



KONGSBERG

TECHNOLOGY FOR MEETING GLOBAL CHALLENGES

Sustainability Strategy

KONGSBERG – 2018-2022

“Technological development is crucial for creating a more sustainable society. Technology companies like KONGSBERG have a key role to play in solving the global and environmental climate challenges that the world faces.”

Geir Håøy – CEO

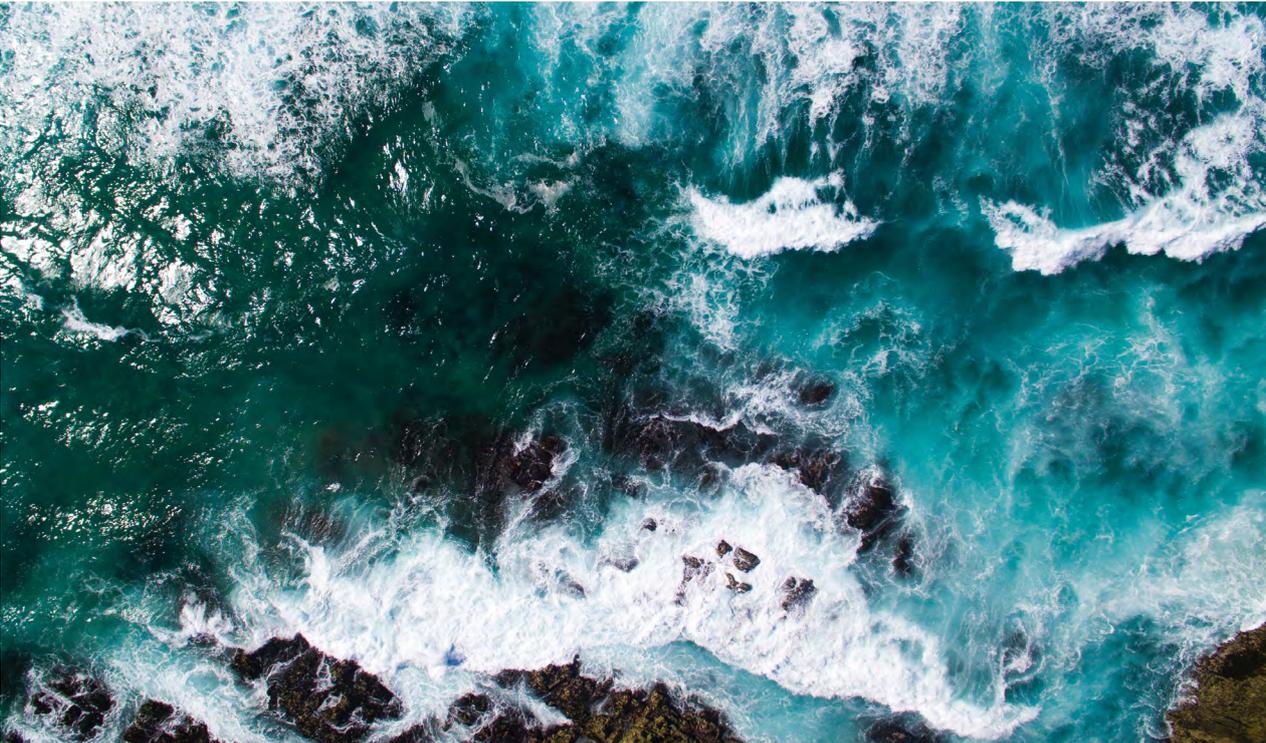
Content

- 1. Introduction 3**
 - 1.1 Global megatrends and UN sustainable development goals 4

- 2. Sustainable innovation and business opportunities 5**
 - 2.1 Kongsberg renewables & utilities 5
 - 2.2 Smart communities 5
 - 2.3 Ocean space 6

- 3. Sustainable internal operations 7**
 - 3.1 Circular economy 7
 - 3.2 Goals for reducing CO2 (carbon dioxide) emissions 8
 - 3.3 Sustainable buildings 9
 - 3.4 Sustainable purchasing 10
 - 3.5 Other activities 11

- 4. Social responsibility – other items 12**
 - 4.1 Human and workers’ rights 12
 - 4.2 Responsible supply chain 13
 - 4.3 Stakeholder dialog 13



INTRODUCTION

Global challenges are the starting point for a variety of business opportunities for KONGSBERG. Sustainable thinking is not an alternative way of thinking, but a prerequisite for sound operation over the coming decades. Customers expect it, authorities and owners expect it, and employees – not least the coming generation in the labour market – expect it. Sustainable operation will be necessary in order to obtain a “license to operate”.

It is a fundamental prerequisite that the strategy be integrated and operationalised in the business areas and individual disciplines in the Group centre’s strategies.

Bold decisions

A clear and deliberate turn toward sustainability will strengthen the group's ability to take on leading global positions in the future. A focus on sustainable business opportunities will be the primary objective, while at the same time, attention will also be directed toward sustainable internal operations.

What sustainability means for KONGSBERG:

In our Code of Ethics and Business Conduct, sustainable development is described as follows:

“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

KONGSBERG is committed to achieving sustainable development in our operations and to striking a good balance between financial results, value creation and social responsibility. The value created will benefit owners, stakeholders and society at large.

Business opportunities aimed at promoting a sustainable future will be a part of KONGSBERG’s strategic assessments, and we will leverage our competence and expertise toward contributing to the development of a sustainable future.”

In the first part of the strategy period, we will take some time to define what this means for KONGSBERG in terms of operation.



“We are the first generation that can end poverty, the last that can end climate change”.
 – Ban Ki-Moon

1.1 Global megatrends and UN sustainable development goals

In a world where change is happening at an increasing pace, it is essential to be able to look to the future and prepare for the changes to come.

The strategy takes its starting point in Global Mega Trends, as described in the UN Global Compact “IMPACT” document prepared by DNV GL. In addition, the UN’s 17 main goals for sustainable development are considered. The mega trends and the UN goals overlap to a large extent and both are assessed from the perspectives of opportunity and risk. Assessment of climate risk will be essential.

Plans for the strategy period:

In the first part of the strategy period, “toolboxes” will be prepared that make it possible for the business areas to assess the opportunities and risks associated with the above so that they can be used in their own strategy work. Workshops will be conducted with the business areas and KOG ASA in Autumn 2018. The Corporate Compliance Officer and Business Development are responsible for the implementation.

UN Sustainable Development Goals (SDGs):

The UN sustainable development goals (SDGs) are a common work plan to eliminate poverty, fight inequality and stop climate change by 2030.

SUSTAINABLE INNOVATION AND BUSINESS OPPORTUNITIES

There is a marked increase in focus on moving toward more sustainable development of society - “the green shift”. This ultimately means that any change to a company's business must take in a more sustainable direction.

KONGSBERG has selected two main focus areas for innovation – Ocean Space and Smart Communities. These areas are defined from a business perspective, but the solutions that are being put forward must also hold up from a sustainability perspective. The point is that there should not be any contradiction between the two – we are looking for solutions that are BOTH responsible AND profitable.

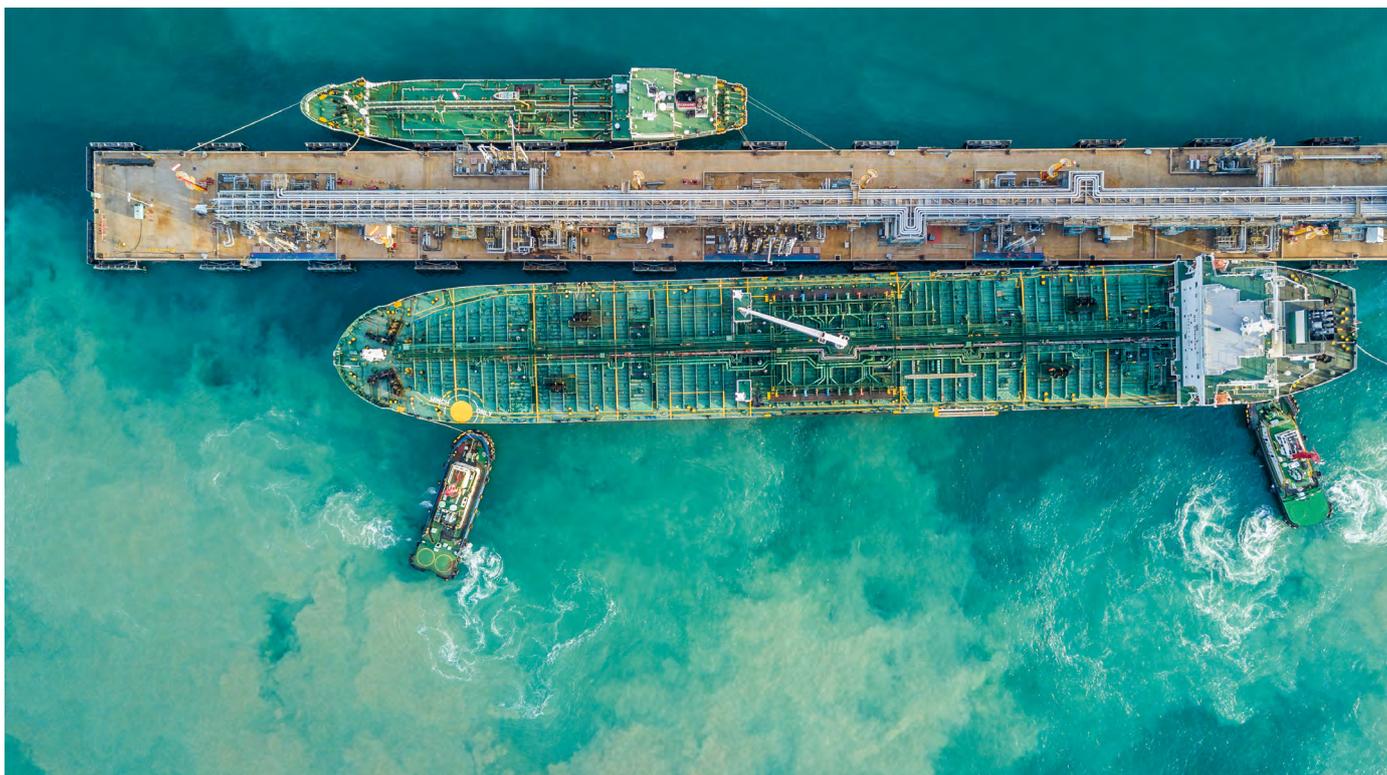
KONGSBERG's business areas possess expertise and technology that will provide our customers with better opportunities to accomplish their goals on the path toward a more sustainable society. For instance, our products have the potential for large emissions savings for many of our customers.

2.1 Kongsberg renewables & utilities

KONGSBERG has created the company “KONGSBERG Renewables Technology” as a unit in KDI under the name “Renewables & Utilities”. Until now this company has developed solutions within the renewable segment of wind power. There are also considerable opportunities within the energy and renewable segments of other areas.

2.2 Smart communities

KONGSBERG has selected “Smart Communities” as one of its strategic focus areas. The number of people living in cities will increase by 50 per cent by 2050. This means that 60-70 per cent of the earth's population will live in urban areas in 2050. “Mega cities” will increase significantly in quantity and “mega regions” and “mega corridors” will develop. Development of infrastructure will be absolutely necessary to accommodate this development. This applies to virtually all functions needed to make these giant cities, their surrounding areas and the communication between these centres work. Sensor technology, system integration and command and control systems are easy to imagine in such a market. Critical infrastructure, for example railways and transport in general, is another area. Smart Communities also includes our activities related to autonomous ships, remote operations and cyber security.



2.3 Ocean space

“Ocean Space” is the second strategic focus area for KONGSBERG. The ocean covers $\frac{3}{4}$ of the surface of the earth, consists of over 200,000 identified species (although the actual number is believed to be well over a million) and approximately 95 per cent of the ocean is not explored. The ocean takes in approximately 30 per cent of the CO₂ emissions created by human activity. Norway has been a great maritime power for generations. This is in large part due to our dependence on the ocean combined with long-term thinking, bold decisions and marine technical knowledge and expertise. No-one knows today the extent to which knowledge about the ocean space will be needed in the years to come, but it is clear that great advances in knowledge and technology will take place. This is traditionally an important area for KONGSBERG, and we have chosen to take a proactive position to take part in the coming development.

Plans for the strategy period:

In the first part of the strategy period, “toolboxes” will be prepared that make it possible for the business areas to assess the opportunities associated with Global Mega Trends and the UN SDGs, so that they can be used in their own work towards the strategy process. Workshops will be conducted with the business areas in Autumn 2018 (the same workshop mentioned under Section 2).

In the strategy period, systems will be developed to quantify the effect our products have in terms of reducing customers’ greenhouse gas emissions.

SUSTAINABLE INTERNAL OPERATIONS

Below are descriptions of some of the goals the strategy sets for the sustainable operation of KONGSBERG:

3.1 Circular economy

A circular economy is a closed economic system where resources circulate in the economy by preserving the value of materials and products for as long as possible.

This “economy” represents a significant change from the linear economy where resources are extracted, transformed into products, used and “thrown away” after the product has reached the end of its lifetime.

The EU has prepared an action plan for the introduction of a circular economy. The measures are a political response to the fact that the global competition for resources is hotting up. The goal of the action plan is to improve financial and environmental community development by streamlining how resources are used throughout the entire value chain (production, consumption and waste management) and to use innovation to facilitate the development of new markets and business models.

Plans for the strategy period:

In the first part of the strategy period, “expertise” related to circular economy and anticipated regulatory measures will be acquired. In the middle part of the period, training/workshops will be held concerning what circular economy means for the business areas. In the last part of the period, policies and processes for circular economy will be drawn up and implemented in the business areas’ processes.



3.2 Goals for reducing CO₂ (carbon dioxide) emissions

The climate is now undergoing dramatic changes and provides humanity with an urgent challenge. All parts of the community must participate. Climate change is definitely a problem that must be dealt with, but the transition to a low-carbon economy also creates great opportunities for business.

At the COP21, 175 nations agreed to keep global warming to 1.5 degrees Celsius compared with pre-industrial times.

Norway's goal is to cut emissions by 40% by 2030. In 1990, Norway's emissions added up to 50.5 million tonnes of CO₂; in 2012, this number was 52.9 million tonnes. To achieve its goal, Norway must reduce emissions by 22.7 million tonnes by 2030, from its 2012 levels.

KONGSBERG has a goal that by the end of 2020, the group's emissions of CO₂ will be reduced by 20%¹ based on data from 31 December 2015. All business areas and other units in the group will contribute to the achievement of the goal.

Plans for the strategy period:

The business areas will develop plans and actions to reduce CO₂ emissions as much as possible, and to contribute to reaching the group's goal. These activities are to be followed up in ESG reviews no less than once per year throughout the period.

¹A 20 per cent reduction can be relative to turnover or in absolute numbers, depending on what provides the most accurate picture for the individual unit and business area. The chosen measurement method must be justified.

3.3 Sustainable buildings

Today, buildings account for 40% of the world's energy consumption and 30% of greenhouse gas emissions. In 2050, energy consumption by buildings will correspond to the current total energy consumption if no action is taken.

Nationally and internationally, there is a "small revolution" happening in the way we think about buildings; conceptually, within engineering, architecture and in terms of material usage. By 2020, all new buildings in the EU should produce as much energy as they use.

The sustainability standards BREEAM and LEED include energy consumption, materials (design and CO2 footprint), transport, engineering, innovation, water consumption and recycling, health considerations, ecology, waste and emissions. There is currently a strong focus on these standards and their use is expected to increase significantly in the years to come.



Plans for the strategy period:

Rehabilitation of existing buildings: Rehabilitation of old buildings in "Teknologiparken" will be the element that has the greatest effect in terms of reduced energy consumption and reduced CO2 emissions when it comes to buildings. This is given priority.

In addition, during the strategy period rehabilitation plans will be developed for all owned buildings (national and international) requiring rehabilitation. The goal is to bring the buildings up by at least one energy class in relation to the one a given building has today. Certification (BREEAM, LEED) should also be considered.

New buildings and new lease agreements: All new buildings where KONGSBERG is the general contractor will be built according to the prevailing environmental and sustainability standards in the country where the building is constructed, and in consideration of future regulatory requirements. We don't have to be the frontrunner, but we should still be at the forefront and not at the back. The sustainability standard BREEAM (or LEED) will be a part of the engineering as a starting point. Risks linked to climate change should be evaluated and taken into consideration. The same applies when new lease agreements are signed.

Rented buildings: Upon the renegotiation of existing rent contracts, improved energy classification and sustainability standards should be evaluated and emphasised. Risks linked to climate change should be assessed.

Operationalisation of the strategy should be described in the governance documents for affected discipline areas.

These activities are to be followed up in ESG in Kongsberg Teknologipark no less than once per year throughout the period.



3.4 Sustainable purchasing

Attention to a company's value chain, and especially the supply chain, is more relevant than ever. The themes are linked first and foremost to human and employee rights, anti-corruption measures and climate and environmental issues. The major companies are now paying attention to the climate and environmental footprints of their supply chains and reporting this footprint as a part of their own climate and environmental statements. They also consider the supply chain's risk in relation to climate change.

KONGSBERG's governance documents list a variety of climate and environmental criteria to be used in the selection of suppliers. Practice indicates that the qualification requirements are handled satisfactorily whilst the allocation criteria are operationalised to a lesser extent.

It is positive that work is targeted within purchasing logistics, in for example the reuse of packaging materials and use of co-loading shipments and global supplier agreements.

Plans for the strategy period:

The strategy provides overarching guidelines for how sustainable purchasing should be prioritised and which activities should be initiated. In this part of the strategy we have chosen to only view "sustainability" in relation to the climate and the environment.

By the end of 2018, guidelines (qualification criteria, criteria for emphasis, template for the retrieval of data etc.) will be prepared for how the climate and environment will be specifically emphasised when selecting suppliers.

Pilot projects for how KONGSBERG will carry out sustainable purchasing will be completed within the first half of 2019. Additionally, during the strategy period efforts will be made for the suppliers to set their own targets for reducing greenhouse gas emissions, and supplier conferences will be held.

The operationalisation of the strategy should be described in the governance documents directly related to purchasing and in the business areas' routine descriptions.

3.5 Other activities

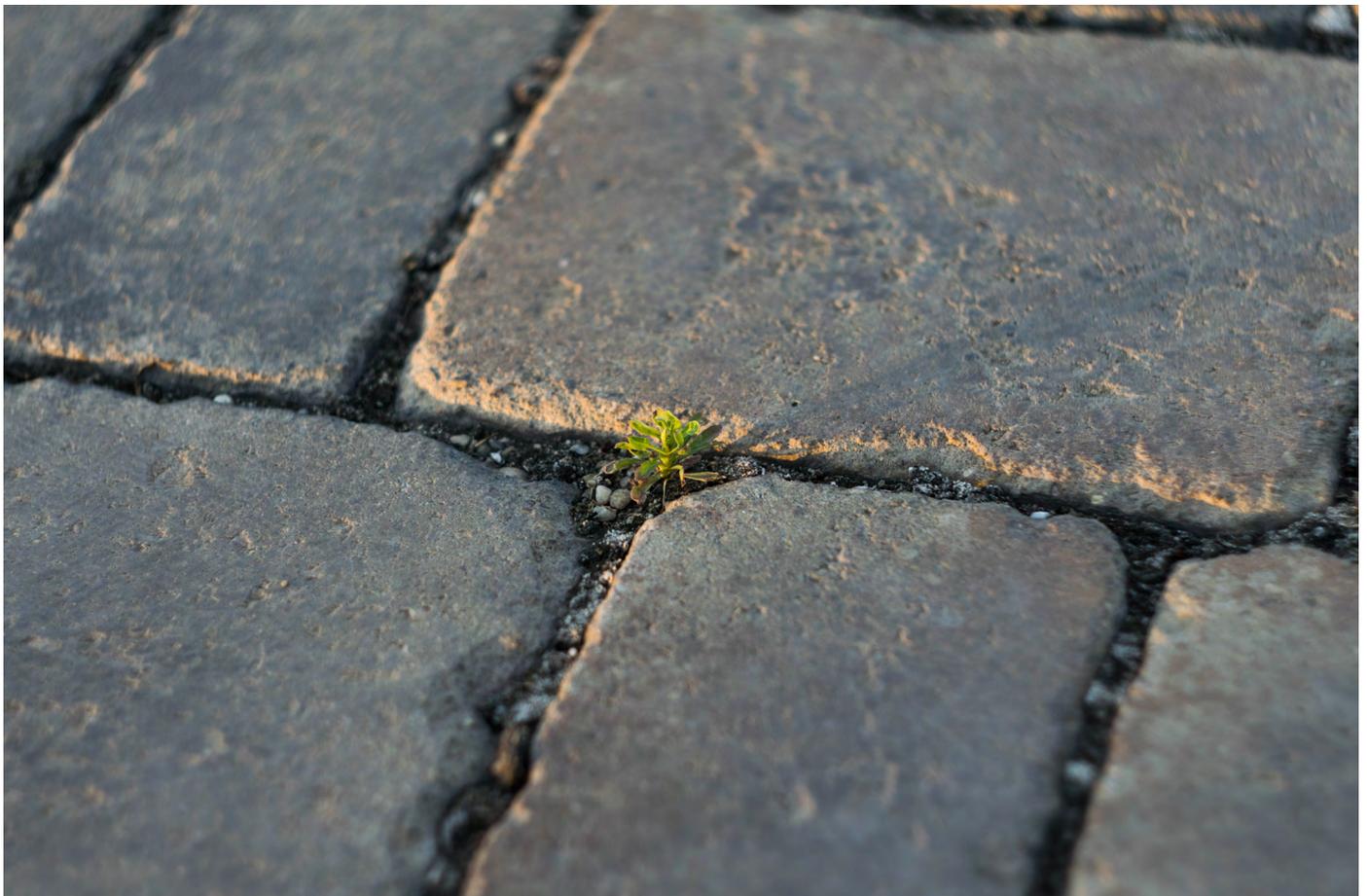
It is important to communicate what we are already doing within sustainability, how we do it and what plans we have – both internally and externally.

As mentioned in the introduction, it is also important that the strategy be integrated and operationalised in other strategies and management models. This means that large and small measures linked to sustainability should be reflected in, among other things, the strategies of disciplines in the Group centre.

Plans for the strategy period:

In the first part of the strategy period, a communication plan must be prepared for sustainability internally and externally.

In the first part of the strategy period, “toolboxes” must be prepared that make it possible for the disciplines in KOG ASA to assess the opportunities and risks associated with sustainability. The Corporate Compliance Officer and Business Development are responsible for the implementation.



SOCIAL RESPONSIBILITY

– OTHER ITEMS

Social responsibility is part of the concept of sustainability, and the following items typically belong under the designation of social responsibility: Human and workers' rights, Climate and environment, Anti-corruption, Responsible supply chain and Stakeholder dialogue.

Climate and environment is handled in its own point of the strategy, whilst Anti-corruption is handled in other governance documents. The concept is dynamic and new elements are handled with increasing frequency under the “umbrella” of social responsibility. The sustainability strategy addresses the following points:

4.1 Human and workers' rights

In 2014, the group's first independent governance document related to human and workers' rights was adopted. KOG-DIR-0046 is in keeping with the “UN Guiding Principles on Business and Human Rights”, which is also expected by our largest owner.

Plans for the strategy period:

During the period, internal guidelines will be followed up and further developed in accordance with national and international development in the area.

4.2 Responsible supply chain

The group's governance documentation is in accordance with international guidelines and expectations from central stakeholders.

Plans for the strategy period:

During the period, internal guidelines will be followed up and further developed in accordance with national and international development in the area.

4.3 Stakeholder dialog

Dialogue with stakeholders is considered to be very important in conjunction with social responsibility. Until now, this dialogue has been somewhat incidental and unstructured, although there are dialogues happening on several levels in the organisation.

Plans for the strategy period:

During the period, a more systematic stakeholder dialogue linked to sustainability and social responsibility will be evaluated.





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