchased for the share scheme for employees, but can also be sold on the market. Offered to all employees at a discount (-20 per cent), the shares are subject to a one-year lock-in period from the date of acquisition.

Departures from the Recommendation: None

4 Equal treatment of shareholders and transactions between related parties

- The company should only have one class of shares.
- Any restriction from the existing shareholders’ pre-emptive rights in connection with capital increases should be explained.
- The Group’s trading in treasury shares should be undertaken on the stock exchange or by other means at market prices. If there is limited liquidity in the shares, the requirement for equal treatment should be adjusted to in other ways.
- In connection with significant transactions between the company and a shareholder, director, key employee or a party related to such individuals, the Board should ensure that any approach is made by an independent third party. The same applies to transactions between companies within the same group where there are minority shareholders.
- The company should have guidelines that guarantee that directors and key employees report to the Board if they directly or indirectly have a significant interest in an agreement signed by the company.

Class of shares

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

Trading in treasury shares

The Board’s authorisation to acquire treasury shares is based on the assumption that acquisitions will take place on the market. Acquired shares may be disposed of on the market, as payment for acquisitions, or through the share scheme for employees.

Transactions between related parties

In 2006, there were no transactions between the company and shareholders, directors, key employees, or related parties, that might be described as significant transactions. See also Note 30.

Guidelines for directors and key management personnel

The corporate Code of Ethics discusses the topic under the heading conflict of interest, without this being said to be directly equivalent to the point in this Recommendation. Similarly, the Board’s instructions, section 11—Independence and disqualification, apply.

The State as customer and shareholder

The Norwegian state has a stake of 50.001 per cent of Kongsberg at the same time as it is a major customer, especially with a view to deliveries to the Norwegian Armed Forces.

Relations with the Armed Forces are purely of a commercial nature and are not affected by the ownership structure.

The Group has quarterly meetings with the State, as represented by the Ministry of Trade and Industry. The topics discussed at these meetings are first and foremost the Group’s economic development, and there are briefings on strategic questions related to Kongsberg. The State’s expectations regarding investment performance and yield are also communicated. These ‘one-on-one’ meetings with the State are comparable to what is customary between a private company and its principal shareholders. The meetings comply with the provisions specified in company and securities legislation, not least with a view to equal treatment of shareholders.

As a shareholder, the State does not usually have access to more information than what is available to other shareholders. Under certain circumstances, however, when the State’s participation is imperative and the Government must obtain an authorisation from the Storting, it will sometimes be necessary to give the Ministry insider information. In such a case, the State is subject to the general rules for dealing with such information.

Departures from the Recommendation: None

5 Freely negotiable

- Shares in limited companies should in principle be freely negotiable. Consequently, no limitations should be placed on negotiability.

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

Departures from the Recommendation: None

6 Annual General Meeting (AGM)

The Board of Directors should try to ensure that as many shareholders as possible can exercise their rights by participating in the Group’s AGM, and that the AGM is a good meeting place for shareholders and the Board, not least by making sure that:

- The documents for the AGM, including the Nomination Committee’s recommendations, are sent to shareholders at least two weeks prior to the AGM.
- The documents should be delivered enough for the shareholders to take a position on all items up for discussion.
- The final date for registration should be set as close as possible to the meeting date.
- Shareholders who are unable to attend personally can vote by proxy.
- The Board of Directors, the Nomination Committee and the Chairman will attend the AGM.
- There are routines in place to ensure independent chairing of the AGM.

By virtue of the Annual General Meeting, the shareholders are guaranteed participation in the Group’s supreme governing body. The AGM adopts the Articles of Association.
Shareholders representing at least 5 per cent of the shares can call for an extraordinary general meeting.

Notification
The Annual General Meeting (AGM) is ordinarily held by 1 June each year. The 2007 AGM is scheduled for 8 May. Notification is usually sent out three weeks in advance. This is one week earlier than the statutory minimum requirement (two weeks). It is important that the relevant documents, including the Nominating Committee’s recommendation, contain all necessary information for the shareholders to take a position on all items up for discussion.

The company’s Articles of Association stipulate that the final date for registration cannot expire less than five days prior to the date of the AGM. Efforts are made to set the deadline as close to the meeting date as possible.

The Financial Calendar is published on the Internet and in the Group’s annual report.

Participation
It is possible to register by post, telephone or e-mail. The Board of Directors tries to pave the way for as many shareholders as possible to participate. Shareholders who cannot attend the meeting are urged to authorise a proxy, and the system facilitates the use of proxies for each individual item on the agenda. Representatives of the Board, at least one member of the Nominating Committee and the auditor will attend the AGM. Management is represented by the Chief Executive Officer and the Chief Financial Officer, at the very least.

In 2006, the AGM was held on 9 May, and 79 per cent (76.9) per cent in 2005) of the aggregate share capital was represented.

Agenda and execution
Theenda is set by the Board, and the main items are specified in §8 of the Articles of Association. The same paragraph stipulates that the Chair of the Board will chair the AGM. The CEO reviews the status of the Group. The minutes of the AGM will be made available on the Group’s website at: www.kongsberg.com

Departures from the Recommendation: There are two departures on this point. The entire Board has not usually attended the AGM. Thus far, the items on the agenda for the AGM have not required full attendance. The Chair of the Board is always present to respond to any questions. The other departure refers to §8 of the Articles of Association, which specifies that AGMs are to be chaired by the Chair of the Board. This is a departure from the recommendation for independent chairing of meetings.

The Nominating Committee’s duty is to nominate candidates for the shareholder-elected directors’ seats to the AGM. The recommendation for the Chair of the Board of Directors shall be dealt with separately.

The Nominating Committee consists of three members from among the shareholders or representatives of shareholders. The AGM shall elect all members of the Nominating Committee, including the chair. This is a consequence of the proposed revised instructions being presented to the ordinary Annual General Meeting on 8 May 2007. The Nominating Committee shall propose to the AGM a list of candidates for the Committee. The term of office is two years. The above-mentioned elements appear in §9 of Kongsberg’s Articles of Association.

The Committee works under instructions from the AGM. These instructions were most recently revised by the ordinary AGM on 3 May 2005, and it is proposed that they be revised once again at the ordinary AGM on 8 May 2007.

Composition
The current committee was elected by the ordinary AGM on 9 May 2006 and consists of:
- Anne Grethe Dalane, human resources director, Yara International ASA (re-election)
- Knut J. Utvik, director, the Ministry of Trade and Industry (new)
- Sverre Valvik, managing director, Arendals Fossekompani ASA (re-election)

Anne Grethe Dalane was elected chair of the Committee.

None of the Committee’s members represents Kongsberg’s management or Board. The majority of the members are considered independent of management and the Board. Sverre Valvik is managing director of Arendals Fossekompani ASA, where Kongsberg’s director Erik Must indirectly owns a substantial stake. The Nominating Committee is of the opinion that the composition reflects the common interests of the community of shareholders.

Information about the Nominating Committee, a form for nominating candidates for the Board and the deadlines are available on the Group’s website at: www.kongsberg.com

The work of the Committee
The Nominating Committee held four meetings in 2006 and Q1 2007.

Departures from the Recommendation: None – provided that the motion for revising the instructions is adopted by the ordinary Annual General Meeting on 8 May 2007.

The directors are elected for a two-year term. The AGM elects the Chair of the Board. This is stated in the proposed revised instructions for the Nominating Committee. Finn Jøhansen was elected Chair of the Board.

Changes in the Board in 2006
None of directors were up for election in 2006, so no changes were made in the Board of Directors during the year.

The Board’s autonomy
All shareholder-elected directors are considered autonomous and independent of the Group’s corporate management. The same applies relative to important business associates. Arendals Fossekompani ASA, in which Erik Must directly and indirectly has a substantial stake, owned 6.85 per cent of Kongsberg Gruppen ASA at year end. Ferd ASA had a 2.17 per cent stake in Kongsberg Gruppen ASA at year end. John Giverholt is Chief Financial Officer of Ferd ASA. The Board of Directors is favourable to long-term shareholders being represented on the Board. There should be no conflicts of interest between owners, the Board, management and the Group’s other shareholders.

Among the shareholder-elected directors, there are three men and two women, that is, a 40 per cent female share.

Election of the Board of Directors
The AGM elects the five shareholder-elected representatives to the Board. The Nominating Committee draws up a roster of recommended shareholder candidates to the Board in advance of the election. The roster of nominations is sent to the shareholders along with the notification of the AGM. Board elections take place by simple majority. The Norwegian State currently owns some 50 per cent of the shares, and could, in principle, control the election of the Board.

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.

Directors’ ownership of shares
Apart from the employee representatives, the following directors own shares in the Group: Finn Jøhansen, Chair of the Board, owns 5 000 shares through his wholly-owned company Fatesbuet AS. Benedicte Berg Schiblold, deputy chair, owns 15 200 shares through Odd Berg ASA. Erik Must owns 31 150 shares (personally) and 100 000 shares through Fondsavaven AS.

Departures from the Recommendation: None
Board work

- The Board of Directors should make an annual plan for their work with special emphasis on objectives, strategy and implementation.
- The Board of Directors should stipulate rules of procedure for the Board and the management with special emphasis on a clear interaction of responsibilities and work.
- A deputy chair should be elected to take over when the then chair should or should not lead the Board's work.
- The Board should consider using Board Committees to contribute to in-depth, independent treatment of items that refer to financial reporting and remuneration to key management personnel. Such committees should consist of directors who are independent of management.
- The Board should provide information about any use of Board Committees in the annual report.
- The Board should evaluate its work and its expertise each year.

Board responsibilities

The Board bears the ultimate responsibility for running the Group and supervising risk management and business activities. This entails that the Board is responsible for establishing control systems and for the Group operating in accordance with the adopted value platform and Code of Ethics, as well as in accordance with the owners’ expectations of good corporate governance. The Board of Directors primarily looks after the interests of all the shareholders, but is also responsible for the Group’s other stakeholders.

The Board’s main tasks are to contribute to corporate competitiveness, and to ensure the Group develops and adds value. Further, the Board of Directors shall participate in the shaping of and adopt the Group’s strategy, exercise the requisite control functions and ensure that the Group is well run and organised. The Board sets the objectives for financial structure and adopts the Group’s plans and budgets. Items of major strategic or financial importance for the Group are handled by the Board. These tasks are not constant. The focus will depend on the Group’s needs at any given time. The Board hires the CEO, defines his or her work instructions and authority, and sets his or her wages.

Instructions to the Board of Directors

The Board’s instructions are extensive and were last revised on 12 February 2007. The instructions cover the following points:

- Notification of Board meetings, deadlines for notification, administrative preparation, Board meetings, Board’s decisions, keeping the minutes, the Board’s expertise and items of business, the division of responsibilities between the Board and management, relations between subsidiaries and the parent company, independence and legal competence, the main principles for Board work in the event of a corporate takeover, confidentiality and professional secrecy, matters related to legislation, regulations and rules of procedure.
- The Board of Directors can decide to deviate from instructions in certain cases.

Instructions for the CEO

There is a clear division of responsibilities between the Board and corporate management. The Chair is responsible for the Board’s work being conducted in an efficient, correct manner and in accordance with the Board’s terms of reference. The CEO is responsible for the Group’s operational management. The Board has drawn up special instructions for the CEO.

Financial reporting

The Board of Directors receives monthly financial reports on the Group’s economic and financial status.

Notification of meetings and discussion of items of business

The Board schedules regular meetings each year. Ordinarily, the Board meets seven or eight times a year. Additional meetings are convened on an ad hoc basis. In 2006, there were 12 Board meetings and one Board seminar. The Board meeting had 95 per cent attendance in 2006. 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 operational 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.

The Board draws up and discloses the meetings. The CEO and the other directors are entitled to attend if they so desire. Seven meetings were held in 2006.

Members: John Geverholt, Siri Hatlen, Audun Solids.

The terms of reference for the Audit Committee are on the Group’s website: www.kongsberg.com

The Board’s Compensation Committee

The Board’s Compensation Committee is responsible for financial reporting, the independent auditor, internal audits and risk management. The Committee consists of two shareholder-elected directors and one employee-elected director. The independent auditor usually attends the meetings. The CEO and other directors are entitled to attend if they so desire. Seven meetings were held in 2006.

Members: John Geverholt, Siri Hatlen, Audun Solids.

The terms of reference for the Audit Committee are on the Group’s website: www.kongsberg.com

The Board of Directors and internal control

Management draws up monthly performance report that are sent to and reviewed by the directors. The quarterly financial statements, risk reports and HSE reports are also subject to review at the quarterly Board meetings. See page 103 for a more detailed description.

The Board’s annual review

The Board of Directors undertakes an annual review of the risk and HSE situation. This is done in connection with reviewing the preliminary accounts in early February. The auditor also attends this meeting. This review is in addition to the quarterly reviews.

The Board’s reporting routines

The Board of Directors presents an in-depth review of the company’s financial status in the Directors’ Report. It also describes the main elements related to HSE and risk. Further, there is a statement about internal control activities under the heading Organisation and Governance on page 103.
Departures from the Recommendation: There are currently no separate internal control routines for following up the company’s value platform and Code of Ethics. Meanwhile, the Group has set up an Ethics Council whose purpose is to contribute to high ethical awareness, promote good behaviour and ensure a good reputation in and for Konecranes.

11 Directors’ fees

- Directors’ fees should reflect the Board’s responsibility, expertise, time use and the great complexity of the business.
- Remuneration to the Board shall not be performance-based. Options should not be issued to directors.
- Directors, or companies to which they are affiliated, should not undertake special assignments for the company in addition to directorships. Should they nonetheless do so, the entire Board must be informed. The fee for such assignments should be approved by the Board.
- The annual report should contain information about all remuneration to the individual members of the Board and the remuneration beyond the director’s fees has been paid, this should be specified.

The Annual General Meeting stipulates the Board’s remuneration each year. The proposal for remuneration will be made by the chair of the Nominating Committee. For 2006, total compensation to the Board added up to NOK 1,280,000 (NOK 1,280,000 in 2005). The remuneration breaks down as follows: Chair of the Board of Directors NOK 300,000, Deputy Chair NOK 160,000, other directors NOK 136,667. Members of the Board Committees receive no additional remuneration.

The directors’ fees are not linked to performance, option programmes or stock options. None of the Board’s shareholding directors elected works for the company outside their directorships.

Departures from the Recommendation: None.

12 Remuneration to key management personnel

- The Board should establish guidelines for remuneration to key management personnel. The guidelines should be presented to the AGM each year for information purposes.
- Salary and other remuneration to the general manager should be stated in the annual report.
- Proposals for option schemes and schemes for the allocation of shares to employees should be approved in advance by the AGM. Proposals for option schemes should include allocation criteria, the fair value of the option schemes, and the consequences for the company if manager is accounted as a concerned and potential dilution effects.
- Guidelines for remuneration to key management personnel should be stated in the annual report. The same applies to all elements of remuneration to the general manager and individual executives.

Guidelines

The Board has drawn up separate guidelines for the stipulation of salary and other remuneration to key management personnel. The CEO’s terms of employment are set by the Board. Each year, the Board undertakes a thorough review of salary and other remuneration to the CEO. The review is based on market polls of similar positions.

The structure of the incentive system for the other members of corporate management is determined by the Board, and presented to the AGM for information purposes. The terms of employment for the other members of corporate management are proposed by the CEO, and subject to the approval of the Chair of the Board.

The Board’s attitude to executive management’s salaries is that they should be competitive, but not leading. The reward system consists of basic wages, bonuses, pensions, severance pay and benefits in kind.

Performance-based remuneration

The Board of Directors adopted a new bonus scheme in 2006. Performance-based remuneration is linked to the added value for the shareholders or to the Group’s performance trends over time. The prerequisites for the payment of performance-based remuneration are described in Note 30.

Altogether, the Group has 90 managers who are covered by an incentive system that includes an element of individual performance. The criteria for the evaluation encompass the Group’s financial results, the business area’s or the unit’s results, and the achievement of goals related to improvements and the long-term perspective.

Terms

Remuneration to corporate management and the Board of Directors is described in Note 30.

Departures from the Recommendation: None.

13 Information and communications

- The Board should establish guidelines for the Group’s reporting of financial and other information based on condition and taking account of the requirement regarding equal treatment of players in the securities market.
- The company should publish a list of the dates of important events such as the AGM, the publication of interim reports, public presentations, the delisting of bonds, etc.
- Information to the Group’s shareholders should be posted on the Group’s website at the same time as it is sent to the shareholders.
- The Board of Directors should establish guidelines for the Group’s contact with shareholders outside the AGM.

The annual report and accounts – periodic reporting

The Group normally presents provisional annual accounts in late February. Complete financial statements, 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. The Group’s Financial Calendar is published on the Group’s website and in the Annual Report. The Sustainability Report is part of the Annual Report sent to all shareholders.

All shareholders are treated equally as a matter of course.

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 the development of the future. The Group’s CFO also participates in these presentations, as do other members of corporate executive management from time to time.

The presentations of the annual and quarterly reports are available on the Group’s website as they are presented (webcast). Beyond this, the Group conducts an ongoing dialogue with and makes presentations to analysts and investors.

It is considered essential to keep owners and investors informed about the Group’s progress and economic and financial status. Importance is also attached to ensuring that the same information is released to the entire equity market at the same time. Care is taken to maintain an impartial distribution of information when dealing with shareholders and analysts.

The Group was awarded distinctions for Good Information and Good English by the Oslo Stock Exchange in 2004.

The Board of Directors has drawn up guidelines for the Group’s contact with shareholders outside the AGM.

Departures from the Recommendation: None.

14 Auditors

- Each year, the auditor should brief the Board about the main lines of the auditing work.
- The auditor should participate in Board meetings that deal with the annual accounts. At the meetings, the auditor should review any significant changes in the Group’s accounting policies, and state on opinions on accounting estimates and discuss all significant points on which there has been disagreement between the auditor and management.
- At least once in a year, the auditor should review the Group’s in-house control with the Board, including identified weaknesses and proposals for improvements.
- The Board and auditor should have at least one meeting a year without the general manager and other executives being present.
- The Board should establish guidelines for management’s authority to use the auditors for services other than auditing. Every year, the auditor should give the Board written verification that the auditor fulfills the Statutory Audit Independence and Objectivity requirement. In addition, the auditor should give the Board a list of services other than audits that have been supplied to the company.

At the ordinary AGM, the Board should provide information about the auditor’s remuneration, broken down into audits and other services.

The auditor’s relationship with the Board

An outline of the work planned by the auditor should be put before the Board once a year.

The Chair of the Board conducts a separate meeting with the auditor and corporate management prior to the Board’s discussion of the financial statements. The auditor is always present during the Board’s discussions of the annual accounts. At that meeting, the Board is briefed on the annual accounts and any other issues of particular concern to the auditor, including any points of contention between the auditor and management. The auditor also participates in the meetings of the Audit Committee.

The Board arranges annual meetings with the auditor to review a report from the auditor that addresses the Group’s accounting policies, risk areas and internal control routines.

As from 2005, at least one meeting a year will be held between the auditor and the Board without the presence of the CEO and other executive managers.

The Group’s Audit Committee is the main forum for the Board to discuss the adequacy of the Group’s internal control. The Group also has a risk management process and a risk management framework. The board is responsible for the annual review of the board’s audit committee and the other board committees, and the board is responsible for the annual review of the board’s audit committee and the other board committees. The Board also reviews the effectiveness of the internal control system and reports on the effectiveness of the internal control system and related risk management. The Board also reviews the effectiveness of the internal control system and reports on the effectiveness of the internal control system and related risk management. The Board also reviews the effectiveness of the internal control system and reports on the effectiveness of the internal control system and related risk management. The Board also reviews the effectiveness of the internal control system and reports on the effectiveness of the internal control system and related risk management. The Board also reviews the effectiveness of the internal control system and reports on the effectiveness of the internal control system and related risk management.
The auditor has submitted to the Board a written statement on fulfilment of the Statutory Audit Independence and Objectivity requirement, cf. the Auditor’s Act.

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

The Group hired Arthur Andersen & Co. as its independent auditor upon 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 due diligence. Reference is made to Note 10 to the consolidated accounts.

At regular intervals, the Board of Directors evaluates whether the auditor exercises a satisfactory level of control.

Departures from the Recommendation: None.

Management and internal procedures

Evaluations
Corporate management evaluates its own work and working methods annually. The evaluation is submitted to the Group’s Nominating Committee.

Intra-Group Boards
The Group’s subsidiaries have their own Boards of Directors, staffed by in-house managers and employees. The president of the owner enterprise or a person so authorised by the president will chair the Boards of the subsidiaries. Appointment of the Boards and board work in subsidiaries is to take place in accordance with the Group’s principles for good corporate governance.

Special share register
The company has stipulated in-house guidelines for trading in the company’s shares. The regulations comply with the guidelines drawn up by the Oslo Stock Exchange for insider trading. These guidelines are updated regularly pursuant to the rules that apply at any given time, and distributed to the primary insiders. The in-house guidelines require, among other things, that primary insiders must get internal clearance prior to trading in the company’s shares.

Organisation and Governance

Organisation

The main bodies that comprise KONGSBERG’s management model are the annual general meeting, the Board, the CEO and corporate management. The Group has two main business areas that are subject to clear requirements related to performance, growth, improvement and rates of return. The Group’s organisational model attaches importance to clear accountability for results, so authority is to a large extent delegated. “Freedom of choice and responsibility for results” is an expression that describes this way of organising the Group. Organisational form is a significant element in the Group’s performance and value creation, facilitating increased flexibility and more rapid decision-making. The Group has a relatively small corporate staff to deal with corporate business and provide support for the business areas.

Strategy

The Board bears the ultimate responsibility for the Group’s strategy. Corporate management draws up proposals for strategies and long-term, paramount objectives, which are then discussed and adopted by the Board. This is an annual process that has a rolling five-year perspective. The process normally starts in January/February and ends in June. Contributions to the strategic planning process come from different parts of the organisation. Based on the strategic planning document and the long-term objectives, operational goals and plans are drawn up for departments and projects.

Budget

The budget process usually starts in mid-September. All profit centres take part in these efforts. Budgetary guidelines are drawn up at the corporate level, based on the strategy document and relevant external framework conditions. It is important to improve on past performance.

The budget is subject to in-depth treatment by corporate management and the Board. The final budget is adopted by the Board in December, and then used as a tool for short-term financial management for the next year. The budget applies throughout the budget period, and has a binding effect on the managers of the individual units.

Risk reporting to the Board

Comprehensive risk analyses are compiled quarterly. The analyses mainly cover operational, business, legal and financial risk. KONGSBERG’s operational risk is largely related to the implementation of projects of great technical complexity, where product quality is decisive. Business risk is related to market conditions, competitors and other general conditions prevailing in the markets in which we operate. Legal risk is linked to ongoing disputes that are already in the legal system and to projects that involve differences of opinion with customers/partners. Financial risk is largely related to foreign exchange and interest rate fluctuations and funding. The analyses are presented to the Board quarterly. In addition, the Board receives a separate HSE report each quarter.

Follow up

The CEO conducts monthly follow-up meetings with the business areas in the Group. The follow-up of objectives, large-scale projects and risk analyses, as well as of factors that deserve attention, are addressed at these meetings, as are financial and market status. Importance is attached to commenting on non-conformance relative to budgets and planned activities. Corrective measures are then implemented, if need be.

Internal control

The Group has no special unit for internal control.

Accounting controls are handled through different divisions of responsibilities, guidelines and approval routines. The Group’s central accounting service bears the overall responsibility for starting business and following up guidelines and principles. The introductions of IFRS and the new Bookkeeping Act have entailed additional requirements for accounting-related follow-up and control. As a result of this, the Group’s accounting function has been reinforced centrally and in the BUs. Moreover, the Board has appointed an Audit Committee.

Intra-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 service.

Responsibility for the commercial content of contracts and agreements rests with the individual business areas. Follow-up and control related to the Group’s value platform, Code of Ethics and corporate social responsibility take place out in the line as part of routine operations. The Group has a special Ethics Council that addresses topics related to the corporate Code of Ethics.
THE BOARD OF DIRECTORS OF KONGSBERG GRUPPEN ASA

Finn Johnsen (57)
Chair of the Board
Position: Professor of Economics, Norwegian School of Economics and Business Administration in Bergen (1974), master’s degree in Business Administration from the University of California, Los Angeles (1979). Other: Previously CEO of the Olka Group. Number of years on the Board: 2 Number of shares in Kongsberg Gruppen ASA: 5,001 (through the wholly-owned company Kongsberg Defence & Aerospace AS). Directorships outside Kongsberg: Chair of the Board of Kvik Holding ASA; Deputy Chair of the Board of Qwax ASA and KLP Founders.

Benedict Berg Schilhede (68)
Deputy Chair
Position: Executive Chair of the Olka Group. Number of years on the Board: 6 Number of shares in Kongsberg Gruppen ASA: 17,500 (through the company Olka AG). Directorships outside Kongsberg: Chair of the Board of the Norwegian Hydro Group ASA; Director of Norske Pilag in Group ASA; President of the Norwegian Hospital Association; Member of the Board of Partners in the University of Oslo.

Erik Moes (54)
Director
Position: Executive Director, Copenhagen School of Economics (1987). Number of years on the Board: 2 Number of shares in Kongsberg Gruppen ASA: 100,000 (through Fundusvaenene AS). 31.78% of the shares in Kongsberg Gruppen ASA, 0.50% of the shares in Kongsberg Defence & Aerospace AS. Directorships outside Kongsberg: Chair of the Board of the Pånderup Group ASA; President of the National Foundation for Science and Research.

Siri Nathe (49)
Director
Position: Self-employed. Education: Graduated Engineer from the Norwegian University of Science and Technology (1972). Other: Began his professional career at A/S Kongskilde Vipervikfabrikk, where he held several managerial positions. Subsequently president of Daniel Rand AS and Kongskilde Systems AS. Former president of Kongsberg ASA in 1998. After 4 years at the helm of Kongskilde Maritime. Number of years on Kongsberg: 12 Number of shares in Kongsberg Gruppen ASA: 65,053 Directorships outside the Group: SPNTEF (Chair of the Board), Corporate Advisory of Terex ASA (Chair), DBV Council (director).

John Gjersvik (54)
Director
Position: CFO, Fred AS. Education: Economics, University of Manchester (1978). Registered auditor’s examination, Norwegian School of Economics and Business Administration (1978). Other: Management positions in Olka ASA, Dan norvik Bank ASA and Norvik Hydro ASA. Number of years on the Board: 2 Number of shares in Kongsberg Gruppen ASA: 0 Directorships outside Kongsberg: Director of Teknisk ASA.

Rene Martinussen (59)
Director (employee representative)
Position: Sales and Marketing Manager at Kongskilde Maritime AS. Education: Engineer from the Horten College of Engineering. Number of years on the Board: 8 Number of shares in Kongsberg Gruppen ASA: 3,100 Directorships outside Kongsberg: Director of CDM Maritime.

Jan Erik Hagen (40)
Director (employee representative)
Position: Shop Supervisor at Kongsberg Protech. Education: Kongsberg Vocational School, Trøndelag School and Kongsberg College of Engineering. Holds a guild certificate as a mechanical inspector. Number of years on the Board: 4 Number of shares in Kongsberg Gruppen ASA: 477

Audun Solle (40)
Director (employee representative)
Position: Shop Supervisor at Kongsberg Protech. Education: Kongsberg Vocational School, Trøndelag School and Kongsberg College of Engineering. Holds a guild certificate as a mechanical inspector. Number of years on the Board: 2 Number of shares in Kongsberg Gruppen ASA: 1

Ellen Christine Orin Rasmussen (51)
Director
Position: Executive Vice President, Human Resources. Education: Law degree from the University of Oslo (1980). Other: Former executive director of the EgeGroup AS, where she was in charge of HR and strategic development initiatives. Number of years on Kongsberg: 2 Number of shares in Kongsberg Gruppen ASA: 540 Directorships outside the Group: Learning Network (Chair of the Board).

Even Aas (45)
Director
Position: Executive Vice President, Corporate Communications. Education: Economist from the University of Oslo (1980). Other: Formerly employed by the Norwegian Confederation of Trade Unions, political advisor and later state secretary for commerce and shipping at the Ministry of Foreign Affairs. Also employed by Terex ASA. Number of years on Kongsberg: 9 Number of shares in Kongsberg Gruppen ASA: 1,952 Directorships outside the Group: Norwegian Industry (a member of the Board and the Members’ Council).

Terfinn Kildal (52)
Position: President, Kongsberg Maritime ASA. Education: Economist from the Norwegian School of Economics and Business Administration (1977). Other: Began his professional career with AS Kongskilde Vipervikfabrikk, then held managerial positions in the Svane Group. Number of years on Kongsberg: 10 Number of shares in Kongsberg Gruppen ASA: 7,707 Directorships outside the Group: 0

Tom Gerhardsen (58)
Position: President, Kongsberg Defence & Aerospace AS. Education: Graduate Engineer from Norwegian University of Science and Technology (1971) Other: Formerly employed by the Norwegian Defence Establishment and AS Kongskilde Vipervikfabrikk.

Arne Solberg (54)
Position: Chief Financial Officer Education: Economist from the Norwegian School of Management (1980). Other: Formerly in leading positions in finance/ administration at Dansk Bureau. Number of years on Kongsberg: 20 Number of shares in Kongsberg Gruppen ASA: 6,907 Directorships outside the Group: 5C Foma AS (member of board of directors), Kitron ASA (Chair, director).

Jan Erik Korsjøen (59)
Position: Chief Executive Officer Education: Graduate Engineer from Norwegian University of Science and Technology (1972). Other: Began his professional career at AS Kongskilde Vipervikfabrikk, where he held several managerial positions. Subsequently president of Daniel Rand AS and Kongskilde Systems AS. Named president of Kongsberg ASA in 1998 after 4 years at the helm of Kongskilde Maritime. Number of years on Kongsberg: 12 Number of shares in Kongsberg Gruppen ASA: 6,953 Directorships outside the Group: SNTTF (Chair of the Board), Corporate Advisory of Terex ASA (Chair), DBV Council (director).

Stig Trondvold (53)
Position: Vice President, Business Development. Education: Graduate Engineer from Norwegian University of Science and Technology (1976). Other: Began his professional career at SPNTEF, followed by several managerial positions at AS Kongskilde Vipervikfabrikk, Kongskilde Automotive AS, Kongskilde Automotive Technology AS, JP Kongskilde Ltd. and Kongskilde Technic AS. Number of years on Kongsberg: 7 Number of shares in Kongsberg Gruppen ASA: 2,712 Directorships outside the Group: Kongskilde Innovasjon AS (Chair of the Board), National Institute of Technology, Norway ASA (Chair of the Board), Research Board for Innovation – The Research Council of Norway (director).

THE BOARD OF DIRECTORS OF KONGSBERG GRUPPEN ASA

CORPORATE MANAGEMENT
FINANCIAL STATEMENTS

SHARES AND SHAREHOLDERS

KONGSBERG’s share price climbed from NOK 124 at year-end 2005 to NOK 175 at year-end 2006. Including the dividend of NOK 2.15 per share, the return on investments was 42.9 per cent in 2006.

Shareholder policy
Kongsberg’s paramount objective is to enhance shareholder value. The Group’s primary focus is on its two main business areas (Bs): Kongsberg Maritime and Kongsberg Defence & Aerospace. Kongsberg plans to grow organically and through acquisitions in selected strategic market segments.

Kongsberg attaches a great deal of importance to keeping the equity market and the general public well informed about the company’s profit trends and prospects for the future. Our information is to be relevant and timely, ensuring equal treatment, credibility and predictability, as well as providing grounds for the equity market’s assessment of the value of the company. The Group strives to ensure a long-term competitive return on shareholders’ investments which is commensurate with the risk involved.

The return is a combination of the share price trend and the dividends paid to shareholders.

The Group’s goal is to return 30 per cent of its annual profit to shareholders as dividends.

Dividends and earnings per share
Dividends have been paid every year since 1993, with the exception of 2000 and 2001. The dividend has averaged approx. 30 per cent of the company’s net profit.

The ordinary Annual General Meeting will be held on 8 May 2007. The Board will propose a dividend per share of NOK 2.50. Any dividend adopted will be paid out on 22 May 2007 to those listed as shareholders in the Norwegian register of shareholders (VPS) on 8 May 2007. When dividends are paid to foreign shareholders, a deduction will be made for Norwegian withholding tax, pursuant to current provisions. The shares will be listed on the Oslo Stock Exchange ex-dividend as from 9 May 2007.

Dividends and earnings per share

Amounts in NOK

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings per share</td>
<td>8.30</td>
<td>6.70</td>
<td>4.03</td>
<td>4.24</td>
<td>7.21</td>
<td>4.18</td>
</tr>
<tr>
<td>Dividends</td>
<td>2.50</td>
<td>2.15</td>
<td>2.00</td>
<td>1.90</td>
<td>2.10</td>
<td>-</td>
</tr>
</tbody>
</table>

1) The figures are presented pursuant to IFRS
2) The figures have been adjusted for the effects of the transition to IFRS and the rate of p/unit capital gains.
3) The dividend for 2006 was proposed as the basis of earnings before KONGSBERG 150 related to the NOK project was recognised as income.
4) Not adjusted for effects of the transition to IFRS, but presented according to NASAP and including the p/unit capital gains.

Share price data by quarter 2006

<table>
<thead>
<tr>
<th>Quarter</th>
<th>1Q06</th>
<th>2Q06</th>
<th>3Q06</th>
<th>4Q06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening share price</td>
<td>150.00</td>
<td>138.50</td>
<td>150.00</td>
<td>124.00</td>
</tr>
<tr>
<td>Closing share price</td>
<td>175.00</td>
<td>150.00</td>
<td>130.50</td>
<td>150.00</td>
</tr>
<tr>
<td>Investment performance during the period</td>
<td>16.7%</td>
<td>8.3%</td>
<td>-7.7%</td>
<td>21.9%</td>
</tr>
<tr>
<td>Highest closing share price</td>
<td>175.00</td>
<td>152.50</td>
<td>150.00</td>
<td>173.50</td>
</tr>
<tr>
<td>Lowest closing share price</td>
<td>145.50</td>
<td>135.00</td>
<td>135.00</td>
<td>122.00</td>
</tr>
<tr>
<td>Average closing share price</td>
<td>150.35</td>
<td>148.12</td>
<td>147.31</td>
<td>133.22</td>
</tr>
<tr>
<td>Median</td>
<td>150.00</td>
<td>145.00</td>
<td>148.50</td>
<td>138.92</td>
</tr>
<tr>
<td>Volume in 1 000 shares</td>
<td>287</td>
<td>557</td>
<td>613</td>
<td>1 530</td>
</tr>
</tbody>
</table>

Share price trends since the Group’s launch on the Oslo Stock Exchange until 31 Dec. 2005

- Kongsberg Group
- DSE Index
- OSEBUX

Interview

Terje Mayer, Equity Research, DNB NOR

KONGSBERG is in CONTROL

Kongsberg’s defence segment is a world leader in several areas, is global, has exciting existing products that the company is to some extent paid for developing, and has achieved a more appropriate cost structure. The staff numbers are made of, namely, things are going well for DnB-Nor and Merchant Investors, as well. The markets have developed very favorably, and the company has explained the trend. The backing is growing and there has been growth in volumes as well as margins.

Why has the share price failed to reflect this?
Part of the explanation may be the ownership structure, and the share’s resilient low liquidity. Part of the answer may also be that few analysts in Norway have sufficient insight into the defence industry. It is hard for the outsider to get close to contracts and performance, and margins on the basis of the Group’s financial statements. Perhaps more than others should be avoided to be a separate segment. Perhaps the fact that the company will take more than 50% of the contract, at the current level, for example?

All shareholders, including the majority owner, would benefit from a more active share pricing.

Dynamics, or the lack thereof, is otherwise a recurring topic in discussions about Kongsberg Management appears to be solid, and relatively committed. However, there appears to be a lack of dynamism and willingness to take the type of proactive decisions that characterise resilient value creation. Expectations of the new Board of Directors were higher in this area. This is perhaps why the company was forced to abandon the important negotiations on the purchase of the platform without managing to find a solution to the ‘acquisition’ that is the offshore industry while the licences were increasingly priced? Perhaps this is why they failed to take more aggressive initiatives?

Kongsberg are an exciting enterprise with considerable potential. I believe that by making today’s operations somewhat more commercial and less in thought, word and deed, it should be possible to generate significant value for the shareholders.
shares at the agreed price or receive a cash payment. 84 employees chose to purchase 14,752 shares in connection with this programme. At 31 December 2006, more than 750 employees owned approx. 550,000 shares. This corresponds to 1 to 8 per cent of the shares in Kongsberg Gruppen ASA.

Treasury shares
Kongsberg’s ordinary Annual General Meeting, held on 9 May 2006, authorised the Board to buy treasury shares. The authorisation has a ceiling of 5 per cent of the share capital and applies for 12 months from the date of the general meeting.

At 31 December 2006, Kongsberg owned a total of 3,808 treasury shares. Acquired shares may only be disposed of on the market, as payment for acquisitions, or through the option and share scheme for employees.

Shares owned by directors and management
For information about the shares owned by directors and corporate management, see Note 30 to the consolidated accounts.

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 through presentations for analysts and investors. The Group’s website, www.kongsberg.com, contains a separate section featuring investor information.

The section contains the Group’s annual reports, interim reports and presentation material. The Group has been awarded the Information Symbol (ED 1033 0 1) and the English Symbol (E) by the Oslo Stock Exchange.

Improvements are in focus every step of the way at Kongsberg. This also applies to the way in which the Group’s results and activities are reported. In 2006, Kongsberg organised several presentations both in Norway and abroad.

Kongsberg aspires to be accessible to the market, and all or part of executive management is present at almost all such events. The annual and mid-year presentations are webcasts. In September, Kongsberg organised Capital Markets Day at its premises in Kongsberg. The event was well attended. Visitors were given presentations by several members of executive management, as well as a guided tour of the area and a demonstration of some products. Capital Markets Day will be organised again in 2007.

Financing

Kongsberg’s policy is to limit currency risk for both business areas as well as for the Group as a whole. At the same time, we maintain a proactive position as regards currencies’ impact as a competitive parameter. All contractual currency flows of significance are hedged (order hedges). Budgeted currency flows are also hedged (hedges of forecast sales). The hedging of budgeted currency flows and major tenders in foreign currency is based on the market and competitive situation for the individual business area.

The currency hedging strategy mitigates the effect of transient fluctuations in foreign exchange rates at the same time as it gives the Group time to make operational changes in the event of any lasting changes in exchange rates.

Kongsberg generates the bulk of its added value in Norway, although roughly 70 per cent of sales take place abroad. Procurements in foreign currency correspond to approx. 40 per cent of sales. This gives Kongsberg considerable net foreign currency exposure, especially in US dollars (USD).

Foreign currency exposure is particularly strong in the offshore market, and many of our competitors are located in the US. In the market for commercial vessels, many competitors are in Europe, although a growing number of competitors are located in Asia. All new defence and aerospace tenders made by Kongsberg Defence & Aerospace will reflect prevailing exchange rates. At 31 December 2006, the Group had currency hedges corresponding to a total of about NOK 7.5 billion, predominantly in USD and EUR.

Hedging by objective
The hedging strategy has a two- to three-year perspective, implying that transient currency fluctuations can be offset and allowing time to make operational adjustments in the event of more lasting changes. We actively implement measures to mitigate the effects of currency fluctuations, for example, by increasing the percentage of value creation outside Norway. See Note 22 to the consolidated accounts.

Funding
Satisfactory creditworthiness with financial institutions is a prerequisite for predictability when it comes to financing operational and investment plans. One of Kongsberg’s goals over time is to be considered ‘investment grade’, i.e. that Kongsberg is associated with low risk. Good creditworthiness will reduce financing risk and financial expenses.

In 2006, Kongsberg had gross debt of roughly NOK 1.1 billion. At the end of 2006, the Group’s net interest-bearing debt had increased by MNOK 12 to MNOK 294. Borrowing requirements vary as a result of seasonal fluctuations in some areas and due to the terms of payment in major defence contracts. Any acquisitions will also affect the need for capital. At the beginning of 2007, Kongsberg has the following loans, a total of MNOK 1,000, in the Group’s central funding programme:

Norwegian certificate loans

<table>
<thead>
<tr>
<th>Loan maturity</th>
<th>Amount (MNOK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 month</td>
<td>340</td>
</tr>
<tr>
<td>6 months</td>
<td>300</td>
</tr>
<tr>
<td>1 year</td>
<td>440</td>
</tr>
</tbody>
</table>

Kongsberg’s financing is otherwise based on a syndicated credit facility of MNOK 800 that will mature in 2009. The credit facility was unused at 1 January 2007. Financial and liquidity management is co-ordinated by Kongsberg Finans, the Group’s corporate financial services unit.

Interest
The Group’s policy in 2006 was to have an average fixed-rate period of two to four years on external loans. At the end of 2006, the corporate loan programme had an average fixed-rate term of 1.5 years. This is an adjustment to a new policy that reflects a situation with less interest-bearing debt. Kongsberg has hedged its loans with fixed-interest and interest swap agreements that create predictability.

List of the principal shareholders at 1 March 2007

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Norwegian State as repr. by Ministry of Trade and Industry</td>
<td>15,000</td>
<td>50.00</td>
</tr>
<tr>
<td>The National Insurance Fund</td>
<td>2,722</td>
<td>8.50</td>
</tr>
<tr>
<td>Arnulf Fossenkompaniet ASA</td>
<td>2,106</td>
<td>7.02</td>
</tr>
<tr>
<td>UPI Foreningen</td>
<td>1,305</td>
<td>4.10</td>
</tr>
<tr>
<td>Margit Viklét</td>
<td>540</td>
<td>1.70</td>
</tr>
<tr>
<td>Ola Nørge</td>
<td>366</td>
<td>1.20</td>
</tr>
<tr>
<td>Øivin Nordskog</td>
<td>817</td>
<td>2.71</td>
</tr>
<tr>
<td>Delfa ASA</td>
<td>240</td>
<td>0.80</td>
</tr>
<tr>
<td>Post AS</td>
<td>100</td>
<td>0.00</td>
</tr>
<tr>
<td>Delfa Offshore</td>
<td>250</td>
<td>0.83</td>
</tr>
<tr>
<td>Total, 10 largest shareholders</td>
<td>2,516,819</td>
<td>83.9</td>
</tr>
<tr>
<td>Total number of shares</td>
<td>30,000,000</td>
<td>100.0</td>
</tr>
</tbody>
</table>

At 31 Dec 2006, the Group had the following hedges, by hedge category

<table>
<thead>
<tr>
<th>Hedge category</th>
<th>Value based on aggregate negative (-) value + aggregate (+) value</th>
<th>Amount in MNOK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedging of forecasts (cash flow hedges)</td>
<td>3,684</td>
<td>57</td>
</tr>
<tr>
<td>Hedge losses (fair value hedges)</td>
<td>2,079</td>
<td>24</td>
</tr>
<tr>
<td>Equity hedges (net investments outside Norway)</td>
<td>126</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>7,501</td>
<td>81</td>
</tr>
</tbody>
</table>

* Loss hedges are currency hedges associated with foreign currency loans.
The properties enjoy full occupancy, consisting mainly of Konsberg companies. The overall property area is reported after demergers in 2005 and 2006, and divided among several companies, all of which are wholly owned by Kongsberg Gruppen ASA and have an aggregate book value of MNOX NOK 642.4. Rental revenues reflect market rates for comparable properties in the area.

Property rented for Kongsberg’s operations
In addition to the Group’s own properties, 34,000 m² are sublet to Group companies. These properties are located in Oslo, Ask, Lillestrøm, Trondheim and Stjørdal.

Property owned by external owners, but managed by Kongsberg Næringsenendom
These properties were previously owned by Kongsberg, and were subsequently sold through lease-back agreements, cf. Note 29 to the accounts. Collectively, these properties cover an area of 88,800 m². All in all, there are about 250,000 m² of real estate under management by Kongsberg.

Kongsberg has long experience of property management and operation. Kongsberg Industrial Park is a well-run, efficient industrial park, accommodating more than 50 enterprises and 5,000 employees. The businesses located in Kongsberg Industrial Park are mainly knowledge enterprises focusing on high technology that predominantly addresses international markets.

Goodwill
Goodwill is an asset that arises in connection with acquisitions, and it represents the difference between the purchase price and the assets we identify and capitalise as underlying assets and liabilities. Compared with other assets such as buildings, technology, receivables and stock in trade, goodwill is more abstract and consists of more elements. Our goodwill includes the value of acquired expertise and anticipated synergies ensuing from acquisitions. Synergies can consist of competence, additional market access and distribution, sales and administration, and cost reductions due to more efficient processes and the coordination of central functions. Rather than being amortised, goodwill is calculated annually to see whether the value is lower than the capitalised value. If the value is lower than the capitalised value, goodwill must be written down. At 31 Dec. 2006, goodwill accounted for approx. 16 per cent of Kongsberg’s total assets. See Note 12.

Other intangible assets
Other intangible assets generally refer to the value of technology, as well as research and development (R&D). In recent years, we have acquired companies that have highly valuable technology and where the technology is decisive for sales to customers. The technology is depreciated over its expected useful economic life. The remaining useful economic life is reviewed annually.

Costing MNOX 120 in 2006, R&D accounts for a significant share of our costs. In addition, R&D valued at MNOX 17 was capitalised. The criteria for balance sheet recognition are strict. Extensive documentation is required and the R&D project must have a strong likelihood of success. At an early stage, there is normally considerable uncertainty about whether a project can be brought to fruition. For that reason, many costs are accrued before we satisfy the criteria for balance sheet recognition. Accordingly, the capitalised percentage is relatively low. Even though R&D is not capitalised, it is still of significant value to the company. The percentage of R&D relative to revenue is a dimension figure that indicates how much we invest in R&D.

Receivables
At 31 Dec. 2006, the Group had total receivables worth MNOX 1,484, cf. note 20 to the consolidated accounts.

NOTE 20: RECEIVABLES

Amounts in MNOX

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Trade receivables</td>
<td>1,329,955</td>
<td>1,231,148</td>
</tr>
<tr>
<td>Other receivables</td>
<td>125</td>
<td>146</td>
</tr>
<tr>
<td>Total</td>
<td>1,330,080</td>
<td>1,242,304</td>
</tr>
</tbody>
</table>

Projects
The Group’s main business objective is largely to develop and manufacture products and systems based on orders received. Balance sheet values attached to long-term production contracts are reported at gross values. Unpaid gross amounts from customers for contractual work are reported as assets. 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 overall earnings. Defence & Aeronautics’ projects are of longer duration and total earnings on an individual project make a substantial contribution to the Group’s activities. See Note 21.

NOTE 21: PROJECTS

KEY FINANCIAL FIGURES

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA margin</td>
<td>5.6%</td>
<td>5.4%</td>
<td>5.1%</td>
<td>4.2%</td>
<td>4.1%</td>
<td>3.7%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.3%</td>
</tr>
<tr>
<td>EBIT margin</td>
<td>5.8%</td>
<td>5.4%</td>
<td>5.1%</td>
<td>4.2%</td>
<td>4.1%</td>
<td>3.7%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Capital</td>
<td>6%</td>
<td>6%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Earnings per share (EPS)</td>
<td>2.05</td>
<td>2.10</td>
<td>2.10</td>
<td>2.10</td>
<td>2.00</td>
<td>2.25</td>
<td>2.00</td>
<td>2.00</td>
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<tr>
<td>Definitions</td>
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<tr>
<td>EBITDA margin</td>
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<td>EBIT margin</td>
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<tr>
<td>Capital</td>
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<tr>
<td>Earnings per share (EPS)</td>
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</tbody>
</table>

1) The figures are RIK compliant (International Financial Reporting Standard) and jointly controlled operations are consolidated using the proportionate method.
2) The figures have been adjusted for effects at the transition to IFRS and to the sale of yacht activities, and jointly controlled operations are consolidated using the proportionate method.
3) The figures are not adjusted for effects of the translation to IFRS, but are presented according to Norsk. Jointly controlled operations are reported as associates.
SUSTAINABILITY REPORT

Galileo is the new European satellite navigation system. It will consist of 30 satellites. It will offer a positioning system under civilian control, independent of the US GPS system. The Galileo satellites will form a network around the Earth once the system is operational in 2013.

EQUILIBRIUM AND BALANCE

We bear responsibility not only for what we do, but also for what we fail to do.

Good results are measured in more than money. We shoulder our part of the responsibility for determining how tomorrow’s society will look.
INTRODUCTION

This year, we have decided to make the Sustainability Report an integral part of the Annual Report. This is because corporate social responsibility and the environment are to be an integral part of our daily routines.

The report tells about Končar’s work with corporate social responsibility in 2006. Since the 2005 report, Končar has acquired the companies Gallum Visual Systems, Fantoft Process Technologies and Sense Intellifield. As for the environmental accounts, only Gallum has been included in the figures. The other companies will be included as from the 2007 report.

All companies in which we have a stake greater than 50 per cent are included in the report.

The Sustainability section of the report is divided into three main chapters: financial management, corporate social responsibility and environmental management. This report is based on the principles outlined in the Global Reporting Initiative (GRI), in accordance with the principle of the triple bottom line. This report takes its point of departure in the G3 guidelines that GRI introduced in October 2006. The guidelines contain many criteria that are beyond the scope of this report. Our ambition is eventually to report on all of the criteria in G3 that are relevant for our operations.

One of the new criteria in G3 is that the company is to report which G3 level it follows. We believe this report complies with the requirements for level B. The report has not been independently verified. The answers regarding the indicators can be found directly in the running text or in special GRI tables. The last pages of the report provide references to the individual GRI indicators and refer to the relevant sections of the report.

GRI Model

<table>
<thead>
<tr>
<th></th>
<th>C</th>
<th>C+</th>
<th>B</th>
<th>B+</th>
<th>A</th>
<th>A+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obligatory</td>
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<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Self-declared</td>
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<tr>
<td>Končar</td>
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<tr>
<td>Optional</td>
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</tr>
<tr>
<td>Independently verified</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>GRI verified</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
### KEY SUSTAINABILITY FIGURES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial value added</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value added</td>
<td>993</td>
<td>889</td>
<td>919</td>
<td>924</td>
<td>505</td>
</tr>
<tr>
<td>Direct and indirect taxes to state/municipality (MIXOK)</td>
<td>1,206</td>
<td>1,060</td>
<td>1,198</td>
<td>1,212</td>
<td>1,187</td>
</tr>
<tr>
<td>Share dividend (MIXOK)</td>
<td>75</td>
<td>65</td>
<td>60</td>
<td>39</td>
<td>62</td>
</tr>
<tr>
<td>Interest to lenders (MIXOK)</td>
<td>51</td>
<td>54</td>
<td>86</td>
<td>97</td>
<td>104</td>
</tr>
<tr>
<td>Retained earnings (MIXOK)</td>
<td>177</td>
<td>157</td>
<td>230</td>
<td>86</td>
<td>153</td>
</tr>
<tr>
<td><strong>Corporate social responsibility</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level of education</td>
<td>26</td>
<td>25</td>
<td>27</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>Civil engineers and other higher ed (% of employees)</td>
<td>45</td>
<td>47</td>
<td>45</td>
<td>44</td>
<td>46</td>
</tr>
<tr>
<td>Other salaried employees (% of employees)</td>
<td>17</td>
<td>16</td>
<td>17</td>
<td>19</td>
<td>20</td>
</tr>
<tr>
<td>Operations %</td>
<td>11</td>
<td>12</td>
<td>13</td>
<td>12</td>
<td>11</td>
</tr>
<tr>
<td>Average age</td>
<td>42.5</td>
<td>41.2</td>
<td>40.2</td>
<td>42.9</td>
<td>42.9</td>
</tr>
<tr>
<td>Number of employees</td>
<td>5,850</td>
<td>5,372</td>
<td>4,017</td>
<td>4,176</td>
<td>4,206</td>
</tr>
<tr>
<td>Number of full-time employees</td>
<td>3,480</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of part-time employees</td>
<td>164</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Social responsibility</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations to organizations, etc. (NOK 1,000)</td>
<td>1,785</td>
<td>1,640</td>
<td>1,350</td>
<td>1,500</td>
<td>1,450</td>
</tr>
<tr>
<td><strong>Environment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waste</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waste for recycling (metric tonnes)</td>
<td>806</td>
<td>894</td>
<td>519</td>
<td>611</td>
<td>339</td>
</tr>
<tr>
<td>Residual waste (metric tonnes)</td>
<td>302</td>
<td>340</td>
<td>441</td>
<td>608</td>
<td>739</td>
</tr>
<tr>
<td>Hazardous waste (metric tonnes)</td>
<td>80</td>
<td>49</td>
<td>157</td>
<td>91</td>
<td>102</td>
</tr>
<tr>
<td><strong>Chemicals</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmentally-friendy and hazardous chemicals (metric tonnes)</td>
<td>19.1</td>
<td>23.0</td>
<td>29.6</td>
<td>19.7</td>
<td>18.5</td>
</tr>
<tr>
<td>Other carcinogens (metric tonnes)</td>
<td>12.5</td>
<td>9.9</td>
<td>19.7</td>
<td>20.5</td>
<td></td>
</tr>
<tr>
<td><strong>Energy consumption</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity (MWh)</td>
<td>39,534</td>
<td>37,670</td>
<td>42,840</td>
<td>42,030</td>
<td>41,670</td>
</tr>
<tr>
<td>District heating (MWh)</td>
<td>11,567</td>
<td>11,490</td>
<td>15,570</td>
<td>18,230</td>
<td>15,940</td>
</tr>
<tr>
<td>Gas (MWh)</td>
<td>689</td>
<td>740</td>
<td>1,860</td>
<td>1,040</td>
<td>220</td>
</tr>
<tr>
<td>Energy consumption (MWh/year) per employee, Kongsberg Defence &amp; Aerospace</td>
<td>15.6</td>
<td>18.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy consumption (MWh/year) per employee, Kongsberg Maritime</td>
<td>7.7</td>
<td>7.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CO₂ emissions (metric tonnes) – excl. travel</td>
<td>3,547</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
INTELLECTUAL CAPITAL

Intellectual capital and principles for improvement

KonicaMinolta has elected to incorporate intellectual capital into the sustainability concept. The way we manage and develop our intellectual capital is crucial for our ability to innovate and add value over time.

To appreciate how our intellectual capital works, we have devised our own model. The model points out that the key to success lies in the interaction between employees (human capital), organisations and systems (structural capital) and their customers and surroundings (customer/ relation capital). This interaction is a type of capital in itself, i.e. interaction capital.

The model focuses on the whole being more than the sum of the individual parts.

New leadership principles and requirements

KonicaMinolta aspires to double its sales in three to five years and to achieve an operating margin of 10 per cent for the Group as a whole. In 2006, we draw up new leadership principles and require- ments as part of our efforts to achieve these targets. The new requirements take their point of departure in the Group’s paramount vision and values.

LEADERSHIP PRINCIPLES AND REQUIREMENTS

The main goal of the leadership model is to give all employees a better idea of what kind of management the Group prefers. Competent leadership is key for achieving our targets.

The leadership model implemented at KonicaMinolta can be compared with the model developed for intellectual capital. The interaction capital in the centre of the model refers to the ability to get employees and the organisation to work together internally, and to work with customers externally. This is decisive for our ability to innovate and add value over time. Competent leadership is a prerequisite for accomplishing this.

Based on the new leadership principles and requirements, the existing management development programmes will be reviewed in 2007 to revisit and further develop them. A separate pro- gramme will be designed for the three uppermost management levels.

Principle 1
Pursue ambitious goals

The pursuit of ambitious goals is indicative of a leadership style that follows up ambitions closely all the way to the target.

These goals inspire commitment to goal achievement. The targets should be ambitious and binding. The key to success is motivating em- ployees to get involved and shoulder responsibility.

Leaders who use relations are leaders who get involved. Active involvement engenders learning and useful corrections. Ministries are also im- portant for showing results and marking victories along the way.

Principle 2
Promote improvement processes

The most important criteria for KonicaMinolta to succeed is improvement involving enhancing our competitiveness along two axes. The one axis is linked to operations, improving routine processes and structures. The other is related to innovation, engaging in revitalisation and innovation.

The two leadership requirements can be con- sidered building blocks for accomplishing these targets. The first requirement is to ensure an atmosphere of confidence and mutual respect. The second is to facilitate enthusiasm, character- ised by involvement and dialogue.

Principle 3
Set a good example

We believe leaders who set good examples are far more effective than those who use big words, but fail to set good examples.

Leadership requirements involve translating words into deeds, i.e. those who walk the talk. This makes the leadership process simpler. The common denominator is predictability. The other leadership requirement refers to looking for good examples in routine operation, emphasising them, thinking about them and giving them favourable attention and feedback.

Principle 4
Ensure development through challenges

This leadership principle says something about the importance we attach to the development of employees as an integral part of the role of leader.

One leadership requirement involves exploring employees’ interests and potential. The other in- volves striking a balance between support and the delegation of authority. Effective delegation of authority calls for the establishment of a distinct and clear understanding of what has to be done, when, how much latitude is available, etc. Practical support involves being a sparring partner or sounding board, considering potential improve- ments and figuring out how we as a leader can contribute to the process.

The KonicaMinolta model for intellectual capital

Interaction capital involves the ability to get the employees and organisation to work together internally, and to work with customers externally. This is decisive for our ability to innovate and add value over time.

Human capital encompasses the expertise and motivation of each individual employee, and the employee’s behaviour and values. Human capital also includes management skills.

Structural capital can be defined simply as the value of the knowledge inherent in a company’s structures, processes, systems, databases, brand names, and patents, etc.

Customer capital constitutes the value of all the relations KonicaMinolta has with its surroundings. We emphasise the importance of customer relations, at the same time as our relations with alliance partners, owners, the authorities, capital markets, suppliers and society-at-large are also important. A long-term perspective is crucial for all our rela- tionships.

Creating improvements with ‘agile methods’

Kongberg Spekter has begun to use ‘agile’ methods to improve its software development process. One agile method is based on employees working in 30-day cycles, with 15-minute project meetings every day, and a four-hour meeting every 30 days that is also attended by the cus- tomer. The system allows us to respond quickly to any changes ordered and to deliver accordingly, rather than in accordance with contract specifica- tions.

The method is being applied in two pilot projects: the modernisation of NASA’s ground stations and an in-house product development project. The method is being used on the NASA project to improve the way in which we approach development tasks. The goal of the in-house project is to systematise the updating of our software.

Our software developers have given favourable feedback on this way of working, and we see dis- tinct performance improvement for them and for our products. It makes project participants more visible. Setting in the same room, around the same table, facilitates smoother communications be- tween developers and they work more effectively. It is also easier to monitor project development.

What are agile methods?

Kongberg Spekter is part of a national project entitled DVSaK. The project is aimed at improving the software development pro- cess, and the methods they employ are called ‘agile methods.’ (Agile Software Development) Projects are built up around individuals and the interaction between them. That gives the individuals in the project more authority and responsibility, focusing on results rather than methods. The methods are customer-centric, and predicated on the understanding that changes are normal and that participants can make changes into a useful process; see http://agilemanifolds.org for more detailed information.
**EUROPE**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of employees</th>
<th>Operating revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>3,197</td>
<td>NOK 3,056</td>
</tr>
<tr>
<td>Romania</td>
<td>2,480</td>
<td>NOK 1,414</td>
</tr>
</tbody>
</table>

**ASIA**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of employees</th>
<th>Operating revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Korea</td>
<td>1,086</td>
<td>KRW 810</td>
</tr>
</tbody>
</table>

**NORTH AMERICA**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of employees</th>
<th>Operating revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>1,068</td>
<td>USD 1,418</td>
</tr>
</tbody>
</table>

**SOUTH AMERICA**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of employees</th>
<th>Operating revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>32</td>
<td>BRL 50</td>
</tr>
</tbody>
</table>

**AFRICA**

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of employees</th>
<th>Operating revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>32</td>
<td></td>
</tr>
</tbody>
</table>

**Norway**

The Group is headquartered in Norway, (Kongsberg), which is also home base for the two main business areas: Kongsberg Maritime and Kongsberg Defence & Aerospace.

**Kongsberg Maritime**

- Has facilities in Kongsberg, Aker, Horten, Oslo, Kristiansand, Stavern and Trondheim.
- Has operations in development, production, testing, sales and services.

**Kongsberg Defence & Aerospace**

- Has its main base of activities in Kongsberg, and has facilities in Horten, Billingen, Kjeller, Stjørdal and Trondheim. All these operations engage in development, production, testing, sales and support.

**Great Britain**

With all activities concentrated in the North Sea, it is natural for Kongsberg Maritime’s centre for offshore activities to be located in Aberdeen, Scotland. The company’s approach in this area is to operate as a local supplier to the Chinese shipyard industry. We also have a significant level of national production, mainly of cabinets and the equipment that goes into them. Since China’s shipbuilding market is the world’s largest in terms of shipbuilding contracts placed, the company has the potential to become an increasingly important part of our international operations in the merchant marine sector.

**Rest of Europe**

The Group also has operations in Sweden, Germany, the Netherlands, France, Spain, Austria, Italy and Greece. These are all sales and service units.

**South Korea**

Kongsberg Maritime has its main South Korean office in Pocheon. The company’s responsibilities are sales, engineering, installation, commissioning and service/support. We are building up a local presence and expertise in what has become the world’s largest shipbuilding nation.

**Singapore**

Kongsberg Maritime’s activities in Singapore generally focus on sales, installation, commissioning and service/support.

**USA**

Kongsberg Maritime has operations in Seattle, Houston, New Orleans and West Mifflin. These units are mainly involved in sales and customer support. The unit in Seattle is also engaged in technological development and the adaptation of existing products for the US market.

**Canada**

Kongsberg Maritime’s main operations in Canada are located in Quebec, the company’s long-standing partner in Canada. The intention is to operate as a local supplier to the Chinese shipyard industry. We also have a significant level of local production, mainly of cabinets and the equipment that goes into them. Since China’s shipbuilding market is the world’s largest in terms of shipbuilding contracts placed, the company has the potential to become an increasingly important part of our international operations in the merchant marine sector.

**Rest of Europe**

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**Rest of Europe**

The Group also has operations in Sweden, Germany, the Netherlands, France, Spain, Austria, Italy and Greece. These are all sales and service units.
ACTIVITIES IN 2006

The following is a list of Kongsberg’s main goals and achievements in 2006.

<table>
<thead>
<tr>
<th>What did we say in the 2005 report?</th>
<th>What have we accomplished?</th>
<th>Status</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORPORATE SOCIAL RESPONSIBILITY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expertise and awareness</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improve intra-Group expertise and awareness of problems associated with corporate social responsibility.</td>
<td>Take advantage of external expertise.</td>
<td>Green</td>
<td></td>
</tr>
<tr>
<td>Provide in-house information</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieve meetings with important customers.</td>
<td>Build networks.</td>
<td>Green</td>
<td></td>
</tr>
<tr>
<td>Improve general competency within the Group.</td>
<td></td>
<td>Green</td>
<td></td>
</tr>
<tr>
<td>Identify challenges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identify the areas in which we face challenges related to corporate social responsibility.</td>
<td>Formulate a plan for addressing the challenges.</td>
<td>Green</td>
<td></td>
</tr>
<tr>
<td>Seek the advice of others who work with similar issues.</td>
<td>Plans not drawn up.</td>
<td>Green</td>
<td></td>
</tr>
<tr>
<td>Advice sought from Statat.</td>
<td></td>
<td>Green</td>
<td></td>
</tr>
<tr>
<td>Cooperation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consider cooperating with other organisations on initiatives to promote corporate social responsibility.</td>
<td>Study the consequences and identify the obligations inherent in cooperation.</td>
<td>Green</td>
<td></td>
</tr>
<tr>
<td>Kongsberg joined the UN’s Global Compact initiative in July.</td>
<td>Other affiliations will be considered in 2007.</td>
<td>Green</td>
<td></td>
</tr>
</tbody>
</table>

THE ENVIRONMENT

| The environment and hazardous chemcials |                             |        |             |
| Reduce the use of environment-unfriendly and hazardous chemicals. | Establish an interdisciplinary hours at Kongsberg Defence & Aerospace to continue developing environment-friendly designs for products. | Yellow |             |
| The consumption of environment-unfriendly and hazardous chemicals at Kongsberg Maritime products is to be surveyed. | | Yellow |             |
| The consumption of environment-unfriendly and hazardous chemicals at Kongsberg Defence & Aerospace is to be surveyed. | | Yellow |             |
| Environment and hazardous chemicals |                             |        |             |
| Reduce the use of environment-unfriendly and hazardous chemicals. | Establish an interdisciplinary hours at Kongsberg Defence & Aerospace to continue developing environment-friendly designs for products. | Yellow |             |
| The consumption of environment-unfriendly and hazardous chemicals at Kongsberg Maritime products is to be surveyed. | | Yellow |             |
| THE ENVIRONMENT                         |                             |        |             |
| Reducing hazardous waste |                             |        |             |
| Overall reduction was to be improved by 5% by the end of 2006 compared with the 2005 level. (The reduction must be seen in connection with level of activity in the Group) | Sorting residual waste is going according to plan. | Green |             |
| Kongsberg Industrial Park has already reached the target of 5% reduction compared with the 2005 level. | | Green |             |
| The percentage of source separation is now more than 85% of the total volume of waste. | | Green |             |

Energy

| Reduce energy consumption |                             |        |             |
| Reduce energy consumption |                             |        |             |
| Reduce energy consumption in Kongsberg Industrial Park by 25% by the end of 2006, relative to the 2005 level. | Increase energy consumption in Kongsberg Industrial Park by 25% by the end of 2006, relative to the 2005 level. | Yellow |             |
| Implement energy conservation measures in respect of Kongsberg-units outside Kongsberg Industrial Park. | | Yellow |             |
| Kongsberg Industrial Park is on schedule with its target of a 25% reduction still pending. | | Yellow |             |

OBJECTIVES 2007

The following is a list of Kongsberg’s main objectives and activities for 2007.

<table>
<thead>
<tr>
<th>Objectives 2007</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>CORPORATE SOCIAL RESPONSIBILITY</td>
<td></td>
</tr>
<tr>
<td>Strategy for corporate social responsibility</td>
<td></td>
</tr>
<tr>
<td>Draw up a new strategy that can be integrated into the Group’s other strategies.</td>
<td></td>
</tr>
<tr>
<td>Draw up and incorporate the strategy for corporate social responsibility into the Group’s STP document in the early half of the year.</td>
<td></td>
</tr>
<tr>
<td>Get operative units involved.</td>
<td></td>
</tr>
<tr>
<td>In-house expertise and external cooperation</td>
<td></td>
</tr>
<tr>
<td>Improve in-house expertise and reinforce external networks.</td>
<td></td>
</tr>
<tr>
<td>Implement measures to improve in-house information and involvement.</td>
<td></td>
</tr>
<tr>
<td>Maintain and build external networks.</td>
<td></td>
</tr>
<tr>
<td>External evaluation</td>
<td></td>
</tr>
<tr>
<td>Use external expertise to evaluate the Group’s position with a view to corporate social responsibility.</td>
<td></td>
</tr>
<tr>
<td>An evaluation will be conducted in autumn 2007.</td>
<td></td>
</tr>
<tr>
<td>ENVIRONMENTAL OBJECTIVES</td>
<td></td>
</tr>
<tr>
<td>Climate measures</td>
<td></td>
</tr>
<tr>
<td>Continue reduction of the Group’s greenhouse gas emissions.</td>
<td></td>
</tr>
<tr>
<td>Organise a project to assess potential initiatives.</td>
<td></td>
</tr>
<tr>
<td>Involves employees in brainstorming efforts.</td>
<td></td>
</tr>
<tr>
<td>Source separation</td>
<td></td>
</tr>
<tr>
<td>Reduce residual waste.</td>
<td></td>
</tr>
<tr>
<td>Source separation of residual waste shall be maintained at today’s level or better, i.e. 60 per cent of total waste.</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td></td>
</tr>
<tr>
<td>Reduce energy consumption (stands firm from 2006).</td>
<td></td>
</tr>
<tr>
<td>Decrease energy consumption in Kongsberg Industrial Park by 25% by the end of 2006, relative to the 2005 level.</td>
<td></td>
</tr>
<tr>
<td>Implement energy conservation measures in respect of Kongsberg-units outside Kongsberg Industrial Park.</td>
<td></td>
</tr>
<tr>
<td>Energy conservation at Kongsberg Defence &amp; Aerospace.</td>
<td></td>
</tr>
<tr>
<td>In addition to the above, further efforts will be made to achieve objectives from previous years.</td>
<td></td>
</tr>
</tbody>
</table>
FINANCES AND ADDED VALUE

KONGSBERG aspires to achieve a good balance between financial results and corporate social and environmental responsibility. We will do this through strong profitability, growth, efficient organisation and ethically, environmentally and socially responsible operations.

Our operations add value in the areas and countries in which we operate. This is done directly by paying dividends to our owners and wages to our employees, and indirectly by purchasing goods and services from suppliers. Moreover, value is added by virtue of our emphasis on research and development.

KONGSBERG’s operations affect a large number of stakeholders. Many of them are direct or indirect participants in the Group’s value added. Added value is reflected by all our global activities.

The following list shows the cash flows generated by our operations and a breakdown of values, by our main stakeholders.

Value added and distribution of profit

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating income</td>
<td>5,735</td>
<td>5,791</td>
</tr>
<tr>
<td>Payroll and social security expenses</td>
<td>2,326</td>
<td>2,041</td>
</tr>
<tr>
<td>Payments to subcontractors</td>
<td>3,605</td>
<td>3,360</td>
</tr>
<tr>
<td>Interest on bonds</td>
<td>51</td>
<td>54</td>
</tr>
<tr>
<td>Support for organizations and public utility causes</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Pre-tax operating profit and yield</td>
<td>380</td>
<td>314</td>
</tr>
<tr>
<td>Tax expense</td>
<td>138</td>
<td>99</td>
</tr>
<tr>
<td>Dividends paid to the shareholders</td>
<td>75</td>
<td>65</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>177</td>
<td>179</td>
</tr>
</tbody>
</table>

Payroll and social security expenses

In 2006, payroll and social security expenses aggregated NOK 2.3 billion. That was an increase of NOK 0.3 billion compared with 2005. Payroll and social security expenses account for 38 per cent of the total operating expenses, which is similar to the figures from 2005.

Procurement of goods and services

KONGSBERG spent approx. NOK 3.5 billion on procurements in 2006. That was an increase of NOK 1.2 billion from 2005. The procurements are distributed among approx. 3000 suppliers, and approx. 75 per cent of them are with or through Norwegian companies. Nonetheless, the products are largely manufactured abroad. Procurements from outside Norway accounted for about 30 per cent in 2006. One goal is to buy more from local suppliers.

Tax expense

The Group’s total taxes for 2006 came to MNOK 138. This is an increase of about 39 per cent compared with the previous year. Costs by geographical area

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>99</td>
<td>97</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>North America</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Asia</td>
<td>76</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>138</td>
<td>99</td>
</tr>
</tbody>
</table>

Operating revenues

Consolidated operating revenues, by geographical area

<table>
<thead>
<tr>
<th>Amounts in MNOK</th>
<th>2006</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Norway</td>
<td>1,863</td>
<td>37%</td>
<td>1,720</td>
</tr>
<tr>
<td>Rest of Europe</td>
<td>1,764</td>
<td>36%</td>
<td>1,602</td>
</tr>
<tr>
<td>America</td>
<td>1,512</td>
<td>23%</td>
<td>1,180</td>
</tr>
<tr>
<td>Asia</td>
<td>1,415</td>
<td>21%</td>
<td>1,191</td>
</tr>
<tr>
<td>Other</td>
<td>137</td>
<td>2%</td>
<td>108</td>
</tr>
<tr>
<td>Total</td>
<td>6,720</td>
<td>100%</td>
<td>5,791</td>
</tr>
</tbody>
</table>

Based on the above, we see that a growing percentage of our operating revenues is coming from North America and Asia. This trend is expected to continue.
**SYSTEMS OF GOVERNANCE FOR CORPORATE SOCIAL RESPONSIBILITY**

The Group depends on good, effective governance and control systems to achieve its goals. Our overall system of governance is linked to the ‘Norwegian Recommendation, for Corporate Governance’. It is important to achieve smooth, responsible interaction between owners, the Board, management and different stakeholders.

**Annual General Meeting (AGM)**
The Annual General Meeting (AGM) is the Group’s supreme governing body. The AGM guarantees shareholders their right to co-determination. The ordinary Annual General Meeting is usually held in May.

The Board of Directors
The Board’s main responsibility is to look after all shareholders’ interests. In addition, the Board has a responsibility to the Group’s other stakeholders. The corporate Board of Directors bears the ultimate responsibility for Končar’s contribution to sustainable development. The Board ensures the Group’s corporate environmental and social responsibilities are taken into account, and receives briefings on individual measures and events related to these topics.

In addition, the Board deals with the Group’s Sustainability Report.

**Corporate management**
Corporate management bears the ultimate responsibility for operations. This means management is responsible for compliance with legislation, regulations and in-house environmental standards. Corporate management also bears responsibility for compliance with environmental policy and corporate social responsibility. Twice a year, reports are drawn up to describe the status of the Group’s work with corporate environmental and social responsibility, and the reports are submitted to corporate management.

**The business areas**
The day-to-day work with corporate social and environmental responsibility is usually handled by the business areas. Each business area has one designated contact for environmental efforts and one for corporate social responsibility.

**Environmental Forum**
The Environmental Forum is responsible for following up, evaluating and proposing changes to and adjustments in the Group’s environmental policy. The Forum is also responsible for drawing up and proposing environmental goals at the corporate level, for following up the goals in the business areas, and for routines and reporting at the corporate level.

The Environmental Forum is comprised of representatives of the two main Baškonjska and the management company, the shop stewards and the parent company.

**Corporate Social Responsibility Forum**
The Forum is responsible for following up compliance with, evaluating and making any amendments and adjustments to the Group’s Policy for Corporate Social Responsibility. The Forum is also responsible for drawing up and proposing goals for social responsibility at the corporate level, for following up the goals in the BAŠK, and for routines and reporting at the corporate level.

The Forum consists of two representatives of corporate management (EVP, Human Resources, and EVP, Corporate Communications), one representative of each business area and the Group’s manager for corporate social responsibility. For further information about Končar’s governing bodies, see pages 92-103.

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**CREDITORS’ REPORT & ACCOUNTS**

**CORPORATE GOVERNANCE AND FINANCIAL DISCLOSURES**

**SUSTAINABILITY REPORT**

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**INTERVIEW**

Jan Patter Sinnerer, CEO, Kapfthor Ngos

**CORPORATE SOCIAL RESPONSIBILITY PROMOTES EARNINGS**

Most financial investors are looking for good returns and CSR improves corporate performance. For those who want to attract such investors, and after all, they are the ones that make for a smoothly functioning equity market, the challenge will be to render visible the link between expressions of corporate social responsibility and their own bottom line.

Corporate social responsibility can influence investor behaviour
It is important for investors to understand the Group’s business concept and to have confidence in the ability of the Board and management to frame and implement a good strategy for added value. It is crucial to be able to see their own business from the vantage point of an outsider. That is often demanded, since political, social, and financial circumstances may be different out in the operational units than at the company’s headquarters.

Understanding the differences and acting accordingly presents opportunities and mitigates risk, clearly impacting profitability over time. That the ability to recognize, demonstrate and communicate CSR will be one of several factors that influence investor behaviour. Rather than that, there is always a chance that fits a local community or a special interest organization can be in strong that they will make it difficult and costly to implement well-grounded measures.

The secret is a combine corporate social responsibility with the creation of shareholder value.

Measure must be routed in a company’s own culture
Otherwise, words may fail to be translated into deeds. I believe we will see that the companies that manage to produce satisfied, well performing managers and employees will also be the ones to be aware of the role they play in society at large and to take the consequences.
CORPORATE SOCIAL RESPONSIBILITY

At Kongsberg, corporate social responsibility means taking into account the communities in which the Group operates and which are affected by our activities. This also involves relations with our employees, society-at-large and external stakeholders.

It is important that we have knowledge about the effects of our activities on the communities in which the Group operates. Gathering knowledge about and gaining an understanding of corporate social responsibility is an area on which we will spend more time in 2007.

Kongsberg has joined the UN’s Global Compact initiative. The initiative coincides with the Group’s own Code of Ethics and attitudes. We feel it is important for business and industry to shoulder its part of the responsibility for how tomorrow’s world should look. This is a responsibility we take seriously. During 2007, we will strive to do more to integrate corporate social responsibility into our operations and strategy.

INTRODUCING THE KONGSBERG CORPORATION

Morten Ingebritsen, General Manager, Kongsberg Procurement Center

ESSENTIAL TO BE AWARE OF THE CORPORATE CODE OF ETHICS

How does Kongsberg Procurement Center (KPC) apply the Group’s corporate Code of Ethics? It is imperative for KPC to be aware of the corporate Code of Ethics all the time. We do not allow the giving or receiving of gifts to or from suppliers. The staff draws names for small tokens such as flowers or a box of chocolates at Christmas.

KPC disqualifies suppliers which use child labour or does not comply with our environmental standards. We endeavor to maintain a professional relationship with all our suppliers. They are to compete on the same terms and be treated equally. To that end, we go by the book for every procurement, documenting each step in the procurement process. That makes our transactions verifiable.

How does KPC follow up Kongsberg’s environmental policy and requirements in respect of suppliers? KPC requires that suppliers comply with Kongsberg’s environmental policy. This requirement applies to all our suppliers. We have not yet come across any suppliers that have not been willing to comply. Most suppliers have strict environmental standards of their own that are often even stricter than Kongsberg’s. What else can Kongsberg do to encourage suppliers to place more emphasis on the environment? In the tender process, KPC can focus more on environmental standards than on price, for example. That would encourage suppliers to give priority to the environment and to supply products that are environmentally labeled or certified, as that would give them a competitive edge on other suppliers.

POLICY FOR CORPORATE SOCIAL RESPONSIBILITY

Kongsberg will engage in value-adding activities that benefit its owners, employees and stakeholders from the perspective of sustainability.

Owners – Kongsberg’s owners shall be assured a competitive rate of return on their investments through management’s goal-oriented efforts to make the Group’s share price-appropriate in a long-term sustainable perspective. In addition, owners shall be assured a competitive rate of return through an annual dividend averaging 30 per cent of the company’s net profit.

Employees – Kongsberg’s employees shall be encouraged to take advantage of their abilities and to contribute to the Group’s development as well as their own. They are to be taken seriously, treated with respect and given orderly working conditions. Kongsberg shall be a corporation with an abundance of diversity. Naturally, health and safety are to be given priority and all Kongsberg employees are to have equal opportunities, regardless of sex, age, and cultural or religious background.

Stakeholders – Kongsberg shall create values that benefit its stakeholders and society-at-large. This shall take place in a long-term sustainable perspective.

Ethics – Kongsberg’s employees shall comply with the Group’s corporate Code of Ethics, which reflects attitudes that are accepted and respected by the community. The Code of Ethics will be updated to reflect trends in society.
KONGSBERG’S CORPORATE SOCIAL RESPONSIBILITY

Within the Group
Kongsberg’s corporate social responsibility is first and foremost to its employees. We want Kongsberg to be a good employer, where employees feel that they can develop and work in a positive atmosphere.

The Group grew considerably in 2006, hiring 485 new co-workers who have contributed new knowledge to the Group’s knowledge pool. Combined with existing know-how, this has raised our overall level of expertise. It is essential that we preserve and protect this knowledge and expertise.

External
Sports and culture
Kongsberg assumes social responsibility in the local communities in which the Group is represented. For many years, Kongsberg has sponsored sports, culture and not-for-profit organisations. One new activity in 2006 is based on a collaboration agreement with the Kongsberg Athletic Association to sponsor the Kongsberg soccer league for children from grades 1 to 4 in the city of Kongsberg.

Humanitarian organisations
It is important to demonstrate to employees that Kongsberg is an integral part of society. As a socially responsible enterprise, we aspire to contribute actively to building good local communities for ourselves and our descendants. One of the measures to demonstrate corporate social responsibility in actual practice is Kongsberg’s long-term understanding with SOS Children’s Villages. Besides engendering commitment to making a better future for orphaned and neglected children, it is hoped that cooperation with SOS Children’s Villages will help spawn even more commitment among Group employees.

THE UN’S GLOBAL COMPACT

Global Compact was founded on the basis of an initiative taken by the UN’s former Secretary-General Kofi Annan in 1999. The point of the initiative is to capture the interest of the private sector in reducing poverty and promoting sustainable development. The UN wishes to get industry more closely involved in the UN’s work to promote respect for human rights, workers’ rights, environmental obligations and the fight against corruption. Companies that join Global Compact undertake a commitment to support ten principles related to the above-mentioned areas. The initiative is also supported by Ban Ki-moon, the UN’s new secretary general. Kongsberg endorsed the initiative in July 2006. The table below indicates where the ten principles are dealt with in the report.

Human rights
Principle 1 Support and respect the protection of internationally proclaimed human rights page 131
Principle 2 Make sure the company is not complicit in human rights abuses page 131

Labour standards
Principle 3 Uphold the freedom of association and the right to collective bargaining page 133
Principle 4 Uphold the elimination of all forms of forced and compulsory labour page 131
Principle 5 Uphold the effective abolition of child labour page 131
Principle 6 Uphold the elimination of discrimination in respect of employment and occupation page 131

Environment
Principle 7 Support a precautionary approach to environmental challenges page 137
Principle 8 Undertake initiatives to promote greater environmental responsibility pages 123 and 137
Principle 9 Encourage the development and diffusion of environmentally friendly technologies page 137

Transparency and anti-corruption
Principle 10 Work against corruption in all its forms, including extortion and bribery page 135

HUMAN RIGHTS

The Group joined the UN Global Compact in 2006. In doing so, Kongsberg declared its support for recognised human rights and confirmed that the Group does not contribute to breaches of human rights.

Geographically and operationally speaking, the Group’s current activities are not of a nature that presents any significant challenges related to human rights. Consequently, we have devoted little attention to the topic. However, our expanding international efforts mean that in future we will have to draw up routines and guidelines to ensure that we do not, directly or indirectly, act at odds with recognised human rights.

We adhere to the reporting standards prescribed in the Global Reporting Initiative (GRI). The following are responses to some of the human rights indicators GRI addresses.

Suppliers
Kongsberg uses a total of approx. 3 000 suppliers. Of that number, approx. 75 per cent are located in Norway. Thus far, the Group has only posed environmental requirements to its suppliers. Questions related to human rights and other corporate governance indicators have not yet been on the agenda. Further consideration will be given to this position.

Training
For the moment, Kongsberg has not found it necessary to draw up and implement separate human rights training programmes for its employees. However, Kongsberg’s corporate Code of Ethics is reviewed in all units and it touches on several issues related to human rights.

Discrimination
There have been no reports of episodes or incidents involving discrimination.

Kongsberg’s corporate Code of Ethics states that: “We will not tolerate discrimination of any kind, e.g. due to gender, race, religion or sexual orientation.”

Child labour and forced and compulsory labour
The Group’s activities are of such a nature that questions related to child labour and forced and compulsory labour are of little relevance. Nor have there been any reports of cases involving these topics.

As regards our suppliers, as mentioned above, we have not yet undertaken surveys on this type of issues.

GRI Indicator Description

S06 The total value of financial and other contributions to political parties, politicians, etc., by country
Kongsberg does not make donations of this type.

S07 Number of public sanctions as a result of breaches of the competition rules and types of sanctions
None

S08 Frequency and number of cases of sanctions as a result of breaches of public legislation and regulations
None
HEALTH, SAFETY AND THE WORKING ENVIRONMENT – HSE

Kongsberg takes a systematic approach to health, safety and the working environment. The main principle is that our efforts should be preventative, promoting well-being and a healthy working environment. The Group has a growing number of employees working outside Norway. Kongsberg’s expanding international presence requires added attention to and insight into HSE issues in the countries in which we operate.

Health and safety

We comply with all relevant legislation and regulations for the protection of health, safety and the working environment for co-workers and others involved in the Group’s activities. Priority is given to life and health, and to responsibility and commitment at all levels of the organisation. The Group’s HSE status is reported to the Board quarterly.

Formal HSE bodies

The Group has the following formal bodies where representatives of management and the employees deal with formal HSE issues: Works Council, joint consultative committees, divisional committees and working environment committees. The Group determines the structure for cooperation in close dialogue with the trade union representatives.

At the corporate level, we have the Works Council, where executive management meets the trade union representa-
tives. The Works Council is a forum for information and discussion of matters that involve two or more of the Group’s business activities. The quarterly HSE reports are reviewed at the Works Council meetings.

Each of the business areas has a cooperation structure that complies with legislative and regulatory requirements, as well as the operational needs of the business units. There is a joint consultative committee and a working environment committee in each business area, where management and trade union representatives deal with items involving the entire business area. There are also local joint consultative committees in the individual divisions. These are fora for discussions of matters that involve the individual division.

Group activities that fall outside the two BAS have set up structured cooperation in compliance with legislation and regulations.

At our foreign undertakings, structured cooperation complies with local practices and requirements. The Group has a positive attitude to employees joining trade unions.

In Norway, about 75 per cent of our employees are represented by these formal bodies. The comparable figure is less than 35 per cent for our foreign business activities.

Preventative measures

Our Norwegian enterprises have well-developed HSE systems. All employees in Norway have access to the company health service.

This varies in accordance with local practices at our foreign business activities. The fundamental principle is that Kongsberg is a serious, long-term and good employer in all areas related to health, safety and the environment. This means that our local schemes are equal to or better than the average.

Kongsberg has not established special programmes or preventative measures to ensure our employees and their families against severe diseases and epidemics.

We adapt to the respective national public health service and supplement it through special corporate agreements as needed.

Necessary vaccination programmes, preventative check-ups and emergency preparedness for extraordinary measures are part of our agreement with the company health service. Employees stationed abroad, their families and travelling personnel are given special attention by the company health service.

Formal agreements with the trade union movement

In Norway, many topics related to HSE are covered by formal agreements with the trade union movement and have been integrated for many years. Where this is not enshrined in formal agreements at our foreign undertakings, obviously, all personnel will receive satisfactory training, be issued personal safety equipment and have the right to refuse work they perceive as risky. It is equally natural to have local HSE committees, periodic inspections that include employers’ representatives, and a system for reporting defects and deficiencies. Mishaps or accidents will always be investigated to determine the causes and find opportunities for improvement. It is of the essence that employees who are familiar with the duties in question and local conditions take part in these investigations.

Use of security personnel on international operations

Thus far, our international operations have not been of the type where it has been necessary to use special security personnel to ensure employees’ safety.

Absence due to illness

Absence due to illness (as a percentage of the total number of working hours) was 2.7 per cent in 2006. This is in accordance with the favourable trend in recent years, and below the national average, which was 6.9 per cent at Q3 2006. We believe that the main reason for this low absence rate is the emphasis placed on a good working environment, interesting work, good development opportunities and ever better follow up of those on sick leave.

The number of people on long-term sick leave has also declined in recent years.

The frequency of injuries, occupational diseases, lost days and absence, and the number of work-related fatalities by region

There were 24 work-related accidents reported in the Group in 2006. Seven of them were minor accidents that did not call for any type of treatment or follow up. Twelve were accidents that required medical attention and three were near-accidents that called for follow up. Two accidents were classified as high-risk incidents that led to changes in routines.

No occupational diseases or work-related fatalities were recorded in 2006.

Total work-related accidents entailed 160.5 lost working days involving medical certificates.

The working environment and labour relations

Collective wage agreements

50.2 per cent of the Group’s employees are covered by collective wage agreements. Freedom of association and the right to engage in collective bargaining are rights we take for granted, and they apply to all Group units in Norway and abroad. In Norway, this is handled in compliance with legislation and a system of agreements and is related to the Group’s long traditions of close cooperation with the trade unions. As regards our foreign operations, our policy is that employees who would like to join unions are welcome to do so. A suitable cooperation structure will be established locally, and the necessary steps will be taken to raise the level of competence among trade union representatives and management.

No cases have been reported involving attempts to set aside the right to freedom of association or collective bargaining.

Local employment

In the local communities in which we operate, we aspire to be perceived as a quality employer and contractor. Each individual location hires people locally with the assistance of local managers.

During the establishment phase, we have largely opted to use Norwegian managers at our international locations. Once routines are in place, our policy is to employ more local managers.

Starting salary

Before stipulating a starting salary, we investigate salary levels at comparable companies. Salaries are then stipulated on the basis of the prevailing competitive conditions. Our starting salaries are generally about the market average. We have operations in several countries with rapid economic growth. This also places pressure on the cost of labour.

Continuing education and senior policy

The Group offers an extensive range of further and continuing education through a combination of internal and external programmes and courses. These include technical courses as well as management development measures. Kongsberg’s employees should be able to move laterally as well as vertically throughout the Group. The Group also offers courses for seniors approaching retirement age.

Programmes related to the prevention of serious diseases

<table>
<thead>
<tr>
<th>Programme</th>
<th>Education/Practice</th>
<th>Consultancy</th>
<th>Preventative</th>
<th>Treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colleague</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Employee’s family in general</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee’s family stationed abroad</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local population</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Kongsberg – Annual Report and Sustainability Report 2008

Kongsberg – Annual Report and Sustainability Report 2008
DIVERSITY

Kongsberg’s corporate Code of Ethics as well as its endorsement of the UN’s Global Compact Initiative, establishes that all individuals are created equal and that Kongsberg will not tolerate discrimination of any kind. Kongsberg’s corporate Code of Ethics provides a public platform which applies to all employees, regardless of where in the world they work.

This is essential in a Group in which we strive for rich diversity to ensure the best possible decisions. This, in turn, should help improve the Group’s competitiveness and goal achievement.

Our definition of diversity embraces variations in education, culture, nationality, gender and age. About 19 per cent of the Group’s employees are women. It is a regrettable fact that few women choose to specialise in our main technical segments. The percentage of women among all those recruited in 2006 was 22 per cent, which is about the same as the percentage of women specialising in the fields most important to us. Women occupy 12 per cent of our managerial positions. We have locations in 24 countries. Kongsberg’s employees include about 30 different nationalities.

Competency is an important platform for Kongsberg’s business activities, and the Group has widely diverse expertise. We consider this to be a precious asset. Most technical disciplines are represented, and level of education ranges from guild certificates to PhDs. Competence is also acquired through including apprenticeship schemes, and on-the-job training and courses. Moreover, we have an immense diversity of complementary competencies in non-technical disciplines such as finance, law and management. This means we can set up interdisciplinary teams with cutting edge as well as broad competence adapted to the needs of different projects.

We strive for a balanced age distribution among our employees. Employees’ average age was 42.5 years at year end, and there is a balanced distribution in the various age groups. Our youngest employees are apprentices and our oldest is just short of 70. We see good results from teams that combine long experience with fresh theory, and youthful vitality with mature prudence.

Employees, by age

- Under age 30: 12%
- Between ages 30 and 50: 52%
- Over age 50: 26%

Employees, by gender

- Men: 81%
- Women: 19%

Employees by level of education

- Operations: 11%
- Other related employees (up to 3 years of higher education): 17%
- Graduate engineers (and other higher education: 4 years or more): 20%
- Conclude engineering (up to 3 years of higher education): 40%

ETHICS

Kongsberg’s Code of Ethics

Kongsberg’s Code of Ethics emphasises that all employees and the Group’s Board of Directors shall maintain high ethical standards when performing their duties. Our Code of Ethics is both a code of business ethics and a set of principles governing our corporate conduct and culture. It is also distributed to all our partners and agents, and attached to all our contracts. We expect our partners, agents and contact partners to maintain the same high ethical standards as we expect of ourselves.

Working with ethics

Dedicated efforts have been made to implement the corporate Code of Ethics throughout the entire Group. The target for 2006 was that all Group employees were to complete the ethics programme. At year end, all Norwegian units had completed the programme, but some units outside Norway still remain. The programme will be conducted at the remaining units in 2007. Altogether, about 2 800 co-workers have completed the programme. This accounts for more than 75 per cent of the Group’s employees.

It is important to maintain and further develop the ethics programme, sustaining employees’ interest and keeping the discussions going. Our work with ethics is a continuous process.

The Ethics Council

The Ethics Council had two meetings in 2006. At one of the meetings, two new ombudsmen were appointed as employee representatives on the Ethics Council. Breaches or suspected breaches of the Code of Ethics should be reported to one’s immediate superior. If that does not achieve the desired response, they should be reported to the next level in the organisation. Alternatively, employees can contact one of Kongsberg’s two ombudsmen. The ombudsmen put the cases before the Ethics Council. The last recourse for notification is the corporate Board of Directors. There were no reports of breaches or suspected breaches of the Code of Ethics in 2006.

Kongsberg is opposed to corruption

Kongsberg is opposed to all forms of corruption. Our attitudes to corruption are clearly expressed in Kongsberg’s corporate Code of Ethics and our support for the UN Global Compact. We work actively in both BAs to address issues relating to corruption. Both BAs operate in markets that are susceptible to corruption.

<table>
<thead>
<tr>
<th>GRI Indicator</th>
<th>Description</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>S02</td>
<td>Total number and percentage of business areas where there have been risk assessments devoted to the issue of corruption</td>
<td>Both our business areas operate in markets defined as being susceptible to corruption. Active efforts are made to mitigate this risk.</td>
</tr>
<tr>
<td>S03</td>
<td>Percentage of employees who have completed anti-corruption programmes</td>
<td>Roughly 2,800 of our employees have completed the Group’s ethics programmes, in which one of the topics is corruption. This accounts for 75–80 per cent of all employees.</td>
</tr>
<tr>
<td>S04</td>
<td>The number of employees who have lost their jobs or been represented for breaching the anti-corruption provisions</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Number of contracts not signed or renewed because business associates have breached the Group’s anti-corruption provisions.</td>
<td>None</td>
</tr>
</tbody>
</table>
THE ENVIRONMENT

KONGSBERG’S RESPONSIBILITY FOR THE OUTDOOR ENVIRONMENT

The Group works systematically to report data associated with energy consumption, waste treatment and the consumption of chemicals. This data makes it easier for us to remain cognisant of the challenges we face, allowing us to initiate improvement measures.

At the international level, the media attention devoted to global warming increased conspicuously in 2006. The Group’s ordinary business activities cause little pollution of the outdoor environment. This year’s report presents CO₂ accounts for the first time. This is the first step in a process that will enable us to determine what we can contribute to the efforts to stem climatic change.

The limitations of the report
• We report only on companies in which Kongsberg owns 50 per cent or more.
• The environmental data encompasses all our Norwegian units, as well as all our production units and some offices abroad.
• The report does not include the following companies: Fantofra Process Technologies AS, Sense Intellefield AS, Kongsberg Defence Corp, Inc. These companies were acquired or founded in 2006, and will be an integral part of the report for the first time in 2007.

ENVIRONMENTAL POLICY

Kongsberg aspires to be a responsible corporation in terms of how its activities impact the environment. This means we will strive to keep our direct influence on the environment to a minimum.

Employees – Kongsberg strives to raise awareness and to get the organisation and individuals involved in environmental issues.

Stakeholders – Kongsberg cooperates on environmental and safety issues with customers, partners and suppliers to find the most environmentally friendly solutions possible in the short- and the long-term perspectives.

Products – Product development, production, distribution, and the use and re-use of Kongsberg products shall be compatible with sustainable social development. Kongsberg will strive to minimise product-related environmental burdens.

Information – Kongsberg will maintain an open dialogue on environmental issues with the communities in which it operates. Naturally, Kongsberg will be in full compliance with legislation and regulations. Kongsberg will prepare and update environmental information on a regular basis, reporting on all significant environmental issues related to the Group. Kongsberg will make this information available in printed form and on the Group’s website at www.kongsberg.com

Organisation – Kongsberg’s environmental policy will form a general framework for our environmental efforts. Responsibility for setting objectives, and the implementation and evaluation of environmental efforts rests with the individual business area and company. Systems, inspections and reporting routines will be adapted continuously to ensure that efforts in this area proceed in a satisfactory manner.

INTERVIEW

Sri Kahgo, Meteorologist and Offshore Marketing Manager, Storm Weather Center

THE NEED FOR A SUSTAINABLE WAY OF LIFE AND TECHNOLOGICAL INNOVATIONS

How serious are the climatic changes facing us?
Very serious indeed. The most recent report from the UN’s climate panel emphasises that this is the ground threat ever against civilization as we know it. Scientists say that stabilising the global temperature at a level we can tolerate, i.e. an average of about two degrees higher, will require a 50 to 80 per cent reduction in CO₂ emissions by 2050, compared with the 1990 level. Given that scientists are considering a scenario with a rise of as much as 5 degrees, the situation is very, very grave indeed.

Earth now has such huge population that we obviously need to achieve a more sustainable way of life. Access to energy is decisive. The solution must be to use our way of life and technological innovations. However, we need more technologists and scientists for that.

What can Norwegian enterprises do to improve the situation?
We must be far more aware of the fact that meetings call for travel by air or car. Video-conferencing is a good alternative. For example, simply skipping one trip from Oslo to Amsterdam would reduce CO₂ pollution by 12% per person.

It would also save a lot of time and travel expenses. When travel is necessary, companies should choose alternatives that are climate-neutral. For example, we can pay a CO₂ tax or buy pollution credits, where payments go to CO₂ reduction measures in developing countries.

What can Kongsberg do to help?
I am familiar with Kongsberg only through its products for aerospace and satellite technology. The Storm Weather Center uses satellites in which Kongsberg is indirectly involved to forecast the weather reliably. The data can also be used to track environmental changes, as seen from outer space. Generally speaking, the data Kongsberg helps provide is incredibly important for understanding nature, and for our ability to stand in awe of the fantastic diversity of our planet.
ENVIRONMENTAL ACCOUNTS

The environmental accounts give an overview of Kongsberg’s consumption of energy and chemicals and its production of waste.

WASTE

Kongsberg generates waste from production and from office activities. Waste volumes are part of Kongsberg’s in-house environmental reporting. The report covers generated waste broken down by category of waste and waste for recycling divided into recycling fractions. Our property company makes efforts to increase waste separation among the companies located in Kongsberg Industrial Park.

Kongsberg Defence & Aerospace

Kongsberg Defence & Aerospace has had steady growth in the volume of waste for recycling over the past three years, while the volume of residual waste and hazardous waste remained constant over the past year. Examining the recycling fractions separately, however, it becomes clear that EE waste and paper/cardboard are the only fractions increasing steadily. The recycling of metal and timber fluctuates more as they depend more on clean-up campaigns and the like. Plastic accounts for a small part of aggregate recycled waste.

Kongsberg Maritime

Kongsberg Maritime has seen an increase in waste for recycling and the volume of residual waste over the past year. This is mainly due to higher sales. This trend is reflected in all recycling fractions except for plastics. The decline in the recycling of plastics is attributable to enormous reporting last year.

ENERGY

Kongsberg consumes energy in connection with production and office activities. The Group consumes energy deriving from electricity, district heating, gas, and oil. The district heating facility at Kongsberg Industrial Park supplies energy to several companies in the Group. Energy consumption in part of Kongsberg’s in-house environmental reporting. The district heating data includes Kongsberg’s own and external facilities. In respect of the companies located in Kongsberg Industrial Park and throughout the Group, our property company strives to reduce energy consumption and to convert to alternative energy sources.

Kongsberg Defence & Aerospace

Kongsberg Defence & Aerospace saw an increase in energy consumption over the past year. This is because three new units were added to the environmental accounts. Looking at energy consumption relative to the number of employees or operating revenues, energy consumption declined over the past year.

Kongsberg Maritime

Kongsberg Maritime saw an increase in energy consumption over the past year. This is due to higher sales which have, in turn, resulted in more employees and the use of more space. Looking at energy consumption relative to the number of employees or operating revenues, energy consumption declined over the past year.

CO₂ accounting

Direct emissions of CO₂ originate from the combustion of oil at Kongsberg Industrial Park’s district heating plant. This facility delivers district heating to three Kongsberg enterprises in the Industrial Park as well as the corporate staff and Industrial Park itself. Altogether, this facility discharges 3 547 metric tonnes CO₂/year.

Energy consumption

Kongsberg’s energy consumption increased over the past year. This is related to the company’s increased revenues. However, energy consumption per employee decreased from 2005 to 2006. The table below illustrates the trend in energy consumption over the past two years, compared with operating revenues and number of employees at Kongsberg Maritime and Kongsberg Defence & Aerospace.

### Energy consumption by business area by energy source

<table>
<thead>
<tr>
<th>Source</th>
<th>Kongsberg Defence &amp; Aerospace</th>
<th>Kongsberg Maritime</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>10 286.0</td>
<td>7 917.8</td>
</tr>
<tr>
<td>Dist. heating</td>
<td>19 286.0</td>
<td>15 960.0</td>
</tr>
<tr>
<td>Fuel oil</td>
<td>8 538.4</td>
<td>6 740.6</td>
</tr>
<tr>
<td>Total</td>
<td>38 160.7</td>
<td>30 617.4</td>
</tr>
</tbody>
</table>

### The consumption of chemicals by business area, by classification

<table>
<thead>
<tr>
<th>Classification</th>
<th>Kongsberg Defence &amp; Aerospace</th>
<th>Kongsberg Maritime</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substances hazardous to the environment and human health</td>
<td>10 286.0</td>
<td>7 917.8</td>
</tr>
<tr>
<td>Other classification</td>
<td>19 286.0</td>
<td>15 960.0</td>
</tr>
</tbody>
</table>

CO₂ intensity

Kongsberg’s CO₂ intensity improved over the past year. The intensity is calculated as metric tonnes CO₂ emitted per million NOK. The intensity for Kongsberg Defence & Aerospace was 0.17 in 2005 and 0.16 in 2006. The intensity for Kongsberg Maritime was 0.19 in 2005 and 0.18 in 2006.
**THE ORGANISATION OF ENVIRONMENTAL EFFORTS**

**Responsibility**

The Board bears the ultimate responsibility for the Group’s impact on the environment. This includes the Group’s commitment to establishing management and control systems and to organising environmental efforts.

Kongsberg’s environmental policy has been adopted by the Board. Corporate management is responsible for ensuring compliance and for setting and following up environmental goals, as well as for compliance with legislation and regulations.

The Group has established an environmental forum to coordinate its environmental efforts.

The operative and routine responsibility rests with the management of the various companies and units in the Group.

**Follow up**

The Group’s Sustainability Report is submitted to and discussed by the Board.

Twice a year, reports are drawn up to describe the status of the Group’s work with environmental and corporate social responsibility. The report is also submitted to corporate executive management.

The Environmental Forum, consisting of representatives of all main units in the Group, meets on an ad hoc basis. The Forum follows up the Group’s environmental goals and helps facilitate environmental measures.

Environment-related problems are otherwise dealt with by the respective department managers in the operative units. Management is required to report any serious incidents to corporate management. One incident was reported in 2006. In connection with excavation work at Kongsberg Industrial Park, an oil tank was perforated, resulting in a spill of approx. 12,000 litres of light fuel oil. The polluted mass was removed and delivered to an approved landfill. The episode was reported to the authorities.

**Environmental management**

With the exception of Fantofth Process Technologies and Sense Intelligence, all Kongsberg Maritime’s wholly-owned undertakings in Norway have earned environmental certification under ISO 14001. Fantofth Technologies will be incorporated into Kongsberg Maritime AS in 2007. Thus the company will be part of Kongsberg Maritime AS by the next re-certification.

Kongsberg Defence & Aerospace has not thus far opted to seek environmental certification pursuant to ISO 14001.

**International presence**

The Group has a number of companies outside Norway. Since these companies operate under different national and local regimes, there will be differences in their environmental approaches, depending on where they are located. Notwithstanding, our environmental policy applies to all units of the Group. Our companies therefore strive to be on their best possible environmental behaviour, given the local opportunities available.

**Supplier standards**

Kongsberg uses a total of approx. 3,000 suppliers. They account for a very large, important contribution to the Group’s value chain. It is important to us that our suppliers have an attitude to environmental issues that is commensurate with the expectations of society as well as Kongsberg. We consider it an advantage that our suppliers have an explicit environmental policy and an established environmental management system.

We will follow up our suppliers by providing our environmental standards in our standard terms of business, in connection with quality audits of suppliers and through regular surveys.

**Property**

The Group’s property company is responsible for source separation and the collection of rubbish at Kongsberg Industrial Park, where there are about 5,000 employees. Of that number, about 2,000 are employed by Kongsberg.

All new projects will be conducted in accordance with the amendment to the technical provisions adapted to EU Directive 2002/91/EC. The directive’s objective is to reduce energy consumption in old and new buildings. The use of alternative energy carriers will be considered in connection with new projects and biofuel may be an option.

**KONGSBERG HELPS PROVIDE FASTER, BETTER INFORMATION ON CLIMATE CHANGE**

Data from satellites help give the researchers who compiled the UN’s Climate Report more and better observations of the climate and climate change. Kongsberg contributes to this in several ways, e.g. by providing equipment and expertise in the satellites per se to control the satellites and to download data from satellites to ground stations on Svalbard, in Tromsø, in Grimstad and on Antarctica.

The UN Climate Report states clearly that we have only seen the beginning of the climate change. The average global temperature is on the rise. Glaciers, snow cover and permafrost are diminishing.

The ocean temperature and water level are increasing, and the pace of change is gaining momentum. One sign of this is that we increasingly often and with ever more intensity are experiencing extreme weather such as floods, heat waves and severe droughts.

**Serious consequences**

The researchers on the UN’s Climate Panel who have compiled the UN Climate Report have never been more certain that these climate changes are primarily ascribable to human emissions of greenhouse gases. Depending on future pollution trends, researchers have calculated that the earth could become 1.1–6.4°C warmer by 2100. This will have dramatic consequences for life on land and in the sea. Anthropogenic climate changes represent the most serious challenge of our time. The UN’s Climate Panel states this explicitly in the UN’s fourth environmental report.

The European Space Agency (ESA) and the EU have signed a collaboration agreement for a joint programme they called Global Monitoring for Environment and Security (GMES) to ensure access to more and better observations of climate trends. The goal of the programme is to ensure access to environmental data on a global, regional and local basis. GMES will focus on global changes, environmental encroachments and catastrophes, natural as well as man-made, using satellites, aircraft and ground-based infrastructure. GMES encompasses recently developed and already initiated and operative systems such as ENVISAT and the MetOp satellites, and is already contributing to the production of large volumes of valuable data on climate change.

Kongsberg is Norway’s largest supplier to ESA, the European Space Agency.

**Deliveries to ENVISAT and MetOp**

ENVISAT is the largest, most advanced Earth observation satellite launched to date. Kongsberg has supplied the reference unit for one of the 12 instruments on ENVISAT that provides information.
about how much oxygen and ozone, for example, there are in different strata of the Earth's atmosphere. KonSern has also supplied about 50 per cent of the satellite structure for the earth observation satellite. It consists of composite panels made of carbon fibre. Using ENVISAT, researchers can study weather, climate, pollution, land and sea territories, grazing resources for animals and many other important areas.

MetOp is the world’s most advanced weather and climate satellite. Successfully launched into orbit in October 2006, the satellite will begin generating weather and climate data for meteorologists and climate researchers in early April 2007. Kongsberg Spacecap has supplied receivers and processing systems for MetOp. The equipment is installed on Svalbard in the Arctic and in Darmstadt, Germany. Kongsberg Defence & Aerospace has delivered mechanisms to unfold the antennae on the wind radar and the receiving unit for the instrument that measures temperatures and humidity in the troposphere and the lower stratosphere. Kongsberg Satellites Services’ facility on Svalbard is the control station for the ENVISAT and MetOp satellites that pass over the poles every 100 minutes. All data from the satellites is downloaded to antennae on Svalbard and then transmitted by Kongsberg Satellite Services in Tromso to EUMESAT headquarters in Darmstadt, Germany.

Real-time data on our planet's state of health

Besides MetOp and ENVISAT, ESA is in the process of developing a new series of satellites called Sentinel for the CARIS programme. These satellites will be supplying real-time satellite data from environmental surveillance of land, sea, atmospheric and ice areas. KonSern will be participating in this project, and has established a good dialogue with ESA.

Kongsberg also supplies equipment and services to a variety of space programmes. Aerospace research is the environmental research of the future, providing knowledge about the geological history and future of our planet.

The fourth assessment report

The IPCC’s fourth assessment report was published in 2007. The report consists of four sub-reports:

1. The physical science basis of climate change
2. The impacts of climate change on nature and society and adaptive measures
3. Measures and instruments to counter climate change and reduce emissions of greenhouse gases
4. A Synthesis Report that collates the conclusions of the three sub-reports about the questions most relevant for the framing of future climate policy

In the six years since the preceding assessment report, more than 2,500 of the world’s leading climate researchers from some 130 countries have reviewed and summarised climate research. Earlier reports have formed the basis for the Kyoto Protocol, among other important documents.

THE GLOBAL REPORTING INDEX (GRI)

The following matrix offers an overview of the GRI indicators, with references to the relevant pages in this report. The individual indicators are described in simple terms and very briefly. For more information, please see KONGSBERG’s website at: www.kongsberg.com

<table>
<thead>
<tr>
<th>Indicator</th>
<th>See page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profile</td>
<td>1</td>
</tr>
<tr>
<td>Strategy and Analysis</td>
<td>11</td>
</tr>
<tr>
<td>Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy.</td>
<td>6 (PA)</td>
</tr>
<tr>
<td>Description of key impacts, risks, and opportunities in relation to sustainability.</td>
<td>NA</td>
</tr>
<tr>
<td>Organizational Profile</td>
<td>2</td>
</tr>
<tr>
<td>Name of the organization.</td>
<td>1</td>
</tr>
<tr>
<td>Primary brands, products, and/or services.</td>
<td>8-10, 68-89</td>
</tr>
<tr>
<td>Operational structure of the organization.</td>
<td>1</td>
</tr>
<tr>
<td>Location of organization’s headquarters.</td>
<td>8-35</td>
</tr>
<tr>
<td>Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.</td>
<td>120-127</td>
</tr>
<tr>
<td>Nature of ownership and legal form.</td>
<td>93, 158</td>
</tr>
<tr>
<td>Markets served (including geographic breakdown, sector, service, and types of customers/beneficiaries).</td>
<td>75-77, 82-89</td>
</tr>
<tr>
<td>Scale of the reporting organization, including number of employees, net sales (for private sector organizations) or net revenues (for public sector organizations), and quantity of products or services provided.</td>
<td>1-3, 111, 156</td>
</tr>
<tr>
<td>Significant changes during the reporting period regarding size, structure, or ownership.</td>
<td>NA</td>
</tr>
<tr>
<td>Report Parameters</td>
<td>2.10</td>
</tr>
<tr>
<td>Audits received in the reporting period.</td>
<td>NA</td>
</tr>
</tbody>
</table>

4. Governance, Compliance, and Engagement

4.1 Governance structure of the organization, including members of the highest governance body. | 92 |
| Indicate whether the Data of the highest governance body is also an executive officer. | 97 |
| State the number of members of the highest governance body that are independent and/or non-executive members. | 97 |
| Indicators for shareholders (key to whether or not shareholders are included in the organization's performance). | NA |
| Linkage between compensation for members of the highest governance body, senior managers, and executives and the organization's performance. | 55, 100 (PA) |
| Process in place for the highest governance body to ensure conflicts of interest are avoided. | 99 |
| Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics. | NA |
| Internationally developed standards of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation. | 137, 138, 139 |
| Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance. | NA |
| Process in place for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance. | NA |

4.2 Commissions to external stakeholders

4.3 Explanations of whether and how the precautionary approach or principle is addressed by the organization in key decision-making processes. | 130 (PA) |
| Internally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses. | 130 |

NR - Not relevant
NA - Not addressed
PA - Partially addressed
ID - Insufficient data
CONNECTIONS BETWEEN PROFIT CENTRES/DIVISIONS AND PRODUCTS

Kongsberg Defence & Aerospace
- Missiles & Space
  - Penguin anti-ship missiles
  - Naval Striker Missile (NSM)
  - Aerospace mechanisms
  - Advanced composite materials
  - Systems to download satellite data to ground stations
  - Meteorological systems for presenting satellite data
- Naval Systems
  - Command/control systems for surface vessels (frigates, missile torpedo boats, minehunting vessels)
  - Command/control systems for submarines
- Integrated Air Defence Systems
  - Command/control systems for air defence (ground-to-air)
  - Anti-aircraft launchers (launch platforms)
- Land Systems & Surveillance
  - Simulation and training
  - Software for surveillance aircraft
  - Command/control systems for army applications
  - Kongsberg Norcontrol IT – surveillance systems
- Defence Communication
  - Tactical mobile communication networks
  - Military VHF radios (MRR, LFR)
  - Dedicated networks
- Dynamic Systems
  - Weapon stations (RWS)
  - Engineering production for demanding applications, primarily offshore
  - Helicopter maintenance

Kongsberg Maritime
- Offshore & Marine
  - Automation systems for cargo management and machinery
  - Navigation systems
  - Automation systems for platforms
  - Automation systems for LNG
  - Dynamic positioning systems
  - Electronic log books
  - Companies in China and South Korea
- Process Automation
  - Process automation systems for platforms and offshore vessels
  - Fansoft Process Technologies
- Subsea
  - Hydroacoustic systems
  - Seabed surveying
  - Underwater vehicles
  - Seafloor reference systems for dynamic positioning
  - Sonars
  - Fish finding and research products
  - Sonars and echosounders
  - Advanced underwater cameras

FINANCIAL CALENDAR 2007

Annual General Meeting
The ordinary Annual General Meeting will be held on Tuesday, 8 May 2007, at 2 p.m.
Venue: The Conference Centre, Kongsberg Industrial Park, Kongsberg

The dividend will be paid out on 22 May 2007

Presentation of quarterly results
Q1: 8 May
Q2: 14 August
Q3: 22 October

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If you have views on or questions related to this report or the topics discussed in it, please contact Nils Møller, head of corporate social responsibility at Kongsberg at nils.moller@kongsberg.com

Otherwise, you are invited to follow along with the Group's development at www.kongsberg.com

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Concept and design
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Print
Mediehuset GAN

Photos
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Translation to English
Linda Sivesind, Informatic Translations

Disclaimer
In the event of any discrepancy between the Norwegian and English versions of Kongsberg’s Annual Report, it is the Norwegian version that is valid.