ANNUAL REPORT 2012

KONGSBERG

Extreme performance

KONGSBERG delivers advanced and reliable solutions that improve safety, security and performance for customers in the global defence, maritime, oil and gas and aerospace industries.

Extreme condition

INTRODUCTION

Kongsberg Gruppen (KONGSBERG) is an international technology corporation that delivers advanced and reliable solutions that improve safety, security and performance in complex operations and during extreme conditions.
The Group is a customer focused organization with a worldwide performance culture. KONGSBERG works with demanding customers in the global defence, maritime, oil and gas and aerospace industries.

CONTENT

KONGSBERG GRUPPEN

Kongsberg Maritime

- Offshore
- Merchant Marine
- Subsea

Kongsberg Defence Systems

- Missile Systems
- Naval Systems & Surveillance
- Integrated Defence Systems
- Aerostructures
- Defence Communications

Kongsberg Protech Systems

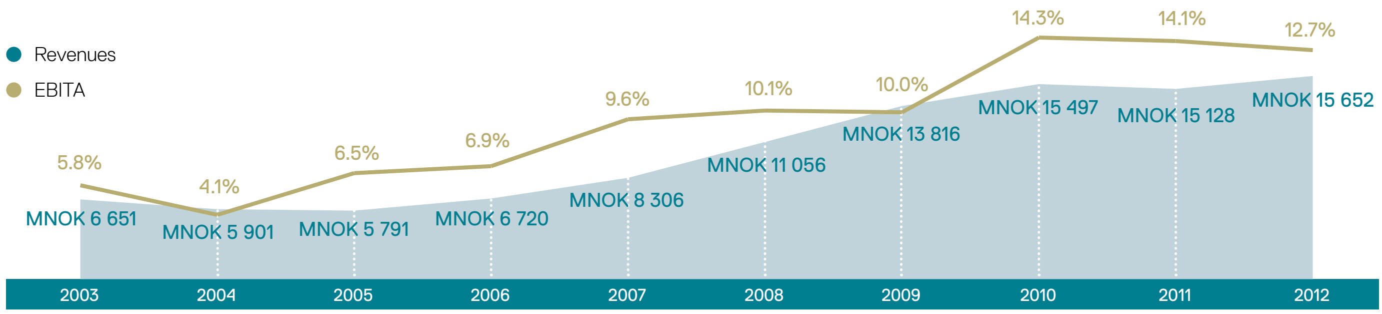
KEY FIGURES 2012

MNOK	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
OPERATIONS										
Revenues	15 652	15 128	15 497	13 816	11 056	8 306	6 720	5 791	5 901	6 651
- Revenues, outside Norway %	78	82	84	80	77	71	72	67	69	76
- Revenues, civilian %	56	47	45	52	62	62	57	59	54	54
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	2 308	2 394	2 485	1 619	1 319	1 560	627	536	410	583
Earnings before interest, taxes and amortisation (EBITA)	1 985	2 132	2 216	1 376	1 122	796	464	378	239	383
EBITA margin %	12.7	14.1	14.3	10.0	10.1	9.6	6.9	6.5	4.1	5.8
Earnings before taxes (EBT)	1 831	2 008	2 097	1 169	861	685	390	314	180	190
Profit for the year	**1 320**	**1 430**	**1 500**	**828**	**587**	**490**	**252**	**262**	**118**	**125**
New orders	14 605	15 016	13 584	17 605	14 635	14 338	7 672	5 683	5 947	7 421
Order backlog	16 523	17 839	17 759	19 892	16 692	12 646	6 472	5 416	5 425	5 913
Book-to-Bill Ratio	0.9	1.0	0.9	1.4	1.5	1.5	1.0	0.9	0.9	0.9
Net interest-bearing debt	(1 198)	(2 191)	(1 813)	(634)	1 439	(242)	294	282	1 101	1 164
Employees	7 259	6 681	5 681	5 423	5 243	4 205	3 650	3 372	3 495	4 176
OWNERS' VALUE										
Market capitalisation	14 940	13 920	15 960	10 590	9 840	10 170	5 250	3 720	2 970	3 180
Earnings per share after tax (EPS) in NOK	11.05	11.93	12.46	6.83	4.86	4.04	2.08	1.80	0.92	1.06
P/E in NOK	11.32	9.72	10.67	12.92	16.87	20.96	21.08	17.24	27.62	25.06
Equity	6 274	5 484	4 881	3 726	1 894	2 758	1 684	1 505	1 626	1 830
Equity ratio %	38.6	35.1	35	30	15	30	23	23	26	30
Dividend per share in NOK	3.75	3.75	2.00	1.38	1.25	0.63	0.54	0.50	0.33	0.53

KEY FIGURES BY BUSINESS AREA

	Revenues			EBITA		
MNOK	2012	2011	2010	2012	2011	2010
Kongsberg Maritime	7 485	6 693	6 286	912	1 078	991
Kongsberg Defence Systems	4 654	3 895	3 376	381	263	245
Kongsberg Protech Systems	2 876	4 185	5 683	655	755	995
Other/elimination	637	355	152	37	36	(15)
Total	**15 652**	**15 128**	**15 497**	**1 985**	**2 132**	**2 216**

PAST PERFORMANCE



VISION, OBJECTIVES AND STRATEGY

Vision

"WORLD CLASS – through people, technology and dedication"

Objectives

KONGSBERG is an international oriented technology group with headquarter in Norway. Stakeholders' values will be maintained and increased by utilizing the Group's high level of knowledge to develop attractive solutions for the market, and through continuous operational improvements. We are reliable people. We are responsible citizens.

- Continuous improvement projects will be implemented in order to increase profitability.
- Growth and profitability will be generated through organic growth, acquisitions and structural initiatives.
- The Group will be organized in a way that takes advantage of relationships and synergies.
- The business will be operated ethically, environmentally and socially responsible, and have a clear profile and a good reputation.

Strategy

Important initiatives for achieving the objectives are:

Culture and values
KONGSBERG has a unique and strong corporate culture that has been built up over many years. The work done is clearly characterized by our shared values. The culture and values of KONGSBERG constitute an important part of the Group's strategic platform.

The market, internationalization and growth
78 per cent of the Group's revenue are from countries outside Norway and a growing share of the value created takes place outside Norway. Several customers demand local presence and contents. Strategic alliances are also crucial for success in several of KONGSBERG's product areas. KONGSBERG is working continuously to develop market activities being able to satisfy customer needs. Being close to the customer is important to provide optimal service, both in terms of response time and performance.

Acquisitions in our core areas are essential to KONGSBERG's growth strategy. A continuous development of the Group's strategic market position is a key element of our acquisition strategy.

Competence
Knowledge and expertise are KONGSBERG's most important competitive parameters. Opportunities for development of expertise are important to achieve positive performance trends, making this a high priority. Emphasis is placed on offering attractive and challenging job responsibilities. The Group offers a systematic leadership development program.

Corporate Social Responsibility and Ethics
KONGSBERG has focused on implementing a corporate Code of Conduct, 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
Annual costs of product development represent around 10 per cent of total operating revenue. A high level of activity within this area is necessary in order to maintain a profitable organic growth. Product development is financed out of own capital and by customers. It is always the market needs that govern the direction, ambitions and solutions for product development. KONGSBERG's markets are characterized by high standards of performance, quality and operations. Collaboration with the end user is a critical success factor when developing the best solutions and to ensure that more value are created for our customers and a high utility value for their investments. KONGSBERG's products are mainly based on the following core competencies: software development, engineering cybernetics, systems integration and signal processing.

Financial strategy
The Group emphasizes the importance of a strong solidity ensuring financial flexibility. Growth is to be funded mainly by earnings and by making capital available for this purpose. External funding is always based on a long-term perspective and in accordance with the Group's business strategy. The Group's financial policy is primarily aimed at increasing predictability and reducing risk.

PRESIDENT AND CEO
WALTER QVAM

In 2013, KONGSBERG is in its 199th year and we count down to the 200-year anniversary in 2014. The preparations for this event are well under way, but before I advance anything regarding 2013, I would like to look back at the year we have left behind us.

2012 became another good year for KONGSBERG. The Group shows growth and good profitability. The order backlog at year end is at a satisfactory level, which provides a solid foundation also for the future. Thanks to technological and operational focus as well as long-term commitment, many strategically important contracts have been won also in 2012. We have confirmed, and for some areas also increased, our market shares throughout the year despite operating in a world characterized by financial disturbance and uncertainty. Over time, public spending cuts could impact the framework conditions for some of our activities.

As an international, high-technology industrial group operating in sectors with exceptionally stringent standards for reliability and advanced solutions, it is important to have solid competence as basis for our business. This platform was further strengthened during the past year, both by hiring new colleagues and opening several new KONGSBERG offices.

Kongsberg Maritime experienced all time high influx of orders in 2012 and the year was characterized by very high activity both in Norway and internationally. We have expanded our business in Brazil and moved to new locations in Mumbai in India. The production at our factory in Zhenjiang is well under way and we are now approximately 550 colleagues in China.

The success in the offshore segment continued in 2012, and "Full picture" solutions were delivered to both drilling ships and other advanced vessels. Our systems are chosen because they are reliable, because we work closely with our principals and because we deliver as agreed.

Throughout the year, we have had good order influx for our remote-operated subsea vehicles. These are among other things used to seabed mapping and control and examinations of pipelines. There is great international interest for these systems.

We have also experienced growth within KONGSBERG's oil and gas portfolio. A milestone within this sector is the three-year contract we made with BP regarding development of systems for decision support for well construction. The systems provide safer and more efficient operations. By integrating analysis and real time data from different parts of an operation, a more cost-efficient production is achieved. For our oil and gas business, this project is an important platform for further development of our offerings to oil companies.

In 2012, our competency within the oil and gas field has been strengthened by the acquisition of Apply Nemo, which delivers various subsea systems and services.

Through this acquisition, we are now also represented in Perth, Australia. The acquisition of Apply Nemo was completed in January 2013. The software company Advali was also acquired in 2012. The company has 120 employees in Bangalore, India. Through these acquisitions we have further strengthened our position as supplier of solutions to the oil and gas industry.

The development of systems for real time environmental supervision has also been an important priority for the group during the past year. Our system for integrated environmental supervision is under testing and is met by great interest in a market where oil and gas production move towards increasingly vulnerable areas and at deeper waters. Close real time supervision, analysis and systems for decision support give a far better understanding of potential changes that can influence the environment. It also contributes to more rapid implementation of necessary measures.

Systems for overall supervision of the northern areas have also been an important national initiative in the past year. Through the information portal BarentsWatch, users get access to information from a variety of governmental ministries and institutions. KONGSBERG has developed the data system which integrates the information. BarentsWatch is described by the Norwegian Ministry of Foreign Affairs as an important milestone for the Government's effort and administration of the attractive area in the north. There has been great interest for the BarentsWatch project both nationally and internationally. Among other things, the Finnish president and the Australian and New Zealand Governments have asked for information about the system. We are convinced that this form of overall supervision systems, which provides good decision support, will be of great importance in years to come.

2012 was an active year for KONGSBERG's defense business, several milestones were reached and agreements of strategic importance were made. In August we won the general agreement with the U.S Army for production, system support and technical support for the weapon control system CROWS (Common Remotely Operated Weapon Stations). This is an acknowledgement of our product as such and demonstrates our position as the world leading producer of weapon control systems.

Our new weapon control system Medium Caliber RWS was made commercially available in 2012 and we are currently answering requests from the market. This is a system which has been developed since 2008. Our missile products are in considerable development in the market and technologically. The development project for our new Joint Strike Missile (JSM) reached several milestones in 2012, and the project is following all determined plans. During 2013, we will complete development stage II and hopefully start the last stage which among other things includes integration in the American fighter plane F-35. Both The Norwegian Armed Forces and international partners will have an important operative need met while the development and production will be a particularly important contribution to fill the industrial content in the Norwegian F-35 procurement. Integration in the F-35 opens possibilities for a long-term Norwegian industrial fairytale amounting to tens of billions kroners. In future full scale production, the JSM program could provide for more than 450 jobs at KONGSBERG and give considerable assignments to more than 100 Norwegian sub-suppliers for several decades.

In 2012, important test firings were performed with our air defense system NASAMS, both at Andøya and in Finland. The Norwegian Navy also performed successful demonstration firings with the KONGSBERG missile Naval Strike Missile (NSM) and the missile is now in operation.

The year we now have started will be a year with many opportunities for our group. Our position is strong and the demand for our products and solutions is good. The uncertainty in our markets is however still present and we are prepared for challenges as well as setbacks and breakthroughs. However, with our satisfactory order backlog, we have a relatively good idea of what the year will bring. There is high activity within the offshore sector where Kongsberg Maritime is the leading player with its "Full Picture" solutions. We are also far better positioned than before within submarine solutions for oil and gas production. Within the merchant fleet however, there are some uncertainty regarding, among other things, lower contracting of new vessels.

Even though several countries cut their defense spending, we see an increased demand for several of our solutions as these fulfill specific needs. KONGSBERG is well positioned in this market with a cost efficient and modern product portfolio, strong market relations and good reference clients.

During the latter part of 2012 we reviewed and clarified our strategy in relation to our three industrial portfolios – defense, maritime/offshore and oil and gas. As a consequence we have also adjusted our steering model. We are further strengthening our business development in order to prepare for increased growth within our industrial portfolios and are intensifying the work to bring forth possibilities beyond what we do today. We are entering 2013 with strengthened competence and a strong financial position. KONGSBERG is a strong brand and we have a sound value basis and a good corporate culture. These are all essential factors in our work on building KONGSBERG going forward.

I would take this opportunity to express my gratitude to all our employees for the unstinting willingness and engagement you all show. I would also like to express appreciation to our customers for the confidence you place in us, and thank our suppliers, partners and owners for excellent cooperation and support.

Walter Qvam

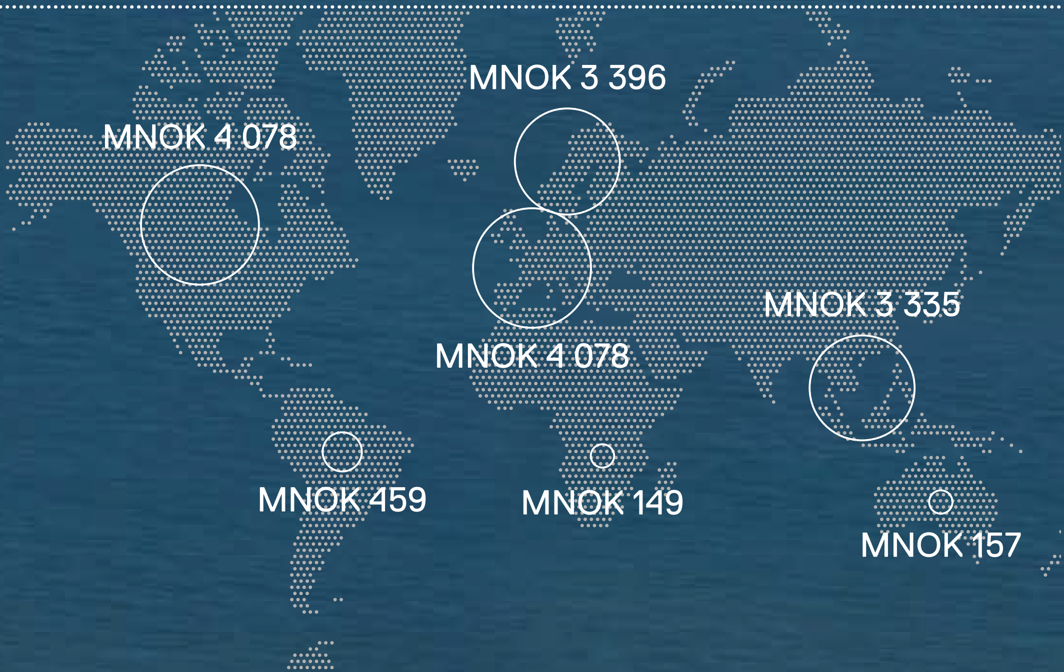
Walter Qvam, *President and CEO*
March 2013

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

NUMBER OF EMPLOYEES 2012

North America	741
Central and South America and Antarctica	101
Norway	4 666
Rest of Europe	471
Asia	1 277
Australia	3

REVENUES 2012



DIRECTORS' REPORT 2012

2012 was a good year for Kongsberg Gruppen (KONGSBERG). The consolidated financial statements show revenues of MNOK 15,652 compared to MNOK 15,128 in 2011 – an increase of 3.5 per cent. During 2012, there was considerable growth at both Kongsberg Maritime (KM) and Kongsberg Defence Systems (KDS). Kongsberg Protech Systems (KPS) experienced reduced level of activity but good margins. EBITA reached MNOK 1,985 compared to MNOK 2,132 in 2011. Profit for the year ended at MNOK 1,320 (MNOK 1,430), equal to NOK 11.05 per share (11.93). The Board of Directors will on this basis, propose to the Annual General Meeting a dividend per share of NOK 3.75 (NOK 3.75) which corresponds to a dividend ratio of 33.9 per cent.

IMPORTANT EVENTS IN 2012

Both KM and KDS achieved increased revenues in 2012. KDS also experienced higher profitability. The underlying operations at KM were good but with lower margins than previous years. At KDS the year has been characterised by implementation of major projects. The projects for delivery of coastal artillery to Poland, NSM (Naval Strike Missile) to Norway and the air defence system NASAMS to Finland have all performed according to plan and contributed to the increased profitability. The business area's development project, JSM (Joint Strike Missile), follows the determined development plan. At KM, the year has been influenced by a high level of activity throughout the global network. Margins are lower than previous years, mainly caused by increased costs and some project related losses. The order inflow at KM was strong also in 2012, especially from offshore related vessels. At KPS both revenues and EBITA are reduced compared to 2011, while the EBITA margin increased. This resulted in an overall good result for 2012. KPS is experiencing a period of reduced demand due to its largest client no longer having major immediate needs. However, the business area's world leading position was confirmed in 2012 as both the U.S. Army's CROWS III (Common Remotely Operated Weapon Station) program and deliveries to the Canadian TAPV (Tactical Armoured Patrol Vehicle) program were achieved.

PRIORITIES IN 2013

The Group will in 2013 ensure further strengthened competitiveness while laying the basis for further growth. In spite of good growth in KM and KDS, the Group in total

SELECTED KEY CONTRACTS AND EVENTS IN 2012

- Number of delivered AUVs passed 300
- Substantial orders for deliveries to FPSO vessels
- Strong order inflow for equipment to advanced rigs and drilling ships
- Launch of KM's 24/7 concept «Follow the sun»
- KOGT strengthens its capacity in the subsea oil and gas market through the acquisition of Apply Nemo and Advali
- Completion of deliveries to KM's largest single project, Skarv FPSO
- Official start-up of BP Well Advisor program – August 2012

experienced little growth during the past three years. At the beginning of 2013 adjustments were thus made to the steering model as an improved foundation for future growth. Capacity and competence within business development is strengthened and product and technology development is intensified. This will contribute to further strengthening the Group's existing market positions but also arrange for growth initiatives within new segments. The internationalisation of the Group's activities will continue within the defence, maritime and oil and gas sector.

Priorities in the business areas in 2013

Kongsberg Maritime

- Additional efficiency and productivity improvements in the delivery models, particularly within offshore
- Expand the product portfolio towards the subsea segment
- Continued focus on activities within the aftermarket area

Kongsberg Defence Systems

- Ensure continued good performance of the large, ongoing programs in missiles, air defence systems and other delivery projects
- Ensure good progress in developing the JSM
- High market activity related to the entire product portfolio, particularly related to the newly developed missile systems, air defence systems and submarine systems
- Secure strengthened strategic foundation in key markets

Kongsberg Protech Systems

- Ensure the first contract on the MCRWS (Medium Caliber Remote Weapon Station)
- Continued cost focus to secure margins in a period of low or no growth
- Establish positions in new markets

COMMENTS TO THE 2012 FINANCIAL STATEMENTS

Revenues

The Group's revenues were 3.5 per cent higher in 2012 compared to 2011. KM and KDS has good increase in their revenues while there is a considerable reduction at KPS. Order backlogs at KM and KDS provide a good basis for further development. KPS is experiencing a period of reduced demand, while several new products which in the long term will form basis for further growth within the business area are launched.

	KONGSBERG Consolidated	*Kongsberg Maritime*	*Kongsberg Defence Systems*	*Kongsberg Protech Systems*
Revenues				
2012	15 652	7 485	4 654	2 876
2011	15 128	6 693	3 895	4 185
Change in per cent	3.5%	11.8%	19.5%	(31.3%)
EBITA				
2012	1 985	912	381	655
2011	2 132	1 078	263	755
Change in per cent	(6.9%)	(15.4%)	44.9%	(13.2%)
EBITA-margin				
2012	12.7%	12.2%	8.2%	22.8%
2011	14.1%	16.1%	6.8%	18.0%

Important contracts for deliveries to submarines, with, among other, FLO and the South Korean shipyard DSME

Delivery of CROWS station number 10,000 and successful tests of MCRWS

Several satellite contracts for deliveries of ground station services

Contract with BAE Systems for deliveries of systems to the Norwegian Army's infantry fighting vehicle

Important RWS contracts. CROWS III general agreement with the US Army and contract with the Canadian TAPV program

USA confirms its support to the integration of JSM on the F-35

New contract for delivery of Penguin missiles, and successful demonstration firings for next generation missiles, NSM

EBITA-development

EBITA in 2012 was MNOK 1,985 (MNOK 2,132). KDS increased their EBITA by MNOK 118 compared to 2011. This is a result of both good operation and good implementation of the major projects delivered by the business area. Both KM and KPS have reduced EBITA compared to last year. At KM, this is due to among other things change in product mix, general increase in cost base as well as an approx. MNOK 100 loss accrued in specific major projects. Some MNOK 50 is related to additional costs due to bankruptcy at a sub-supplier. Lower revenues resulted in reduced EBITA for KPS, which nevertheless achieved an increase in the EBITA margin.

Earnings

Earnings before tax were MNOK 1,831 (MNOK 2,008). Profit for the year was MNOK 1,320 (MNOK 1,430), equivalent to NOK 11.05 (NOK 11.93) per share. The Board of Directors will on this basis, propose to the Annual General Meeting that the dividend for the fiscal year 2012 is 3.75 per share (3.75 per share).

Cash flow

In 2012 KONGSBERG generated cash flows from operations of MNOK 207 (MNOK 1,643). This primarily consists of operating profit before depreciation and amortization (EBITDA) of MNOK 2,308 net of taxes and adjusted for changes in net current assets and other operating related items. These changes are among other things caused by increased working capital in KM's projects. MNOK 713 of cash flow from operational activities were spent on investing activities, of which MNOK 536 were related to purchase of property, plant and equipment, MNOK 114 were related to capitalised internally developed intangible assets (R&D) and MNOK 63 were disbursements related to acquisition of subsidiaries. In 2012, a dividend of MNOK 450 was paid to the shareholders. Net receipts of MNOK 401 are related to financing activities. This provides a net cash flow in 2012 of MNOK -555.

Capital management

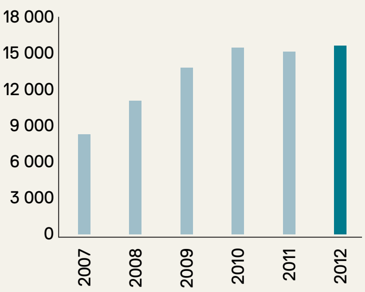
The Group's equity at 31 December 2012 was MNOK 6,274 or 38.6 per cent of total assets. Book value of equity increased by MNOK 790 during 2012. The Group's cash balance (cash less interest bearing debt) at 31 December 2012 was negative (positive net cash balance) by MNOK 1,198 (MNOK 2,191). Gross interest-bearing debt mainly consists of three bond issues totalling MNOK 1,250. In addition, the Group has an undrawn syndicated loan facility of MNOK 1,000, which expires in July 2015. The loan facility requires that net debt does not exceed three times EBITDA, but can be up to 3.5 times EBITDA for a maximum of three quarters. KONGSBERG's business requires a long-term perspective on both performance and strategy. At the same time, the need for working capital may vary substantially. This calls for sound liquidity and predictable access to capital over time. Accordingly, one of the Group's goals is to maintain a good credit rating with its lenders and investors.

Currency

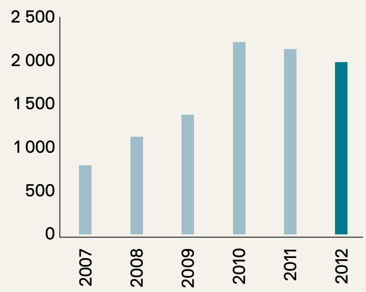
KONGSBERG's currency policy is that the contractual currency flows are mainly hedged using forward contracts (project hedges). Additionally, a portion of expected new orders is hedged in line with the currency policy (forecast hedges).

At the end of 2012 the balance of forward contracts related to project hedges was MNOK 9,399 measured at hedged rates. At 31 December 2012 these forward contracts had a net value of MNOK 558. In addition, the Group had MNOK 3,272 in forecast hedges measured at hedged rates, consisting of forward contracts. At 31 December 2012 the forecast hedges had a total net value of MNOK 173.

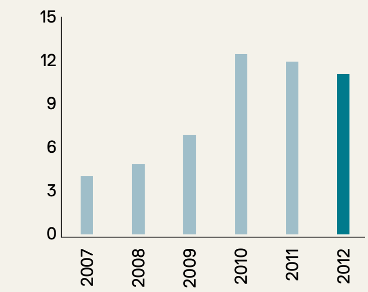
REVENUES
MNOK



EBITA
MNOK



EARNINGS PER SHARE
NOK



Left: Contracts with several shipyards for deliveries of advanced drilling ships and rigs provide further confirmation of our position in the market for advanced offshore.

Right: Successful NSM firings from vessels have once again demonstrated the missile's advanced qualities.

DEVELOPMENT IN THE BUSINESS AREAS

Kongsberg Maritime

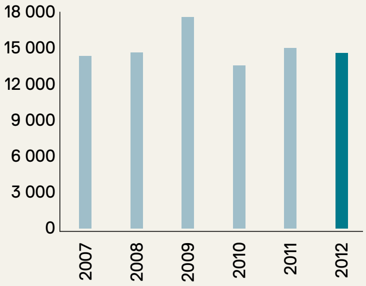
Amounts in MNOK	*2012*	*2011*
Revenues	7 485	6 693
EBITA	912	1 078
EBITA-margin	12.2%	16.1%

KM had good operations and strong inflow of orders in a market characterized by high competition. New orders were MNOK 8,438 in 2012, up by 15.1 per cent compared to 2011. Operating revenues increased by 11.8 per cent in 2012 and EBITA margin arrived at 12.2 per cent (16.1 per cent). Both the offshore and the subsea division increased their revenues compared to 2011. The Merchant Marine division had a decrease in revenues compared to last year. Despite a generally weak shipping market in 2012, the division has managed relatively well through a challenging year. The reduction in the EBITA-margin is among other things caused by change in product mix, general increase in cost base as well as an approx. MNOK 100 loss related to specific projects. KM enters 2013 with an order backlog of MNOK 6,042, an increase of MNOK 908 compared to the beginning of 2012. This provides a good basis for 2013.

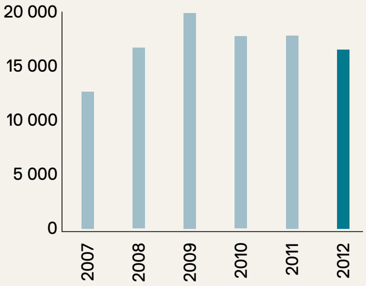
KM has in 2012 maintained and strengthened its market position. New orders have been especially good for supplies to offshore vessels. The business area also seems well positioned towards future offshore projects. Order inflow from the merchant fleet market has however been relatively low. Several important contracts are won during the year for deliveries to advanced rigs and drilling ships, liquefied natural gas (LNG) vessels, floating production and storage (FPSO) vessels as well as advanced construction vessels and seismic vessels. The business area has strengthened its position within deliveries to advanced offshore vessels (OSV) and standard platform supply vessels (PSV). KM's subsea division experienced good order inflow in 2012, especially for offshore related reference systems and within autonomous underwater vehicles (AUV), where the market position is strengthened, especially in the USA.

The recent years have been characterized by uncertainty in the global economy, which has also affected the markets of KM. KM's diversified product portfolio, strong order backlog and strong position in the merchant marine and

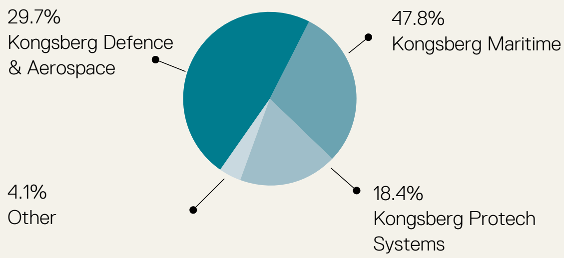
NEW ORDERS
MNOK



BACKLOG OF ORDERS
MNOK



DISTRIBUTION OF REVENUES



offshore market has nevertheless contributed to increase in the business area revenues, satisfactory results and good inflow of new orders during the past few years. KM equipment is installed in more than 15,000 vessels. This has led to a stable increase in activity related to aftermarket and customer support. In 2012, KM launched a new 24/7 customer support concept called "follow the sun". The concept exploits the business area's global presence and ensures 24 hours continuous support, which provides for expanded service support to the business area's clients.

The activities within seabed mapping, inspection, oceanography and fisheries segments are together with the aftermarket activities to a limited extent affected by the level of contracting at the shipyards. More than 60 per cent of KM's deliveries are related to the oil and offshore market. The good contracting within this segment along with the satisfactory order backlog in the business area, diversified product portfolio and growing aftermarket, provides a solid basis for the coming year.

Development of a business model where parts of the value creation are established close to the customers' activities and sailing pattern is a key element of the business' strategy for growth and customer satisfaction. As a consequence KM has, in recent years, established new offices, including India, China, Brazil, Greece, Mexico, Malaysia and Dubai. At the beginning of 2013, 2,025 (1,750) of KM's 4,163 (3,700) employees worked outside Norway. The international establishments put KM in a stronger position to ensure competent and effective local customer support and meet the ever increasing international competition.

The Norwegian marine and offshore industry has a strong position and is important for the export industry. The Board of Directors therefore emphasizes the need for an industrial policy by the government which promotes growth and development in this sector, including competitive conditions and financing solutions.

Kongsberg Defence Systems

Amounts in MNOK	*2012*	*2011*
Revenues	4 654	3 895
EBITA	381	263
EBITA-margin	8.2%	6.8%

KDS is in the implementation phase of large deliveries i.a. to the Poland coastal artillery, anti-aircraft defence to Finland and the NSM to Norway. The projects have developed as expected and have passed important milestones in 2012, contributing to nearly 20 per cent increase in revenues compared to 2011. All divisions have had an increase in revenues compared to 2011. The EBITA-margin ended at 8.2 per cent (6.8 per cent). The order inflow was MNOK 3,514 in 2012 (MNOK 4,061). KDS enters 2013 with an order backlog of MNOK 6,817 compared to MNOK 7,953 at the beginning of 2012. The order backlog is considered satisfactory and provides a solid foundation for the next years. The defence market is characterised by relatively few but substantial contracts, hence variations in order inflow is to be considered normal.

KDS has a modern product portfolio with several newly developed systems and products that are at the beginning of their life cycle. These include the anti-aircraft system NASAMS and the missiles NSM, which both are considered having a great market potential. The business area is at the moment in the development stage of the new missile JSM. JSM is planned adapted to the new F-35 Lightning II (Joint Strike Fighter). The development shows good progress and the Norwegian government announced in July that the USA has confirmed their support to integration of the missile in the F-35. This was an important milestone for KONGSBERG and confirms again the great potential in the project. The business area operates, and is well positioned within niche markets that are, to a smaller extent, expected to be affected by the reductions seen in defence budgets in many countries. During the year several important contracts were signed. Among the contracts that were signed are:

- Penguin missiles to Brazil
- Command and control system to The Royal Norwegian Navy's Ula-class submarines
- Contract for deliveries to NATO's Alliance Ground Surveillance program
- Combat system to The Norwegian Army's upgrade program of CV90 infantry fighting vehicle
- Contract with the South Korean shipyard Daewoo Shipbuilding & Marine Engineering (DSME) for delivery of components to the combat management systems of three new submarines

The business area delivers parts made by composite and titanium materials to the F-35 program. There have been some delays in these deliveries compared to initial plans, mainly due to lower scaling rate in the program as a whole.

KONGSBERG has over time, in cooperation with The Norwegian Armed Forces and The Norwegian Defence Research Establishment, developed systems for Norway that have proven to be competitive internationally. It is of great importance to the Group that this national partnership continues. The cooperation provides the Norwegian Armed Forces with a possibility to develop and deploy technology that is particularly suitable for Norwegian conditions as well as maintaining a quality and cost that allows for it to succeed in the international competition. The modern and technologically leading product portfolio, combined with the market opportunities identified for our products implies that the basis for growth is considered to be good for the years to come.

The international defence market is influenced by politics where customers of large defence systems are the defence authorities in the respective countries. These customers consider national security and domestic economic development as a significant factor, in addition to product price and performance when purchasing defence equipment. The market is not subject to international free trade agreements and is often characterized by more national protectionism than we see in most other industries. It is important for the Norwegian defence industry that the emphasis is on securing solid agreements in connection with the purchase of defence equipment from abroad – be it repurchase agreements, joint development agreements and agreements that ensure market access. When the Norwegian Armed Forces

Left: By winning the CROWS III contract, the position as world leading producer of weapons control systems is further strengthened.

Right: Through the acquisitions of Apply Nemo and Advali, the position as supplier of SW and HW to the oil and gas industry is strengthened.

make significant investments through foreign suppliers, this tie up a significant part of the defence budget and purchases from domestic suppliers may be negatively affected. To ensure military supplies that are well adapted to Norwegian conditions and a sustainable and competitive Norwegian defence industry, we emphasize the importance of Norwegian participation in such programs. Both the Government and the Parliament has emphasized the importance of industrial participation for Norwegian industry and that this is in line with international practice. Such participation for KONGSBERG also means increased activities in many of the business area's some 1,500 Norwegian subcontractors.

Predictability in the export regulations with respect to defence material and the application of the regulations also constitutes an important framework condition for KONGSBERG. KONGSBERG will continue to emphasize partnerships with major defence contractors and further increase the focus on supporting the local industry in our markets. Our position as an attractive defence supplier in the international market will continue to be based on close cooperation with the Norwegian Armed Forces. This cooperation is the platform for developing leading products that are necessary to a modern military defence.

Kongsberg Protech Systems

Amounts in MNOK	*2012*	*2011*
Revenues	2 876	4 185
EBITA	655	755
EBITA-margin	22.8%	18.0%

After many years of strong growth, KPS entered into a phase with lower volume in 2011. Revenues were further reduced in 2012, mainly caused by reduced demand due to that the largest client does no longer have major immediate needs. Revenues totalled MNOK 2,876, down from MNOK 4,185 in 2011. Despite reduction in revenues, the EBITA margin increased from 18.0 per cent in 2011 to 22.8 per cent in 2012. This is caused by several factors and can mainly be attributed to favourable product and project mix, reversal of accruals due to product improvements and change in accounting judgements related to guarantee liabilities. Several of the contracts delivered in 2012 are entered into at an earlier stage when the business area's cost level was higher. The efficiency improvement over the past few years has in addition to establishing a favourable cost level also made the business area more competitive in a situation where the price level is lower than what it has been historically. Order inflow was MNOK 1,957 in 2012 (MNOK 2,900). KPS enters 2013 with an order backlog at MNOK 3,218.

KPS has during the last decade developed into becoming the world leader of remotely-controlled weapons systems (RWS). There are contractual deliveries of more than 17,000 systems of which 15,000 are delivered to customers in 17 countries. The USA is, both directly with the U.S. Army and via vehicle suppliers, the largest customer. KONGSBERG's world leading position were further confirmed and strengthened in 2012. Contracts for the two largest RWS programs concluded in 2012, the American CROWS III program and the Canadian TAPV program, were both won by KONGSBERG.

KPS has in recent years invested heavily in the development of new products. The most important development program also for 2012 has been the MCRWS. This is an innovative, new remotely operated turret solution. MCRWS is considered having great market potential, also in new markets, and there is great interest for the product. Several successful demonstrations were performed in 2012, both in and outside of Norway, with many potential customers present. The product is now ready for sale. However, decision-making processes in this market seem to take more time than what has been experienced in the past few years, and there may still take some time before the first contract is signed. Contracts with larger delivery volumes will come at a later stage.

Other Activities

Other activities mainly consist of Kongsberg Oil & Gas Technologies (KOGT) and external sales related to property operations.

KOGT has had positive profit development in 2012 and has shown good increase in revenues compared to 2011. KOGT is a strategic priority for KONGSBERG with high-technology niche products for the oil and gas segment. During 2012 KOGT has acquired the company Advali as well as agreed on acquiring the company Apply Nemo, where the acquisition was completed in January 2013. Advali had revenues of MNOK 37 in 2012 and has its main activity in India. The company is specialised within various elements of the value chain for software development, specially aimed at the oil and gas market. The acquisition implies a strengthening of capacity, competence and efficiency within software development for KOGT. The acquisition of the Norwegian subsea technology company Apply Nemo contributes to a strengthened position as supplier of advanced engineering services, products and solutions for oil and gas installations at seabed. Apply Nemo had revenues of MNOK 274 in 2012 and is headquartered in Oslo. The company is well positioned both in the North Sea and in Australia. Since the founding in 1989, the company has developed to become a product-oriented organization offering substantial experience within subsea engineering as well as development and production of subsea products. The acquisitions strengthen KOGT's position as a supplier of software and hardware to the oil and gas industry.

In 2012, KOGT has further improved its position in the oil and gas market and is by its solutions for safer and more efficient operations well positioned to take further stakes in this market.

PROSPECTS FOR 2013

In recent years, KM has built up very good market positions, which it is expected to maintain in 2013 as well. The business area's markets are strongly impacted by trends in the offshore industry as well as in world trade in general. New orders for offshore-related vessels are expected to remain at a good level. Orders for new merchant vessels are still relatively slow, and that has had and will, over time, have an impact on KM's new orders from this segment. In the long term, it is expected that this segment will stabilise at a satisfactory level. The strengthening of the global after-market and customer support will continue to yield good results. At the same time, they are important components in KM's product portfolio. The strong influx of orders over the past year gives a good basis for KM's operating revenues again in 2013.

KDS has several major long term delivery programmes in the engineering and production phase, providing a good foundation for earnings again in 2013. The business area is exploring specific prospects for sales and for the further development of missiles, submarine systems and air defence. The development of the JSM is on schedule and may represent significant future potential for KONGSBERG. Operating revenues are expected to remain at a good level in 2013.

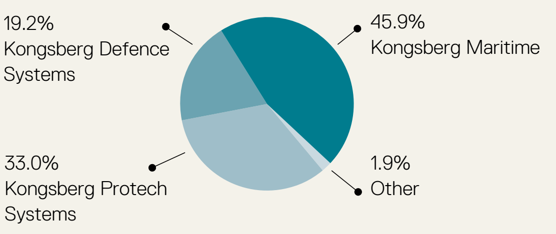
KPS has built up a very strong position on the world market for vehicle-based weapons control systems. This was further confirmed in 2012 by the awarding of the CROWS III contract in the USA and the TAPV contract in Canada. Customers' procurement decisions appear to be taking longer now than they used to in this market. KPS has expanded its product portfolio over the past year, among others with the MCRWS, and is considered to have a product portfolio that is well positioned for future needs. KPS enters into 2013 with a level of activity that is somewhat slower than what it has been in recent years. Sales in 2013 will to a greater extent consist of deliveries from recently signed contracts than what was the case in 2012. Among other things, the business area will start delivering on the CROWS III contract which has lower margins.

KONGSBERG has strengthed its positions in the shipping, offshore and defence markets in 2012. The Group has a good order backlog moving into 2013, providing a good foundation for operations.

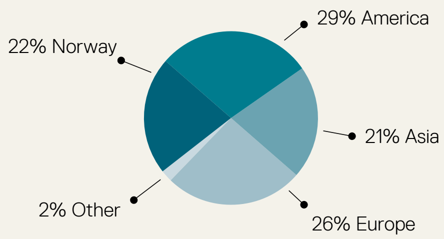
THE KONGSBERG SHARE AND SHAREHOLDERS

The price of the KONGSBERG's share increased from NOK 116.00 at the end of 2011 to NOK 124.50 at the end of 2012.

DISTRIBUTION OF EBITA



GEOGRAPHICAL DISTRIBUTION OF REVENUES



This gives a market cap at the end of 2012 at MNOK 14,940. Including the dividend of 3.75 per share in 2012, the return was just above 10 per cent. During the same period The All-Share Index (OSEBX) on the Oslo Stock Exchange had a positive trend of 15.4 per cent. As of 31 December 2012 KONGSBERG had 7,409 shareholders – an increase of 196 from the previous year. The Group had 858 (751) foreign shareholders who collectively owned 9.19 per cent of the shares (8.69 per cent). The Norwegian State, represented by the Ministry of Trade and Industry is the largest shareholder with a 50.001 per cent of the shares. The 10 largest shareholders had at the end of the year a total of 79.22 per cent (80.93) of the shares. Number of shares outstanding is 120 million, each with a nominal value of NOK 1.25.

KONGSBERG has paid dividends to its shareholders every year since its stock exchange listing in 1993, with the exception of 2000 and 2001. At the Annual General Meeting on 7 May 2012, it was decided to pay a dividend of NOK 3.75 per share for 2011. The Board of Directors will propose a dividend of NOK 3.75 per share for 2012 to the Annual General Meeting on 3 May 2013.

In 2012, a total of 10.7 million (13.7 million) KONGSBERG shares were traded in 31,931 (37,189) transactions. The company works actively to promote interest in the share through activities within the investor markets. KONGSBERG is regularly represented at road shows, meetings and conferences both in Norway and abroad. The goal for 2013 is to continue the high activity against the investor market. Investor presentations are held in connection with the quarterly reports, as well as an annual Capital Markets Day. In recent years the analyst coverage of the company has been strengthened. At year-end, 12 securities firms had active coverage of the share. In 2012 KONGSBERG was awarded prices for best company and best investor relations officer in class Mid Cap in the IR Nordic Markets competition. In addition the company won the NUES price for best reporting within corporate governance for the 2011 reporting.

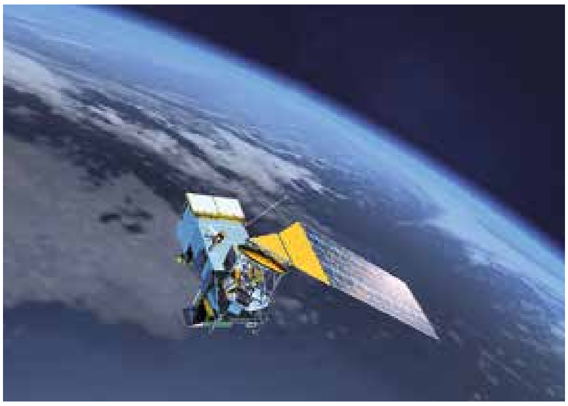
The Board of Directors believes that employee share ownership is positive. At 31 December 2012 more than 2,000 employees held approximately 3.5 million shares in total in KONGSBERG. This represents approximately three per cent of the shares. During the spring 2012, the Group's annual share program for employees was conducted for the fifteenth time. A total of 623,887 (412,314) shares were sold at a price of NOK 77.20 (20 per cent discount on the market price). 1,821 (1,933) employees took advantage of the offer.

RISK FACTORS AND RISK MANAGEMENT

KONGSBERG is exposed to different types of risks, and the Board of Directors monitors closely trends in the various risk areas. The administration prepares monthly operations reports and quarterly risk reports which are reviewed by the Board of Directors. In addition, the Board of Directors and the administration perform risk analyses when considering major investments, tenders, initiatives and acquisitions. The Board of Directors has an Audit Committee to support in their responsibilities related to accounting and relevant discretionary items, and to follow up internal control, compliance and risk management within the Group. The Audit Committee will, as a minimum, meet in connection with the issue of annual and interim financial statements. The Board of Directors is of the opinion that there is a good balance between the overall risk and the Group's capacity to deal with risk. The Group's value creation primarily consists of systems with high technological complexity. Deliveries are generally organized as projects. Effective management of projects is a key success factor in reducing operational risk. KONGSBERG has established goals for project management based on internal and external "best practice". Project managers attend an internal training program concerning this matter. The projects' revenues are based on contracts, and the uncertainty is mainly related to assessment of the remaining costs and determining the percentage of completion. The Group has established principles for categorization of projects in terms of technological complexity and development content. This forms the basis for assessment of "profit at risk" and recognition of revenue in the projects. "Profit at risk" is the result retained in the projects until uncertainty is resolved. KONGSBERG has a range of projects in progress and a strong order backlog. Cancellations within the shipyard industry, increased competition, decreased defence budgets in several countries and a general and lasting economic downturn have however increased the Group's risk and may over time influence the Group's level of activity. The Group operates in several markets which largely are affected by independent drivers. Cyclical fluctuations will influence these markets, both in varying extent and point of time.

Financial risk at KONGSBERG is managed centrally by guidelines for financial risk management adopted by the Board of Directors and included in the Group's financial policy. KONGSBERG is exposed to various financial risks and aims to balance the financial risk elements in order to promote predictability in the Group. The Group's financial risk management is described in detail in Note 5 "Financial risk management objectives and policies".

KONGSBERG has a diversified customer base which mainly consists of public institutions and larger private companies in a number of countries. Historically, the Group has had minor losses on receivables. The development in the global economy in general and shipbuilding and shipping industry in particular, has to some extent increased the credit risk in recent years. As a result, measures are taken to limit the risk exposure. The Group's liquidity risk is managed centrally by required renewal of loans well in advance of maturity as well as use of liquidity prognosis. Having a large portion of foreign customers and revenues in foreign currency, the Group's revenues are affected by fluctuations in exchange rates. KONGSBERG's currency policy implies that the contractual currency cash flows are mainly hedged using forward contracts (project hedges). Additionally, the Group hedges a portion of the expected new orders according to the established policy (project hedges). The policy regulates how much of the expected orders to be hedged, depending on the timing of the



Left: Good inflow of new orders within KONGSBERG's space related operations.

Right: KONGSBERG has a unique and strong culture that has been developed over several years. Common values and management principles are implemented for the entire Group.

expected orders and currency levels. In this manner, the Group seeks to mitigate the effects of currency fluctuations of up to two years.

KONGSBERG has for several years established and developed compliance functions at group level and within the business areas. Regulations and monitoring systems are established for managing risks related to areas such as anti-corruption, supply chain and whistle-blowing. Key policy documents are reviewed and updated on a regular basis. Training within the area of ethics and compliance are implemented throughout the organization, both in Norway and abroad. The Board of Directors considers KONGSBERG's compliance program to hold good international level and the Group is well prepared for these types of challenges.

TECHNOLOGY, RESEARCH AND DEVELOPMENT

A significant portion of the value created by KONGSBERG consists of the development of high-tech solutions to the domestic and international market. High competence and knowledge sharing are essential to the competitiveness. KONGSBERG's extensive knowledge within dynamic positioning is due to the expertise developed in connection with control systems for submarines and missiles. The Group's systems and products are mainly focused around four core areas of competence: signal processing, system integration, regulatory systems (cybernetics) and software development. KONGSBERG continuously invests in product development, both internally financed and customer-funded programs. Over time, the total costs of product development accounts for about 10 per cent of operating revenues.

CORPORATE SOCIAL RESPONSIBILITY

KONGSBERG shall represent a sustainable development characterised by a good balance between economic performance, creating value and social responsibility. The strategic and commercial choices made in the Group are based on a sustainable perspective.

The Board of Directors has adopted a revised policy for sustainability and corporate responsibility. The policy is built around two main elements: Commercial opportunities related to global megatrends, and sustainable technology and risk related to "license to operate" and global megatrends. In 2013 KONGSBERG will continue its strong focus on anti-corruption, monitoring of supplier network in relation to social responsibility, human rights, dialogue with stakeholders and follow-up of our climate strategy. Reference is made to the corporate responsibility report for a more detailed description of the Group's corporate social responsibility efforts. The report has been evaluated and approved by the Board of Directors.

HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

The Board of Directors is concerned that health, safety and environment are handled in a manner that promotes considerable job satisfaction and a good working environment. One basic principle is that the HSE work should be preventative.

The Board of Directors is closely monitoring the HSE work by quarterly reviewing HSE reports. During 2012 there has been a focus on HSE training, and further improvement of HSE reporting routines. The reporting routines of the foreign subsidiaries are good, and figures on sickness absence and accidents from the international offices are a natural part of the HSE report.

During 2012 there were 132 accidents within the Group of which 88 were near-accidents. Recorded injuries resulting in absence was five, while 124 injuries did not lead to absence. 37 events led to treatment. Total number of work related injuries with and without absence, TRI, was 17 in 2012, stable from 2011 when the number also was 17.

There are no registered occupational diseases or work-related fatalities during 2012. Total absence due to illness increased from 2.2 per cent in 2011 to 2.4 per cent in 2012.

All employees in Norway have access to company health services. This varies in accordance with local practices and legislation in our foreign business activities. KONGSBERG has many employees outside of Norway and the number has grown during 2012. This requires additional attention and insight with respect to HSE issues in the countries in which we operate.

CLIMATE AND ENVIRONMENT

KONGSBERG has for several years been active in identifying and reporting on climatic and environmental issues. The climate and environmental statement provide an overview of KONGSBERG's consumption of energy, CO_2 emissions and waste production. During 2012, energy consumption has increased by 7 per cent while CO_2 emissions are reduced by 12 per cent. It is uncertain whether the positive trend regarding CO_2 emissions will continue in 2013. Amount of waste has increased by 10 per cent. A detailed overview of the statement for 2012 could be found in the Group's report on sustainability for 2012, pages 28-30.

As of 2013, the Group is planning to introduce reporting of water consumption, due to our international presence and focus placed on critical level of groundwater many places around the world.

The Group also reports to the international framework "Carbon Disclosure Project" on issues related to climate changes and level of greenhouse gas related emissions.

No serious incidents related to environmental pollution has been reported during 2012.

PERSONNEL AND ORGANISATION

Number of employees	*31 Dec 2012*	*31 Dec 2011*
Kongsberg Maritime	4 163	3 700
Kongsberg Defence Systems	1 747	1 705
Kongsberg Protech Systems	724	834
Kongsberg Oil & Gas Technologies	506	325
Group centre	56	55
Kongsberg Teknologipark	63	62
Total	**7 259**	**6 681**
Share outside of Norway	**36%**	**32%**

KONGSBERG is continuously working on adapting the organization to the Group's markets. Efforts are made to develop the Group's international establishments. This is both cost effective and provides local presence and competitiveness. One of the Group's goals is that our international subsidiaries as far as possible should be staffed with local employees.

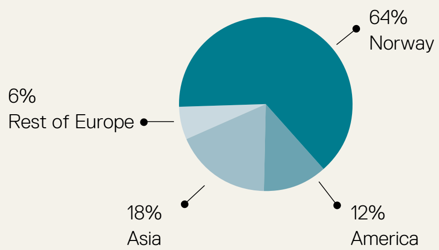
KONGSBERG has a unique and strong culture that has been developed over several years. Common values and management principles are implemented for the entire Group.

An important condition for long-term success is that KONGSBERG manages employees' competence in a good manner. A goal is to develop and increase the diversity within the Group, so that different experience, culture, education and way of thinking are represented. This helps to increase ability for renewal and provides for better decisions. The Group is aiming to increase the exchange of knowledge and staff between the business areas. Good work processes and development opportunities are important incentives in recruiting and retaining good employees. KONGSBERG emphasizes education, and is continuously working to develop and coordinate training for our employees.

KONGSBERG invests in leadership programs. High competence and capacity among the leaders of the Group is one of the most important elements in achieving KONGSBERG's strategy. Leadership@KONGSBERG has been developed in order for clarification and quality assurance of processes for goal setting, goal achievement and evaluation, and for ensuring a controlled development of the Group's global management capacity.

The Group educates skilled workers within several subject areas in cooperation with the education company Kongsberg Technology Training Centre AS where KONGSBERG are part-owners. During 2012 there were 13 apprentices in total. In addition, the company facilitates and stimulates for employees to acquire certificate of completed apprenticeship as private candidates, so called practice candidate. In 2012, five employees acquired certificated of completed apprenticeship according to this method.

GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES



KONGSBERG GRUPPEN

KONGSBERG is an international, knowledge-based group that supplies high-technology systems and solutions to customers in the oil and gas industry, merchant marine, defence and aerospace industries.

Headquarter	Kongsberg
Number of employees	7 259
Share of employees outside Norway	36%
Number of locations	25
Revenues outside Norway	78%

Cooperation with employee unions and organizations through established cooperation and representation arrangements are well functioning and constitutes valuable contributions in meeting the Group's challenges in a constructive manner. The Board of Directors has decided to pay a bonus of NOK 6,000 to all employees and thank all staff for their hard work during the year.

EQUAL RIGHTS

KONGSBERG has a personnel policy designed to ensure equal opportunities and rights, and to prevent discrimination on the grounds of ethnicity, national origin, skin colour, language, religion, philosophy of life, age or gender. 21.2 (20,9) per cent of the employees are women, and two of five shareholder-elected directors on the Board of Directors are women. As of 1 January 2013 two women are represented in the Corporate Executive Management. The Company is concerned with promoting gender equality and preventing discrimination in conflict with the Gender Equality Act. The Board of Directors considers the Group to be in compliance with current regulations.

As far as possible, KONGSBERG tries to adapt working conditions so that individuals with diminished functional abilities can work for the Group.

Some of KONGSBERG's operations include projects that require special security clearances for employees. In certain cases, this may place constraints on which individuals can be hired.

CORPORATE GOVERNANCE

KONGSBERGS's objective is to protect and enhance stakeholder value by engaging in profitable, growth-oriented industrial development in a long-term, international perspective. Good corporate governance and leadership will ensure the best possible value creation, at the same time as the Group's resources are to be used in an efficient, sustainable manner. Values created should benefit shareholders, employees, customers and society-at-large.

The Board of Directors emphasizes the importance of reviewing and updating the Group's corporate governance documents annually to comply with the "Norwegian Code of Practice for Corporate Governance". According to the Accounting Act § 3-3b, the company shall prepare a statement on corporate governance. The statement will, according to the Public Limited Companies Act § 5-4, be subject to treatment at the Annual General Meeting. The description on pages 76-87 is based on the latest revised version of the Norwegian Code of Practice for Corporate Governance of 23 October 2012.

SALARIES AND OTHER REMUNERATION TO SENIOR EXECUTIVES

The Board of Directors has a separate compensation committee which deals with all significant matters related to wages and other remuneration to senior executives subject to formal discussion and decision within the Board of Directors. In line with the Norwegian Companies Act, the Board of Directors has also prepared a statement on salary and remuneration to senior executives, included in Note 27 to the consolidated financial statements.

PROFIT FOR THE YEAR AND ALLOCATION OF NET PROFIT

The parent company Kongsberg Gruppen ASA had in 2012 a net profit of MNOK 269. The Board of Directors proposes the following allocation of net profit in Kongsberg Gruppen ASA:

Dividends	MNOK	450
From other equity	MNOK	(181)
Total allocated	MNOK	269

The proposed dividend account for approximately 34 per cent of the Group's net profit and is in line with the Group's dividend policy.

Kongsberg Gruppen ASA had, as of 31 December 2012, an unrestricted equity of MNOK 826.

GOING CONCERN

In compliance with the Norwegian Accounting Act § 3-3a, it is confirmed that the going concern assumptions continue to apply. This is based on forecasts for future profits and the Group's long-term strategic prognosis. The Group is in a healthy economic and financial position.

Kongsberg, 21 March 2013

Finn Jebsen
Chairman

Anne-Lise Aukner
Deputy chairman

Erik Must
Director

Irene Waage Basili
Director

John Giverholt
Director

Roar Marthiniussen
Director

Helge Lintvedt
Director

Kai Johansen
Director

Walter Qvam
President and CEO

FINANCIAL STATEMENTS AND NOTES

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KONGSBERG GRUPPEN (GROUP)

KONGSBERG GRUPPEN ASA

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER – Kongsberg Gruppen (Group)

MNOK	*Note*	*2012*	*2011*
Revenues	6	15 652	15 128
Total revenues		**15 652**	**15 128**
Cost of sales	7	(4 760)	(5 609)
Personnel expenses	8	(5 237)	(4 539)
Other operating expenses	28	(3 347)	(2 586)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**2 308**	**2 394**
Depreciation	10	(323)	(262)
Earnings before interest, taxes and amortisation (EBITA)		**1 985**	**2 132**
Amortisation	11	(119)	(97)
Impairment	11	(12)	
Earnings before interest and taxes (EBIT)		**1 854**	**2 035**
Financial income	13	59	49
Financial expenses	13	(82)	(76)
Earnings before taxes (EBT)		**1 831**	**2 008**
Income tax expense	14	(511)	(578)
Profit for the year		**1 320**	**1 430**
Attributable to			
Equity holders of the parent		1 325	1 431
Non-controlling interests		(5)	(1)
Earnings per share in NOK			
- profit for the year/profit for the year, diluted	15	11.05	11.93

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY–31 DECEMBER – Kongsberg Gruppen (Group)

MNOK	*Note*	*2012*	*2011*
Profit/loss for the year		**1 320**	**1 430**
Change in fair value			
- Cash flow hedges, currency	20C	110	(261)
- Available-for-sale shares	16	16	(12)
Actuarial gains/losses	9	(139)	(246)
Translation differences, currency		(63)	14
Taxes on items recognised in statement of comprehensive income	14	8	142
Comprehensive income for the period		**1 252**	**1 067**
Of which			
Equity holders of the parent		1 257	1 068
Non-controlling interests		(5)	(1)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

Kongsberg Gruppen (Group)

MNOK	*Note*	*2012*	*2011*
ASSETS			
Non-current assets			
Property, plant and equipment	10	2 602	2 430
Goodwill	11, 12	2 010	1 998
Other intangible assets	11	740	746
Available-for-sale shares	16	125	114
Other non-current assets	17	155	144
Total non-current assets		**5 632**	**5 432**
Current assets			
Inventories	7	3 465	3 274
Receivables	18	2 559	2 645
Construction contracts in progress, asset	19	1 327	799
Derivatives	20A	782	385
Cash and cash equivalents	21	2 509	3 083
Total current assets		**10 642**	**10 186**
Total assets		**16 274**	**15 618**
EQUITY, LIABILITIES AND PROVISIONS			
Equity			
Issued capital		982	982
Other capital reserves		122	90
Retained earnings		5 159	4 392
Equity attributable to owners of the parent		**6 263**	**5 464**
Non-controlling interests		11	20
Total equity	22	**6 274**	**5 484**
Non-current liabilities and provisions			
Long-term interest-bearing loans	20D	1 311	570
Pension liabilities	9	532	460
Derivatives	20A	9	6
Provisions	23	114	126
Deferred tax liability	14	847	609
Other non-current liabilities		73	105
Total non-current liabilities and provisions		**2 886**	**1 876**
Current liabilities and provisions			
Construction contracts in progress, liability	19	2 284	2 703
Derivatives	20A	49	330
Provisions	23	990	1 075
Short-term interest-bearing loans		-	322
Other current liabilities	24	3 791	3 828
Total current liabilities and provisions		**7 114**	**8 258**
Total liabilities and provisions		**10 000**	**10 134**
Total equity, provisions and liabilities		**16 274**	**15 618**

Kongsberg, 21 March 2013

Finn Jebsen
Chairman

Anne-Lise Aukner
Deputy Chairman

Erik Must
Director

Irene Waage Basili
Director

John Giverholt
Director

Roar Marthiniussen
Director

Helge Lintvedt
Director

Kai Johansen
Director

Walter Qvam
President and CEO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 1 JANUARY–31 DECEMBER – Kongsberg Gruppen (Group)

		Equity attributable to owners of the parent							Non-controlling interest	Total equity
		Issued capital		Other capital reserves			Retained earnings	Total		
MNOK	*Note*	*Share capital*	*Other issued capital*	*Hedge reserve*	*Shares at fair value*	*Translation difference, foreign exchange*				
Equity at 1 Jan 2011		**150**	**832**	**300**	**12**	**(36)**	**3 599**	**4 857**	**24**	**4 881**
Profit for the year							**1 431**	**1 431**	**(1)**	**1 430**
Statement of comprehensive income				**(188)**	**(12)**	**14**	**(177)**	**(363)**		**(363)**
Trading in treasury shares		-	-				(6)	(6)	-	(6)
Dividends	22						(450)	(450)		(450)
Purchase, non-controlling interests							(5)	(5)	(2)	(7)
Dividends, non-controlling interests								-	(1)	(1)
Equity at 31 Dec 2011		**150**	**832**	**112**	**-**	**(22)**	**4 392**	**5 464**	**20**	**5 484**
Equity at 1 Jan 2012		**150**	**832**	**112**	**-**	**(22)**	**4 392**	**5 464**	**20**	**5 484**
Profit for the year							**1 325**	**1 325**	**(5)**	**1 320**
Statement of comprehensive income				**79**	**16**	**(63)**	**(100)**	**(68)**		**(68)**
Trading in treasury shares		-	-			-	(6)	(6)	-	(6)
Dividends	22	-	-			-	(450)	(450)	-	(450)
Purchase, non-controlling interests							(2)	(2)	(2)	(4)
Dividends, non-controlling interests								-	(1)	(1)
Translation differences non-controlling interests								-	(1)	(1)
Equity at 31 Dec 2012		**150**	**832**	**191**	**16**	**(85)**	**5 159**	**6 263**	**11**	**6 274**

CONSOLIDATED CASH FLOW STATEMENT 1 JANUARY–31 DECEMBER

Kongsberg Gruppen (Group)

MNOK	*Note*	*2012*	*2011*
Profit for the year		**1 320**	**1 430**
Depreciation on property, plant and equipment	10	323	262
Amortisation and impairment of intangible assets	11	131	97
Net financial expenses	13	23	27
Income tax expense	14	511	578
Earnings before tax, depreciation and amortisation		**2 308**	**2 394**
Adjusted for			
Changes in construction contracts in progress, asset		(939)	307
Changes in construction contracts in progress, liabilities		(419)	(52)
Changes in other current liabilities		(132)	605
Changes in inventories		(192)	(199)
Changes in receivables		(52)	(818)
Change in provisions and other accrual items		31	50
Income tax paid		(398)	(644)
Net cash flow from operating activities		**207**	**1 643**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment	10	13	4
Purchase of property, plant and equipment	10	(536)	(438)
Capitalised internal development of intangible assets	11	(114)	(121)
Purchase of intangible assets	11	(7)	(6)
Net cash flow upon acquisition of subsidiaries	29	(63)	(226)
Net payment of loans and buying/selling of shares		(6)	(12)
Net cash flow from investing activities		**(713)**	**(799)**
Cash flow from financing activities			
Proceeds from loans	20D	419	45
Interest received		47	45
Interest paid		(41)	(38)
Purchase of treasury shares		(19)	(19)
Transactions with non-controlling interests		(5)	(8)
Dividends paid	22	(450)	(450)
Net cash flow from financing activities		**(49)**	**(425)**
Total cash flow		**(555)**	**419**
Effect of changes in exchange rates on cash and cash equivalents		**(19)**	**4**
Net change, cash and cash equivalents		**(574)**	**423**
Cash and cash equivalents, beginning of year		**3 083**	**2 660**
Cash and cash equivalents, end of year	21	**2 509**	**3 083**

NOTES

Kongsberg Gruppen (Group)

1 GENERAL INFORMATION

Kongsberg Gruppen ASA (KONGSBERG) is a public limited liability company headquartered in Kongsberg, Norway. The company's shares are traded on the Oslo Stock Exchange. The Board of Directors approved KONGSBERG's consolidated financial statements for the year ended at 31 December 2012 at its meeting on 21 March 2013. The consolidated financial statements for 2012 include the parent company and subsidiaries (collectively referred to as "KONGSBERG" or "the Group"), as well as the Group's investments in associates and jointly controlled entities.

2 BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements are presented in Norwegian kroner (NOK), and all figures have been rounded off to the nearest million, unless otherwise specified.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as the Norwegian disclosure requirements ensuing from the Accounting Act applicable at 31 December 2012. The IFRS, as adopted by the EU, differs in certain areas from the standards issued by the International Accounting Standards Board (IASB). However, it would not have had any effect on the current consolidated financial statements if KONSBERG had used the IFRS standards issued by IASB.

The consolidated financial statements have been prepared on a historical cost basis except for the following assets and liabilities:

- Financial derivatives (forward contracts, currency options and interest swap agreements), measured at fair value
- Financial available-for-sale assets, measured at fair value

Significant accounting judgement, estimates and assumptions

During the preparation of the financial statements, the company's management has applied its best estimates and assumptions considered to be realistic based on historical experience. The estimates are reviewed on an ongoing basis. Situations can arise which alter the estimates and assumptions, which will affect the company's assets, liabilities, revenues and expenses. Changes in estimates are recognised in the period in which they occur.

For more detailed information about significant accounting estimates that could have a significant impact on the amounts recognised in the following financial year, please see the following notes:

- Revenue recognition, estimates of progress and contract profit in connection with construction contracts, cf. Note 3 C) "Summary of significant accounting policies – Revenue recognition" and Note 19 "Construction contracts in progress"
- Estimates of whether internally financed development will generate future financial benefits, cf. Note 3 F) "Summary of significant accounting policies – Intangible assets" and Note 11 "Intangible assets"
- Impairment test of goodwill, including the calculation of recoverable amounts from cash-generating units, cf. Note 12 "Impairment test of goodwill"
- Estimates related to pension liabilities, cf. Note 9 "Pensions"
- Estimates related to impairment on trade receivables, cf. Note 18 "Accounts receivable"
- Estimates related to impairment losses on the carrying amount of construction contracts, cf. Note 19 "Construction contracts in progress"
- Estimates related to future warranty commitments and other provisions, cf. Note 23 "Provisions"

In the preparation of the financial statements, management has made some significant and critical judgments relating to the application of accounting principles

For more details about significant areas requiring critical judgments relating to the application of accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements, reference is made to the following notes:

- Revenue recognition of construction contracts, cf. Note 3 C) "Summary of significant accounting policies – Revenue recognition" and Note 19 "Construction contracts in progress"
- The application of the principles for capitalising expenses related to development, cf. Note 3 F) "Summary of significant accounting policies – Intangible assets" and Note 11 "Intangible assets"
- Financial instruments, including hedge accounting (fair value or cash flow hedges), cf. Note 3 J) "Summary of significant accounting policies – Financial instruments" and Note 20 "Financial instruments"
- Sale and leaseback related to property, assessment of operational versus financial leases, cf. Note 3 H) "Summary of significant accounting policies – Leases, Sale and leaseback" and Note 26 "Sale and leaseback"

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Basis for consolidation

Subsidiaries

The companies in which KONGSBERG has control are recognised in the consolidated financial statements as subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is usually achieved when the Group, directly or indirectly, holds more than 50 per cent of the shares in the entity, or when the Group is able to exercise control over the entity through agreements or statutes. In assessing control, potential voting rights that can be exercised immediately or are convertible, is taken into consideration.

On initial recognition subsidiaries are measured at their fair value on the date of acquisition. Fair value is allocated to the identified assets, liabilities and contingent liabilities. The unallocated purchase price is classified as goodwill. New subsidiaries are included in the consolidated financial statements from the date of acquisition. The date of acquisition is the date where KONGSBERG obtains control of the acquired company. Normally, control will be achieved when all the terms of the agreement are satisfied. Examples of contingencies can be the approval of the Board of Directors, the General Meeting or the competition authorities. For business combinations achieved in stages, the financial statements are based on the values at the time the Group obtained control. Goodwill is calculated at the time control is obtained. On each individual acquisition, it is decided whether goodwill should be limited to KONGSBERG's proportionate share or to include non-controlling interests. Entities that constitute the Group are listed in Note 30 "List of Group Companies".

Contingent considerations to be disbursed at a later date when certain conditions of the acquisition are met are recognised at fair value on the date of the acquisition. Subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognized according to IAS 39 on either the income statement or the statement of comprehensive income.

Transaction costs incurred in connection with the business combination are recognised as expenses on an ongoing basis.

Elimination of transactions

All intra-group balances and unrealised gains and losses that arise between Group entities are eliminated in full. Unrealised losses are eliminated correspondingly, unless they are related to impairment which requires that they are included in the consolidated financial statements.

Non-controlling interests

Non-controlling interests are included in the Group's equity as a separate line item. Its portion of the result is included in the profit for the year. Non-controlling interests include the portion of the fair value of the subsidiary, including its share of identified excess value on the date of acquisition. The portion of the comprehensive income is attributed to the non-controlling interest even if that results in a deficit balance.

B) Foreign currency

The Group`s consolidated financial statements are presented in NOK (Norwegian kroner), which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Upon initial recognition, foreign currency transactions are measured in the functional currency on the date of the transaction. Construction contracts are hedged and recognised based on the hedged exchange rate (project hedges). Trade receivables, other receivables, accounts payable and other financial liabilities in foreign currency are retranslated at the functional currency spot rate at the reporting date and currency differences are recognised in the income statement. Differences that arise from the restatement of cash flow hedges, and which satisfy the criteria for hedge accounting are recognised as change in fair value on cash flow hedges in the statement of comprehensive income (OCI). The effect is reflected in the income statement upon realization of the cash flow hedges. (Further information is included under 3J "Financial instruments").

Gains and losses related to foreign exchange items in the normal operating cycle are included in earnings before interest, taxes, depreciation and amortisation. Other gains and losses related to items in foreign currency are classified as financial income or expenses.

Translation – foreign subsidiaries

Assets and liabilities of foreign operations in functional currencies other than NOK are translated into NOK at the rate of exchange prevailing at the reporting date. Revenues and expenses in foreign currencies are translated into NOK at the average exchange rates during the reporting period. The translation differences are recognised in the statement of comprehensive income. Upon the disposal of a foreign entity resulting in KONGSBERG no longer having control, the accumulated translation differences are recognised in the income statement and reversed at the same time in the statement of OCI. Translation differences are not recognised in the income statement in connection with the partial disposal of subsidiaries provided that the Group has continued control.

C) Revenue recognition

In connection with revenue recognition, KONGSBERG distinguishes between construction contracts/system deliveries, goods/standard production/services and licensing with related services.

Construction contracts/system deliveries

KONGSBERG's operations consist mainly of developing and manufacturing products and systems based on orders received. A construction contract is a contract negotiated for the construction of an asset or a combination of assets that are closely related or interdependent. KONGSBERG has applied the following criteria to define a construction contract:

1. A binding contract negotiated individually which takes a customer's special requirements into account
2. Construction based on the customer's specifications which entail individual design and/or development
3. The contract is enforceable and cancellation will require the customer to cover the expenses incurred in connection with construction at the very least
4. Construction takes place over several accounting periods
5. The various elements/components/services in the contract cannot be sold separately

Contracts that do not meet the definition of construction contract are recognised as ordinary sale of goods at the time of delivery.

Recognition of project revenues and expected contract profit is calculated from the individual project's percentage of completion. The percentage of completion is normally set on the basis of costs incurred in relation to the total expected costs. In some cases other progress measures can be used if this provides a better estimate of the actual progress and value added in the project.

Accumulated value of contracts in progress is included in revenues. In the statement of financial position, accumulated value not invoiced are reported in the balance sheet under "Construction contracts in progress, assets". Accumulated value is based on the percentage of completion and determined as incurred production costs in addition of a proportion of earned contract profit. Production costs include direct wages, direct materials and a proportionate share of the individual business areas' indirect costs, distributable by projects. General development costs, sales costs and common administrative costs are not included in production costs.

Recognised accrued contract profit shall not exceed a proportional share of the estimated total contract profit. If the profit on a contract cannot be estimated reliably, the project will be recognised without a profit until the uncertainty is sufficiently reduced. When it is probable that total contract costs will exceed total contract revenue the expected loss is recognised immediately. A construction contract is expected to be an onerous contract when the estimated costs exceed the expected remaining revenues in the contract.

The carrying value of construction contracts are presented in the statement of financial position based on an assessment of the financial status of the individual construction contracts. Classification is done on a contract-to-contract basis unless there is an agreement regarding setoffs. If so, the contracts can be considered together. All balances are netted for each construction contract in the financial statements and presented on one line in the statement of financial position. Each contract is presented as either "Construction contracts in progress, asset" or as "Construction contracts in progress, liability". Accounts receivable related to construction contracts are netted to balance sheet items to the extent that the construction contract has recorded prepayments (billing exceeds accumulated earnings). The balance items will therefore only contain actual advances received.

Additional contractual services and estimated additional costs are included in the original project costs estimate and recognised in line with the overall project. Construction contracts that involve one or more similar deliveries are recognised with similar contract profit and at the same stage of completion if a contract has been signed, or in several contracts concluded with the same buyer at the same time, and where the deliveries not could have been negotiated separately on the same terms. In special cases, work on projects will commence and expenses will be incurred before a contract has been signed with the customer. This requires a high probability that the contract will be signed.

Goods/standard production/services

The ordinary sale of goods and standard production not covered by a construction contract are usually recognised on an accrual basis, which is usually upon delivery. Delivery is considered complete when the most significant risks and returns for the delivered goods are transferred to the customer.

In addition to assuming the risks and rewards, the following criteria must be satisfied for recognition:

– It is probable that the consideration can be collected
– The revenue can be measured reliably

The amount recognised is measured as the fair value of the consideration or receivable. Services that are delivered but are not part of a construction contract or licensed sales are recognised as revenue incrementally as the service is provided, as described under "construction contracts/system deliveries".

License revenues

The Group also sells licenses for the use of software systems. License revenues are normally recognised on a systematic manner on an accrual basis, which is usually when the system is delivered to the buyer. The date of delivery is defined as the date on which the risk and rewards are transferred to the customer.

If the sale of the license depends on customer acceptance, license revenues will not be recognised until the customer has accepted. In cases that involve adaptations or additional work, the total contract amount, including consideration for the licenses, is recognised as revenue at the same stage of completion as deliveries, as described under "construction contracts/system deliveries". Maintenance and service/support are recognised as revenue incrementally as the service is performed or on a straight-line basis during the period in which the service is performed.

Combined deliveries of goods, services and license sales

The recognition criteria are applied separately for each transaction. In case of combined deliveries with different recognition criteria, the various elements are identified and recognised as revenue separately. Regarding sale of goods with accompanying maintenance services, the goods are recognised as revenue upon delivery, while the maintenance services are recognised as deferred revenue and recognised as revenue over the period in which the service is performed.

When market prices can be obtained for the various elements to be delivered, the revenue is based on these prices and the stipulated price of the license will be recognised upon delivery. For service and maintenance, the stipulated price of the service will be deferred and recognised on a straight-line basis over the period in which service and maintenance are performed.

Upon the sale of different elements where no market prices can be obtained, KONGSBERG has the following principles for recognition and measurement of revenue:

- Identification of the various elements for delivery, e.g. license, service, maintenance and consultancy services
- Projected costs are estimated for each element, e.g. service, maintenance and consultancy services. Further, a reasonable profit margin is estimated on the various elements. The method and the assumptions for estimation must be consistent from one period to the next
- The estimated cost plus the profit margin will be deferred revenue and recognised on a straight-line basis throughout the period in which the services are performed
- The contract amount, less estimated revenue from the abovementioned elements, is estimated as license revenue and recognised upon delivery

D) Taxes

Income tax expense in the financial statements includes tax payable and the change in deferred tax for the period. Assets and liabilities associated with deferred tax are calculated using the liability method. Deferred tax is calculated on net tax-increasing temporary differences between the values used for accounting purposes and those used for taxation purposes, adjusted for deductible temporary tax-reducing differences and tax losses carried forward if this satisfies the requirements in IAS 12.71.

Revenue from long-term construction contracts where KONGSBERG is responsible for performance is not recognised for tax purposes until the risk and reward has been transferred to the customer. Due to KONGSBERG's volume of large, long-term contracts, there are considerable temporary differences.

Deferred tax assets are only recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. Deferred tax assets are assessed for each period and will be reversed if it is no longer probable that the deferred tax asset will be utilised.

E) Financial income and financial expenses

Financial income compromises interest income, dividends, foreign currency gains, changes in value of assets to fair value through the profit and loss, and gains on disposals of "Available-for-sale shares" where the changes in value are recognised as other income and expenses in statement of other comprehensive income (OCI). Interest income is recognised as it accrues using the effective interest method, while dividends are recognised on the date on which the Annual General Meeting approves the dividend.

Financial expenses compromise interest expenses, foreign currency losses, impairments on available-for-sale shares, changes in the value of assets to fair value through profit and loss, and losses on sale of assets available for sale where changes in value are recognised directly in the statement of comprehensive income. Interest expenses are recognized gradually as they accrue using the effective interest method.

F) Intangible assets

Goodwill

Goodwill arises in acquisition of a business (business combination) and is not depreciated. Goodwill is recognised in the statement of financial position at cost less any accumulated impairment losses. Goodwill does not generate cash flows independent of other assets or groups of assets and is allocated to the cash-generating units that are expected to gain financial benefits from the synergies that arise from the business combination from which the goodwill is derived. Cash-generating units that are allocated goodwill are tested for impairment annually at the end of the year, or more frequently if indication of impairment.

Goodwill is tested for impairment by estimating the recoverable amount for the individual cash-generating unit or group of cash-generating units that are allocated goodwill and followed up by management. The group of cash generating units is in any case no larger than an operating segment as defined by IFRS 8 Operating segments.

Impairment is calculated by comparing the recoverable amount with the individual cash-generating unit's carrying amount. The recoverable amount is the higher of value in use or net realisable value. The Group uses the value in use to determine the recoverable amount of the cash-generating units. In determining the value in use, the expected future cash flows are discounted to net present value using a discount rate before tax that reflects the market's target for a return on investments for the cash-generating unit in question. If the value in use of the cash-generating unit is less than the carrying amount, impairment reduces the carrying value of goodwill and then the carrying value of the unit's other assets on a pro rata basis, based on the carrying value of the individual assets. Impairment on goodwill is not reversed in a subsequent reporting period even if the recoverable amount of the cash-generating unit increases. Any impairment will be recognized through profit and loss in the financial statements. Impairment testing of goodwill is described in Note 12 "Impairment test of goodwill ". See also description 3 I) "Summary of significant accounting policies – Impairment of non-financial assets".

Development

Costs related to development activities, including projects in the development phase, are recognised in the balance sheet if the development activities or project meet the defined criteria for capitalisation. Development comprises activities related to planning or designing the production of new or significantly improved materials, devices, products, processes, systems or services before the start of commercial production or use. In the assessment of whether a project constitutes the development of a new system, functionality or module, what is being developed must be able to operate independently of existing systems/ products that are sold. KONGSBERG has considered the criteria for significant improvements to be an increase of more than 20 per cent in value from before development or in relation to the replacement cost of the system. The capitalisation of development costs requires that those costs can be measured reliably, that the product or process is technically and commercially feasible, that future financial benefit is probable and that KONGSBERG intends to and has sufficient resources to complete development, and to use or sell the asset. Other development costs are expensed as they are incurred.

When the criteria for balance sheet recognition are met, accrued costs are recognised in the balance sheet. Costs include the cost of materials, direct payroll expenses and a portion of directly attributable overhead costs. Capitalised development costs are recognised on the balance sheet at acquisition cost less accumulated amortisation and impairment loss. Amortisation is based on expected useful life, based on the total production units or number of years. The remaining expected useful life and expected residual value are reviewed annually.

The calculation of financial benefits is based on the same principles and methods as for the impairment testing. This is based on long-term budgets approved by the Board. For more details about estimation, see Note 11 "Intangible assets".

Assessments of the fulfilment of the criteria for capitalising development costs take place on an ongoing basis throughout the completion of the development projects. Based on technical success and market assessments, a decision is made during the development phase whether to complete development and start capitalisation.

Maintenance

Maintenance is the work that must be performed on products or systems to ensure their expected useful life. If a significant improvement is made on the product or system that leads, for example, to a prolongation of the life cycle, or if the customer is willing to pay more for the improvement, this is to be considered as development. Costs related to maintenance are expensed as incurred.

Technology and other intangible assets

Technology and other intangible assets acquired and which have determined useful life are measured at cost less accumulated amortisation, as well as accumulated impairment losses.

Amortisation is determined on expected useful life based on total production units or number of years. The expected useful life and the stipulated amortisation rate are reviewed during each period.

G) Property, plant and equipment

Property, plant and equipment are recognised at cost, net of accumulated depreciation and/or any accumulated impairment losses. Such cost includes expenses that are directly attributable to the acquisition of the assets. Property, plant and equipment are depreciated on a straight-line basis over their expected useful life. When individual parts of a property, a plant or equipment have different useful lives, and the cost is significant in relation to total cost, these are depreciated separately. Expected residual value is taken into account when stipulating the depreciation schedule.

The remaining expected useful life and expected residual value are reviewed annually. Gains or losses upon disposal of property, plant and equipment are the difference between the sales price and the carrying amount of the unit, and recognised net as other income in profit and loss. Expenses incurred after the asset is in use, e.g. day- to-day maintenance, are expensed as they are incurred. Other expenses which are expected to result in future economic benefits and can be measured reliably, are capitalised.

H) Leases, sale and leaseback

Leases or sales with leaseback where KONGSBERG generally takes over all risk and all benefits related to ownership, are classified as financial leases. On initial recognition, the asset is measured at the lower of fair value and net present value of the agreed minimum rent. After initial recognition, the same accounting policies are used as for the corresponding asset.

Other leases are operational leasing agreements and are not recognized on the Group's balance sheet. KONGSBERG's sale and leaseback agreements are considered to satisfy the criteria for operational leasing agreements. Where a sale and leaseback agreement is defined as an onerous contract according to IAS 37, the present value is added into the expected loss.

I) Impairment of non-financial assets

All non-financial assets are reviewed for each reporting period to determine whether there are indications of impairment. Where indications of impairment exist, recoverable amounts are calculated.

The recoverable amount of an asset or cash-generating unit is the highest of its value in use or fair value less net cost to sell. Value in use is calculated as the net present value of future cash flows. The calculation of net present value is based on a discount rate before tax and reflects current market assessments of the time value of money and the risks specific to the asset. The pre-tax discount rate has been stipulated using an iterative method.

Impairment is recognised if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group that generates a cash inflow that is largely independent of other assets or groups. Impairment related to cash-generating units is intended first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. These assets will normally be property, plant and equipment, and other intangible assets. Where the individual asset does not generate independent cash inflows, the asset is grouped with other assets that generate independent cash inflows.

Non-financial assets which have been subject to impairment losses are reviewed during each period to determine whether there are indications that the impairment loss has been reduced or no longer exists. Reversal of previous impairment is limited to the carrying value the asset would have had after depreciation and amortisation, if no impairment loss had been recognised.

J) Financial instruments

Financial assets and liabilities

Financial assets and liabilities consist of derivatives, investments in shares, accounts receivable and other receivables, cash and cash equivalents, other financial liabilities, accounts payable and other liabilities. A financial instrument is recognised when the Group becomes party to the instrument's contractual provisions. Upon initial recognition, financial assets and liabilities are assessed at fair value plus directly attributable expenses. The exception is financial instruments, where changes in fair value are recognised through profit and loss, and directly attributable costs are expensed. An ordinary purchase or sale of financial assets is recognized and derecognised from the time an agreement is signed. Financial assets are derecognised when the Group's contractual rights to receive cash flows from the assets expire, or when the Group transfers the asset to another party and does not retain control, or transfers practically all risks and rewards associated with the asset.

Financial liabilities are derecognized when the Group's contractual obligation has been satisfied, discharged or cancelled.

Classification

The Group classifies assets and liabilities upon initial recognition based on the intended purpose of the instrument. The Group classifies financial assets in the following categories:

i) Fair value through profit and loss
ii) Loans and receivables
iii) Available-for-sale financial assets
iv) Financial liabilities

Financial derivatives are included in the category 'fair value through profit and loss', also if the derivative has a negative value.

Receivables and liabilities related to operations are measured at their amortised cost, which in practice implies their nominal value and provision for expected losses.

Except for investments in subsidiaries, joint ventures or associates in the statement of financial position on the date of the balance sheet, all shares are defined as financial instruments available for sale. Availablefor-sale financial assets are measured at fair value on the date of reporting. Changes in the value of available-for-sale financial assets are recognised in the statement of comprehensive income (OCI), except for impairments, which are recognised through profit and loss. See Note 4 "Fair value" for a more detailed description of how fair value is measured for financial assets and liabilities.

The company's financial liabilities are recognised at amortised cost, except for financial derivatives, which are recognised at fair value through profit and loss.

Impairments on financial assets

When there is objective evidence that a financial asset's value is lower than its cost, the asset will be written down through profit and loss. Impairment in the value of assets measured at amortised cost is calculated as the difference between the carrying amount and the net present value of the estimated future cash flow discounted by the original effective interest rate. Regarding available-for-sale assets, an asset is impaired when its present fair value is lower than its cost and the impairment is considered significant or prolonged. Ordinarily, KONGSBERG would assume that an impairment of more than 20 per cent of the cost is significant and that a prolonged decline in value as one lasting for more than nine months is not of a temporary nature. The assessment is based on the impaired value.

Accumulated losses recognised in the statement of comprehensive income will also be transferred through profit and loss on the impaired assets. Impairment is reversed if the reversal is related to a significant rise in the value 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 and loss. Upon the reversal of financial assets that are investments in equity instruments, the change in value will be recognised in the statement of comprehensive income (OCI).

Derivatives

Derivates in KONGSBERG comprise forward foreign exchange contracts, currency options and interest swap agreements. Upon initial recognition, derivatives are measured at fair value, and identifiable transaction costs are recognised through profit and loss as they incurred. Changes in the fair value of derivatives are recognised through profit and loss, unless they qualify for hedge accounting.

Hedging
KONGSBERG has as policy to limit currency risks, while taking a pro-active position on the importance of a currency as a competitive parameter. KONGSBERG's policy is to hedge all contractual foreign currency cash flows (project hedges). Additionally, parts of future projected currency cash flows are hedged in accordance with an established strategy (prognosis hedges). KONGSBERG has hedged parts of its obligations with interest rate swaps involving a switch from floating to fixed interest rates (interest rate hedges).

At initial recognition of the hedge transaction, KONGSBERG determines whether a derivative (or another financial instrument) should be used to:

i) Hedge the fair value of a recognised asset or liability or a firm commitment (project hedges)
ii) Hedge a future cash flow of a recognised asset or liability, or an identified highly probable forecast transaction (prognosis hedges and interest rate hedges)

(i) Fair value hedges (project hedges)
The change in fair value of the hedged item is recognised in the income statement for the change in value that is hedged. For currency hedges of future contractual transactions, this implies that the changes in value on the future transaction associated with changes in the foreign exchange rate are recognised in the statement of financial position. When it comes to construction contracts, this means that the part of the contract that is accrued is recognised at the current exchange rate, while the part of the contract that is not accrued is recognised as a gain or loss in connection with changes in the foreign exchange rate. Since the hedge instrument also is recognised at fair value, this entails symmetrical recognition of the hedged item and the hedge instrument. Overall this means that construction contracts are recognised at the hedged exchange rate.

Hedge accounting ceases in the event:

(a) The hedging instrument expires, or is terminated, exercised or sold
(b) The hedge no longer satisfies the above-mentioned hedge accounting criteria or
(c) The Group decides to discontinue hedge accounting for other reasons

In connection with fair value hedges of financial assets or liabilities recognised at amortised cost, the change in the value of the hedge instrument is amortised during the remaining period up to maturity of the hedged item.

(ii) Cash flow hedges (prognosis hedges and interest rate hedges)
By hedging highly probable future cash flows, the effective part of the change in fair value of the hedge instrument is recognised in the statement of comprehensive income for the period.

When a hedged transaction occurs, the accumulated change in value of the hedging instrument is transferred from the statement of comprehensive income and taken through profit and loss.

If hedging a highly probable forecast transaction subsequently leads to recognition of a asset or liability, the gain or loss will be reclassified from the statement of comprehensive income to profit and loss during the same period(s) in which the asset or liability affects profit or loss, e.g. over the period of depreciation for an asset.

In connection with hedges where the future transaction becomes a construction contract, the hedges are allocated to contracts at signing and occasionally rolled forward. Gains and losses are recognised in line with the contract`s percentage of completion. This means that construction contracts that are hedged before signing is recognised to the originally hedged exchange rate, as could be before the contract was signed.

In connection with cash flow hedges of financial obligations, the change in value is transferred from the statement of comprehensive income to profit and loss during the term of the liability.

If a hedging instrument expires without being rolled forward or if the hedge relationship is discontinued, the accumulated gains and losses are recognised directly through profit and loss when the hedged transaction takes place. If the hedged transaction is no longer expected to occur, the accumulated unrealised gains or losses on the hedge instrument previously recognised in the statement of comprehensive income are recognised through profit and loss immediately.

Follow-up of hedging effectiveness
The current forward contracts are expected to be effective throughout the entire period. KONGSBERG rolls forward contracts forward from prognosis to project hedging upon signing the contracts. In addition, forward contracts (project hedges) are rolled over in cases where receipts/ payments take place later than originally anticipated. At shorter time differences between the maturity of the forward contracts and the receipts/ payments KONGSBERG uses bank accounts in foreign currency, so that the exchange of foreign currency from the foreign currency bank account falls within the same period as the final maturity of the forward contract or the receipts/ payments. Hedging effectiveness will therefore be very high throughout the period.

K) Classification
Assets related to normal operating cycles for goods/services or that fall due within 12 months are classified as current assets. Other assets are classified as non-current. Similarly, liabilities related to normal operating cycles for goods/services or fall due within 12 months are classified as current liabilities. Other liabilities are classified as non-current.

L) Inventories
Inventories are measured at the lower of cost and net realisable value. For raw materials and work in progress, net realisable value is calculated as the estimated selling price in ordinary operations of finished products less remaining production costs and the costs of the sale. For finished goods, net realisable value is the estimated selling price in ordinary operations less estimated costs of completion of the sale. For work in progress and finished products, the acquisition cost is calculated as direct and indirect costs. Inventories are valued based on the average acquisition cost.

M) Receivables
Trade receivables and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less impairment. However, due to the brief term to maturity, accounts receivable and other receivables will in practice be recognized at their nominal values less impairment. Accounts receivable in foreign currencies are recognised at the exchange rates on the date of reporting.

N) Cash and short-term deposits
Cash and short-term deposits in the statement of financial position comprise cash-in-hand, bank deposits and short-term liquid investments that can be immediately converted into a given sum of money, with a maturity of three months or less.

O) Equity

(i)Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is required in the income statement on the purchase, sale or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

(ii) Costs related to equity transactions

Transaction costs directly related to an equity transaction and the tax effect on the equity transaction are recognised directly in equity net of tax.

(iii) Hedge reserves

Hedge reserves include accumulated net changes in fair value for financial instruments used as cash flow hedges (hedges of fore-casted sales and interest hedges), which are recognised to the statement of comprehensive income on an ongoing basis.

(iv) Fair value of shares

Shares at fair value include the total accumulated net changes in fair value of financial instruments classified as available for sale.

(v) Foreign currency translation differences

Foreign currency translation differences are recognised in the statement of comprehensive income. Upon the disposal of all or part of a foreign entity resulting in discontinued control, the accumulated translation differences are recognised, including the accompanying reversal in the statement of comprehensive income. See also Note 3 B) "Summary of significant accounting policies – Foreign currency".

P) Provisions

Provisions are recognised when the Group has an obligation as a result of a past event, and when it is probable that there will be a financial settlement as a result of this obligation and the amount can be measured reliably. In general, provisions are based on historical data and a weighting of possible outcomes against the probability that they will occur. When historical information is not available, other sources are used to estimate the provisions. If the time value is material, provision are determined at the net present value of the liability.

Warranty provisions

Provisions for warranty costs are recognised when the underlying products or services are delivered. Warranty provisions are based on historical data on warranties, where such information is available, and on a weighting of possible outcomes against the probability that they will occur. Warranty costs are expensed on an ongoing basis based on the percent of completion of the projects, and reclassified as provisions for warranties 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 among the parties involved.

Onerous contracts

Provisions for onerous contracts are recognised when KONGSBERG's expected revenues from a contract are lower than the unavoidable expenses of meeting its obligations under the contract.

Q) Employee benefits

Defined contribution pension plans

The Group introduced a defined contribution pension plan for all employees in Norway under age 52 as of 1 January 2008. Employees with defined benefit plans, aged 52 and older at the time of the transition, stayed with that plan. Most of KONGSBERG's companies abroad have defined contribution pension plans. The contribution is expensed as they accrue and are shown as payroll expenses in the income statement.

Defined benefit pension plans

Pension benefits depend on the individual employee's number of years of service and salary level upon reaching retirement age. There are also early retirement plans for some executives. To ensure uniform calculation of KONGSBERG's pension liabilities, all corporate entities have used the same actuary for calculations. In the income statement, the year's net pension expenses, after a deduction for the expected return on pension plan assets, have been recognised as "personnel expenses". The statement of financial position shows net pension liabilities included social security contributions. The financial and actuarial assumptions are subject to annual review. The discount rate is stipulated on the basis of the covered bond interest rate, plus a supplement that reflects the duration of the pension liability. Risk coverage is described in Note 9 "Pension". Actuarial gains or losses attached to changes in the basis data, estimates and changes in assumptions are recognised in the statement of comprehensive income. The Group's legal liability is not affected by the treatment of pensions for accounting purposes.

Share transactions with employees

For a number of years, the Group has been conducting a share program for all employees, i.e. offering shares at a discounted price. Discounts on shares are recognised as payroll expenses.

R) Earnings per share

The Group presents ordinary earnings per share and diluted earnings per share. Ordinary earnings per share are calculated as the ratio of net profit/(loss) that accrues to the ordinary shareholders and weighted average number of ordinary shares outstanding.

The figure for diluted earnings per share is the profit that accrues to the ordinary shareholders, and the number of weighted number of shares outstanding, adjusted for all diluting effects related to share options.

S) Changed standards in IFRS and interpretations in IFRIC that have not yet been implemented

Standards and interpretations that are issued up to the date of issuance of the consolidated financial statements, but not yet effective are disclosed below. The Group's intention is to adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval before the consolidated financial statements are issued

IAS 1 Presentation of Financial Statements

The amendments to IAS 1 imply that the items presented in the statement of comprehensive income (OCI) shall be grouped in two categories. Items that could be reclassified to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net gain or loss on available-for-sale financial assets) shall be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans). The amendments affect the presentation only and have no impact on the Group's financial position or performance. The amendments become effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 Employee Benefits
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. Removing the corridor mechanism implies that actuarial gains and losses shall be recognised in other comprehensive income (OCI) in the current period. The amendments to IAS 19 will impact the net benefit expense, as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. For KONGSBERG, this implies a change in net pension cost. The corridor mechanism was phased out at the time of transition to IFRS and will therefore not imply any changes for KONGSBERG.

IAS 28 Investment in Associates and Joint Ventures
As a consequence of the new standards IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates has been renamed IAS 28 Investment in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Within the EU/EEA area, the amendments are effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Financial Instruments: Disclosures
The amendments imply that entities are required to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting agreements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments
IFRS 9, as issued, reflects the first phase of IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for accounting periods beginning on or after 1 January 2013, but amendments to IFRS 9 issued in December 2011 moved the mandatory effective date to 1 January 2015. Subsequent phases of this project will address hedge accounting and impairment of financial assets.

The Group will evaluate potential effects of IFRS 9 in accordance with the other phases as soon as the final standard, including all phases, is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

As a result, the Group has evaluated the entities to be consolidated pursuant to IFRS 10 and compared with the requirements of the current IAS 27. Within the EU/EEA area, IFRS 10 is effective for annual periods starting on or after 2014. The introduction will not influence KONGSBERG's consolidated financial statements.

IFRS 11 Joint Arrangements
This standard replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entitites – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. All entities meeting the definition of a joint venture must be accounted for using the equity method. Within the EU/EEA area, IFRS 11 is effective for annual periods beginning on or after 1 January 2014.

For KONGSBERG, this implies a change in accounting method for the 50 per cent owned company Kongsberg Satelite Services AS from proportional consolidation to equity method from 2014. Please refer to Note 31 for further information.

IFRS 12 Disclosure of Interests in Other Entities
IFRS 12 applies for enterprises with interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 replaces the disclosure requirements that were previously included in IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures.
A number of new disclosures are also required, but has no impact on the Group's financial position or performance. Within the EU/EEA area, IFRS 12 is effective for annual periods beginning on or after 1 January 2014. This amendment will not have any impact on KONGSBERG's consolidated financial statements.

IFRS 13 Fair Value Measurement
The standard establishes a single source of guidance under IFRS for all fair value measurements, i.e., for requirements of all standards related to measuring fair value for assets and obligations. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. This is not expected to have any impact on KONGSBERG's financial statements.

Other amended standards (IFRS) and interpretations (IFRIC) which have not yet been implemented and are not expected to have an impact on KONGSBERG's consolidated financial statements
- IAS 12 Income taxes (amended), effective date 1 January 2013
- IAS 32 Financial instruments: Presentation, effective date 1 January 2014
- Amendments to IFRS 10, IAS 27 and IFRS 12 related to Investment Entities. The amendments are effective for annual periods beginning on or after 1 January 2014, but the EU has not yet approved the amendments.
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine, effective date 1 January 2013

Annual Improvements 2009-2011
IAS 1 Presentation of Financial Statements
The amendments to IAS 1 clarify the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the presentation of the previous period's comparative information will meet the minimum requirements. The amendments have no impact on the Group's

financial position or performance and are effective for annual periods beginning on or after 1 January 2013, but the EU has not yet approved the amendments.

IAS 16 Property, Plant and Equipment
The amendment clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory. The amendment is effective for annual periods beginning on or after 1 January 2013, but has not yet been approved by the EU. This is not expected to have any impact on KONGSBERG's financial statements.

IAS 32 Financial Instruments: Presentation
The amendment clarifies that income taxes arising from distributions to equity holders shall be accounted for in accordance with IAS 12 Income Taxes. The amendment is effective for annual periods beginning on or after 1 January 2013, but has not yet been approved by the EU. This amendment will not have any impact on KONGSBERG's consolidated financial statements.

4 FAIR VALUE

KONGSBERG's consolidated accounting principles and disclosures require the measurement of fair value on certain financial and non-financial assets and liabilities. For both measurement and disclosure purposes, fair value has been estimated as described in the disclosures below. Where relevant, further disclosures 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, e.g. technology, software and customer relations acquired through acquisitions is calculated at the net present value of the estimated future cash flow from the asset, discounted by a risk-adjusted discount rate.

Brand names are calculated at the net present value of the estimated savings of royalty costs by using the brand name.

The fair value of customer relations is based on the discounted net excess earnings on the related asset.

Property, plant and equipment
At acquisitions, KONGSBERG measures property, plant and equipment at fair value. The fair value is equivalent to its market value. The market value of property is based on what the property could be sold for on the day of valuation between a willing buyer and seller in an "arm's length transaction". The market value of plant and equipment is based on appraisals obtained from independent appraisers.

Inventories
The fair value of inventories acquired through acquisitions is based on an estimated selling price for ordinary operations less selling costs and a reasonable profit for the sales efforts.

Investments in equity instruments
The fair value of available-for-sale financial assets is measured at the quoted price on the balance sheet date. Listed shares consist either of those listed on the Oslo Stock Exchange or on the Norwegian Securities Dealers Association's OTC list. Where there has been no trading in shares for a longer period of time, the last quoted price will be considered whether to provide a correct picture on the fair value. The alternative is to use the last traded share price and adjust it for significant events during the period from the last transaction and up to the balance sheet date. For unlisted investments, the most recent price of a share transaction or share issue will be used to estimate fair value. Where there have not been transactions, the discounted cash flow on the share is to be used.

Derivatives
The fair value of forward contracts is measured on observable data. KONGSBERG uses Reuters' prices for different foreign exchange forwards. Reuters' prices are based on several market players. 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 for the remainder of the contract using the risk-free interest rate based on government bonds. The fair values of interest swap agreements and currency options are assessed on the basis of the observed market value.

Non-current liabilities
Fair value on interest-bearing loans, cf. Note 20F, is calculated using estimates of the interest curve and KONGSBERG's interest margin as stipulated on the balance sheet date. The estimated cash flows are discounted by the market interest rate expected for comparable loans on the date of balance sheet recognition. The market interest rate, before the credit mark-up, is based on NIBOR, the money market interest rate.

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

KONGSBERG has a centralised treasury department that is responsible for the Group's financing, currency risk, interest rate risk, credit risk and liquidity management. The Group's subsidiaries have limited opportunities to establish independent funding. The Board has adopted guidelines for financial risk management which have been included in the Group's financial policy.

Funding and capital management

KONGSBERG's operations reflect a long-term perspective, with defence contracts extending for three to five years, while the Group in all business areas has a long-term marketing strategy. This requires reliable access to capital over time, and KONGSBERG emphasises to be considered as having good credit rating (investments grade) by their lenders and investors. The Group has satisfactory access to capital in the NOK market, and has thus concluded that there is no need to be subject to official rating from global credit rating companies. The Group is, however, rated by its lenders and was classified BBB or better in the most recently updated analysis. KONGSBERG is continuously considering the possibility for utilizing the international credit market.

KONGSBERG strives to ensure annual dividends of approximately 30 per cent of the Group's profit for the year from ordinary operations after tax.

KONGSBERG emphasises financial flexibility, and has capital structure requirements to ensure a balance between liquidity risk and refinancing risk. Excess liquidity is placed in time restricted deposits and low-risk money market funds. See Note 21 "Cash and cash equivalents" for further information. Loans are to be renegotiated well in advance of their due date, and the average term to maturity for current loans is to be at least two years. KONGSBERG aims to have a diversified selection of funding sources and a balanced maturity structure, see table below. This results in use of banks based on syndicated credit facilities and the issue of debt instruments on the Norwegian capital market.

MNOK	*Total at 31 Dec 2012*	*2–3 years*	*3–4 years*	*4–5 years*	*>5 years*
Interest bearing liabilities (bond loans)	1 250	500	-	500	250

At 31 December 2012, KONGSBERG had a syndicated credit facility of MNOK 1,000 which is undrawn and scheduled to mature in July 2015

Due to covenants on existing loans, KONGSBERG will have a moderate gearing ratio (net interest-bearing liabilities/EBITDA). Net interest-bearing liabilities should not exceed three times the EBITDA, but can be up to 3.5 times the EBITDA for a maximum of three consecutive quarters. KONGSBERG has no other financial terms apart from the gearing ratio in its loan covenants.

Liquidity risk

At KONGSBERG, liquidity risk is understood as financial preparedness achieved by ensuring that the Group has financial parameters and liquidity appropriate to its operating and investment plans at all times. The centralised treasury department bears the overall responsibility for managing the Group's liquidity risk. The Group's Financial Policy specifies requirements for liquidity reserves which guarantee that the Group can always meet its contractual payment obligations.

Short-term liquidity needs are normally covered by bank deposits and balance on the Group bank account system. Any further liquidity needs may be covered by short-term loans which should not exceed the available borrowing facilities with maturity by more than one year. KONGSBERG has a Group bank account system to which basically all subsidiaries are connected. The Group bank account system optimises availability and flexibility in terms of liquidity management. The Group's liquidity trend is routinely monitored through monthly rolling liquidity prognoses from the most material units, as well as budgets and reporting by segment for major investments.

Currency risk

A large share of KONGSBERG's revenues is related to export contracts, and there is a relatively small percentage of purchasing in the same currency. As a result, KONGSBERG has considerable foreign currency exposure. The business areas identify the exposure. The centralized financial function offers instruments that reduce currency risk.

KONGSBERG has a policy of hedging all contractual currency flows (project hedges).

According to policy, anticipated new orders are also hedged (cash flow hedges). The Group also has a foreign exchange policy to ensure a higher share of expected orders far in the further at higher rates and a smaller share of expected orders with a shorter time perspective at lower rates according to a matrix. This enables the Group to mitigate the effects of currency fluctuations up to two years. Forward contracts are the most commonly used hedging instruments. Options are used only to a limited extent. Currency accounts within the Group Cash Pool are used to hedge small amounts with a short term to maturity.

In addition to financial instruments, operational measures such as incurring costs in the same currency as the sales contract are used to reduce foreign currency exposure.

KONGSBERG has established a financial system that handles all foreign exchange transactions. In addition, a separate risk management function has been set up to monitor all financial transactions according to policy.

See Note 20 B) "Financial instruments – Foreign currency risk and the hedging of foreign currency" for further information.

Interest rate risk

At 31 December 2012, KONGSBERG had three bond loans totalling MNOK 1,250 and an undrawn syndicated credit facility of MNOK 1,000.

KONGSBERG has as policy of emphasising predictability with respect to interest expenses at times when changes in the interest level have a significant impact on consolidated profits. Each year, the funding plan is presented to the Board of Directors to consider interest rate exposure. See Note 20 D) "Financial instruments – interest rate risk" for further information.

Credit-/counterparty risk

Counterparty risk is the risk that KONGSBERG's contractual counterparty will not meet its obligations under a financial instrument or customer contract, in addition to settlement of forward currency contracts, interest rate contracts and monetary investments, leading to a financial loss. KONGSBERG's Financial Policy requires financial institutions to have a certain credit rating before KONGSBERG can engage in financial contracts with them.

The Group is exposed to credit risk from trade receivables, and the business areas are responsible for their own credit risk. These receivables carry varying degrees of risk, and depend on the customer, term to maturity and whether any payment guarantees or the like have been furnished.

Historically, the Group has had a relatively low percentage of bad debts. Kongsberg Defense Systems and Kongsberg Protech Systems mainly have government customers, and are to a small extent exposed to credit risk. Kongsberg Maritime generally serves customers from the private sector, and is more exposed to credit risk. Unrest in the global economy in general and in the shipyard and shipping industry in particular has increased the credit risk in the markets addressed by Kongsberg Maritime. Kongsberg Maritime has made provisions to take this into account. Kongsberg Maritime has implemented operational initiatives to reduce credit exposure. Credit insurance is only used to a limited extent, but is considered in certain cases.

The Group has a policy decision about maintaining a responsible balance between increasing sales at good margins and interest expenses and the risk of losses. Further, large parts of the Group operate on the basis of specially adapted credit manuals including routines for debt collection. As regards credit risk, KONGSBERG has strict requirements for creditworthiness and has placed restrictions on its aggregate level of credit exposure.
See Note 18 "Accounts receivable" for further information.

Market risk arising from financial investments
KONGSBERG's investments in other companies are based on strategic assessments. The value of the Group's financial investments is vulnerable to fluctuations in the equity market. Investments are evaluated and followed up centrally. The Group makes regularly reports on trends in the value of financial investments. See Note 16 "Available for- sale shares" for further information.

6 SEGMENT INFORMATION

For management purposes, the Group is organised into business areas based on the industries in which the Group operates, and reporting requirements apply to the following three operating segments:

Kongsberg Maritime delivers products and systems for dynamic positioning, navigation and automation for commercial vessels and offshore installations, as well as products and systems for seabed surveys, surveillance, training simulators and fishing vessels and fisheries research. The business area is among the market leaders in these areas. Countries with significant offshore and shipbuilding industries are important markets. In Kongsberg Maritime, 59 per cent of the revenue is within Offshore, 16 per cent within Merchant Marine and 25 per cent within Subsea.

Kongsberg Defence Systems is Norway's premier supplier of defence and space-related systems. Norway's Armed Forces has been the single most important customer over time. Solutions developed in collaboration with the Norwegian Armed Forces have proven competitive on the international arena and have achieved a growing export share in recent years. All defence-related exports are contingent on the approval of the Norwegian authorities. One key element of the market strategy is to form alliances with major international defence enterprises. Kongsberg Defence Systems delivers systems for command and weapon control, weapon guidance and surveillance, communications solutions and missiles. In Kongsberg Defence Systems 28 per cent of the revenue is related to Missil Systems, 32 per cent to Integrated Defence Systems, 22 per cent to Naval System, 11 per cent to Aerostructures and 7 per cent to Defence Communications.

Kongsberg Protech Systems' main product is the Protector Remote Weapon Station (RWS), developed to protect military personnel in armoured vehicles. Kongsberg is by far the largest player in this market. The system has been sold to many countries. The RWS is a product that is in demand for a growing range of military vehicles. The US Army is the business area's largest customer.

The remainder of the Group's activities is included in the column "Other". These activities include income, expenses, assets, liabilities and other elements that cannot be assigned to the segments in a prudent manner. This generally involves shareholder costs, certain overheads and effects on profit/loss related to property occupied by parties other than the Group's own units. Kongsberg Oil & Gas Technologies, which also for 2012 has a limited scope of operations relative to the Group's business activities, is included in this column.

The funding of the business areas does not necessarily give an accurate impression of the financial soundness of the individual business areas. Consequently, financial items, net interest-bearing debt and cash are not assigned to segments, but rather presented for the Group as a whole. The same applies to tax expenses and balance sheet items associated with deferred tax liabilities and taxes payable, as these items are influenced by tax-related transfers between the business areas.

Management monitors the operating segments' EBITAs on a regular basis and uses this information to analyse the various operating segments' performance and to make decisions regarding allocation of resources. The operating segments' performance is assessed based on EBITA and return on capital employed.

Information on the Group's operating segments that are required to report is presented below.

Operating segment information

MNOK	Kongsberg Maritime	Kongsberg Defence Systems	Kongsberg Protech Systems	Other	Elimination	Consolidated
2012						
Revenue from external customers	7 451	4 457	2 873	871	-	15 652
Intra-Group transactions	34	197	3	349	(583)	-
Total revenues	**7 485**	**4 654**	**2 876**	**1 220**	**(583)**	**15 652**
Earnings before interest, taxes, depreceation and amortisation (EBITDA)	**1 054**	**479**	**728**	**47**	**-**	**2 308**
Depreciations	(142)	(98)	(73)	(10)	-	(323)
Earnings before interests, taxes and amortisation (EBITA)	**912**	**381**	**655**	**37**	**-**	**1 985**
Amortisation / impairment	(52)	(26)	(9)	(44)	-	(131)
Earnings before interest and taxes (EBIT)	**860**	**355**	**646**	**(7)**	**-**	**1 854**
Segment assets	6 933	3 846	1 918	1 031	(114)	13 614
Segment investments	338	111	59	28	-	536
Current segment liabilities and provisions	3 019	2 333	1 627	398	(114)	7 263
2011						
Revenue from external customers	6 639	3 638	4 167	684	-	15 128
Intra-Group transactions	54	257	18	340	(669)	-
Total revenues	**6 693**	**3 895**	**4 185**	**1 024**	**(669)**	**15 128**
Earnings before interest, taxes, depreceation and amortisation (EBITDA)	**1 184**	**350**	**815**	**45**	**-**	**2 394**
Depreciations	(106)	(87)	(60)	(9)	-	(262)
Earnings before interests, taxes and amortisation (EBITA)	**1 078**	**263**	**755**	**36**	**-**	**2 132**
Amortisation	(34)	(19)	(5)	(39)	-	(97)
Earnings before interest and taxes (EBIT)	**1 044**	**244**	**750**	**(3)**	**-**	**2 035**
Segment assets	5 933	3 579	1 870	972	(122)	12 232
Segment investments	268	183	153	22	-	626
Current segment liabilities and provisions	2 798	2 758	1 845	424	(122)	7 703

1. There are no differences between the measurement methods used at the segment level and those applied to the consolidated financial statements.
2. Intra-Group transactions between the different segments are eliminated upon consolidation. Transactions between the segments are based on market prices.
3. The different operating segments' EBITAs include income and expenses from transactions with other operating segments within the Group.
4. Segment assets do not include available-for-sale shares, other non-current assets, derivatives, or cash and short-term deposits since these assets are controlled on a group basis.
5. Segment liabilities do not include deferred tax liabilities, taxes payable, interest-bearing liabilities, other non-current liabilities or provisions and derivatives, since such liabilities are controlled on a group basis.
6. Investments consist of the addition of property, plant and equipment, intangible assets and goodwill.

Reconciliation of assets

MNOK	2012	2011
Segment assets	**13 614**	**12 232**
Available-for-sale shares	125	114
Other non-current assets	155	144
Derivatives	782	385
Fair value adjustments related to financial instruments	(911)	(340)
Cash and cash equivalents	2 509	3 083
Total assets	**16 274**	**15 618**

Reconciliation of current liabilities and provisions

MNOK	2012	2011
Current segments liabilities and provisions	**7 263**	**7 703**
Current liabilities	20	322
Derivatives	49	330
Fair value adjustments related to financial instruments	(443)	(441)
Tax payable	225	344
Total current liabilities and provisions	**7 114**	**8 258**

Geographical segment information

In presenting information by geographical segments, earnings are distributed based on the customers' geographical location, while the data on fixed assets are based on the location of the physical investment or relationship to the relevant acqusition. The Group's activities are generally divided into Norway, rest of Europe, America and Asia. Fixed assets include property, plant and equipment, intangible assets and goodwill (excl. financial instruments, deferred tax asset, pension fund assets and rights ensuing from insurance agreements).

MNOK	*Norway*	*EU*	*Rest of Europe*	*North America*	*South America*	*Asia*	*Other*	*Total*
2012								
Operating income from external customers	3 396	3 792	286	4 078	459	3 335	306	15 652
Operating income as a % of total	22%	24%	2%	26%	3%	21%	2%	-
Fixed assets [1]	4 426	105	-	569	7	241	4	5 352
2011								
Operating income from external customers	2 742	3 162	579	5 142	255	3 064	184	15 128
Operating income as a % of total	18%	21%	4%	34%	2%	20%	1%	-
Fixed assets [1]	4 224	80	-	637	4	225	4	5 174

1) In this list, fixed assets consist of property, plant and equipment, goodwill and other intangible assets.

7 INVENTORIES

The Group's total inventories are distributed as follows:

MNOK	*31 Dec 12*	*31 Dec 11*
Raw materials	2 055	2 225
Work in progress	903	607
Finished products	507	442
Total	**3 465**	**3 274**
Impairment on inventories during the period	11	52
Cost of goods for the period	4 760	5 609

8 PAYROLL EXPENSES

Salaries and other personell expenses represent all expenses associated with the remuneration of personell employed by the Group.

MNOK	*Note*	*2012*	*2011*
Salaries		3 846	3 423
Performance-based salary	27	48	92
Social security tax		734	526
Pension expenses, defined benefit plans	9	124	88
Pension expenses, defined contribution pension plans	9	253	218
Other benefits		232	192
Total payroll expenses		**5 237**	**4 539**
Average no. of FTE (full-time employees)			
Total		**6 870**	**6 070**

9 PENSIONS

KONGSBERG has a service pension plan that complies with legislation, and consists of a defined contribution plan and a closed defined benefit plan. The service pension plan covers all Group employees in Norway. Per 31 December 2012, there are 4,667 employees in Norway covered by the pension plans. KONGSBERG endeavours to ensure that as many of its employees as possible outside Norway are also covered by service pension plans.

The defined contribution plan

The Group introduced a defined contribution pension plan for all employees under age 52 at 1 January 2008. The contribution rates are 0 per cent of the basic wage up to 1G, 5 per cent of the basic wage between 1G and 6G, and 8 per cent of the basic wage from 6G up to 12G. The employees can influence the way the funds are managed by choosing to invest either 30, 50 or 80 per cent, respectively, of their portfolios in shares. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The entity's deposits in this plan are 18 per cent of the share of the basic wage in excess of 12G, up to a ceiling of 15G. Special terms and conditions apply for executives. This is described in Note 27 “Related parties”. (The employees have the same investment choices in the supplementary plan as in the main plan). KONGSBERG’s companies abroad generally have defined contribution plans. At 31 December 2012, 4,667 employees in Norway and most of the 2,589 employees abroad were covered by these plans. The deposits are changed against income as they are incurred.

The defined benefit plan

In connection with the transition to the defined contribution plan as of 1 January 2008, employees aged 52 or more at the time of the transition continued to be in the defined benefit plan. The pension plan is insured through DNB Life Insurance. Parts of the pensions are covered by payments from the National Insurance plan. Such payments are calculated on the basis of the National Insurance plan’s basic amount (G), as approved each year by the Norwegian parliament. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. Pension costs are distributed over the employee’s accrual period. Based on the current National Insurance system before 31 January 2011 and full accrual, the plan gives entitlement to about 65 per cent of salary level at retirement, including benefits from the National Insurance plan until age 77, then the service pension component will be reduced by 50 per cent. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. Special terms and conditions apply for executives. This is described in Note 27 “Related parties”. The collective, unfunded benefits plan is comparable to about 60 per cent of the share of the basic wage that exceeds 12G until age 77, and then the benefit is reduced to 50 per cent of the share of the basic wage that exceeds 12G. This supplementary plan was discontinued in connection with the transition to defined contribution pension plans. The defined benefit plan includes 564 active members and 889 pensioniers.

Risk coverage

Disability pension from the company shall give an addition to expected disability pension from the National Insurance Plan so that total payment constitutes approximately 65 per cent of pensionable income. An additional 10 per cent disability pension is paid for each child up to maximum 6 children under the age of 21. The payment depends on grade of disability and the possibility for full coverage.

Early retirement

In 2009, the Group introduced new rules for early retirement with severance pay for newly hired members of corporate management. The rules entail retirement with severance pay at age 65 at the latest, but with reciprocal rights for the company and the employee in corporate management to request retirement with severance pay from age 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 years of accrual. If the employee resigns between age 63 and 65, this will nevertheless reduce pension earnings for those with a defined contribution retirement pension that applies from age 67.

The calculation of future pensions in the benefits plan is based on the following assumptions:

	31 Dec 12	*31 Dec 11*
Economic assumptions		
Discount rate	3,75 %	2,60 %
Asset return	3,75 %	4,10 %
Wage adjustment	3,00 %	2,75 %
Pension base-level (G) adjustment	3,50 %	3,25 %
Pension adjustment	2,25 %	0,10 %
Demographic assumptions		
Mortality	K 2005	K 2005
Disability	IR 73	IR 73
Voluntary turnover	4,5 per cent for all ages	4,5 per cent for all ages

K 2005 has been prepared by the Norwegian Financial Services Association, and addresses the tariff for mortality. The Financial Supervisory Authority of Norway has decided that new mortality tables are to be introduced with effect from 2014 onwards.The reason is increased life expectancy which will lead to higher pension obligations. IR 73 deals with tables for expected disability. The mortality and disability risks are based on public tables and observations of disabilities at KONGSBERG. The probability that an employee in a given age group will become disabled or die within one year and life expectancy is as follows:

	Disability (%)		Mortality (%)		Estimated life expectancy	
Age	*Men*	*Women*	*Men*	*Women*	*Men*	*Women*
20	0.1	0.2			80	84
40	0.3	0.4	0.1	0.1	80	84
60	1.4	1.8	0.6	0.5	82	85
80			6.2	4.5	87	89

The disability rate in IR 73 was chosen because it offers the best approach to KONGSBERG's disability statistics. This is based on KONGSBERG's historical figures, where about 25 per cent of the disability pension has been reimbursed through an international pool.

The year's pension costs were calculated as follows:

MNOK	*2012*	*2011*
Service cost	109	91
Interest cost on accrued pension liabilities	48	61
Estimated return on pension plan assets	(61)	(70)
Accrued social security expenses	13	12
	109	**94**
Settlement of old early retirement plan incl. social security expenses	15	(6)
Total net pension cost for the year	**124**	**88**
Cost of defined contribution pension plans in Norway	233	202
Cost of defined contribution pension plans abroad	20	16

Change in net pension liabilities recognised on the balance sheet

	2012			2011		
MNOK	*Funded*	*Unfunded*	*Total*	*Funded*	*Unfunded*	*Total*
Changes in gross pension liabilities						
Gross pension liabilities at 1 January	1 707	215	1 922	1 436	249	1 685
Net change in social security expenses	12	(3)	9	22	(4)	18
Aquisition	-	-	-	20	-	20
Current year service cost	100	9	109	84	7	91
Interest expenses on pension liabilities	43	5	48	54	7	61
Actuarial losses / (gains)	101	(25)	76	124	12	136
Settlement of old early retirement plan	-	13	13	(5)	-	(5)
Reclassified	-	-	-	31	(26)	5
Payments of pensions/ paid-up policies	(66)	(27)	(93)	(59)	(30)	(89)
Gross pension liabilities at 31 December	**1 897**	**187**	**2 084**	**1 707**	**215**	**1 922**
Changes in gross pension fund assets						
Fair value, pension plan assets 1 January	1 462	-	1 462	1 369	-	1 369
Expected return on pension funds	61	-	61	70	-	70
Actuarial (losses) / gains	(46)	-	(46)	(79)	-	(79)
Premium payments	141	-	141	147	-	147
Aquisition	-	-	-	9	-	9
Reclassified	-	-	-	5	-	5
Payments of pensions/ paid-up policies	(66)	-	(66)	(59)	-	(59)
Fair value, pension plan assets 31 December	**1 552**	**-**	**1 552**	**1 462**	**-**	**1 462**
Net capitalised pension liabilities at 31 December	**(345)**	**(187)**	**(532)**	**(245)**	**(215)**	**(460)**

The percentage distribution, pension plan assets by investment categories at 31 Dec. 2012 and earlier were:

	2012	*2011*	*2010*	*2009*	*2008*
Long-term bonds	36%	35%	33%	36%	29%
Money market	23%	23%	11%	8%	14%
Short-term bonds	16%	15%	15%	23%	30%
Shares	6%	8%	21%	14%	4%
Property	17%	18%	18%	17%	17%
Other	2%	1%	2%	2%	6%
Recognised return on pension plan assets	**5.6%**	**3.2%**	**6.2%**	**4.7%**	**1.9%**

MNOK	2012	2011	2010	2009	2008
Net liabilities at 1 January	(460)	(316)	(340)	(323)	(336)
Net change in social security expenses	(9)	(18)	3	(3)	2
Recognised pension cost	(96)	(82)	(78)	(68)	(74)
Settlement, pension plan	(13)	5	34	-	-
Premium payments	141	147	86	133	167
Disbursements	27	30	26	15	16
Purchase(s)/ sale(s)	-	(11)	-	-	-
Actuarial (losses) / gains	(122)	(215)	(47)	(94)	(98)
Net capitalised pension liabilities at 31 December	**(532)**	**(460)**	**(316)**	**(340)**	**(323)**

Actuarial losses/gains are recognised in the statement of comprehensive income (OCI) by MNOK 139 including social security expenses.

Historical information

MNOK	2012	2011	2010	2009	2008
Gross pension liabilities at 31 December	2 084	1 922	1 685	1 628	1 454
Fair value, pension plan assets 31 December	1 552	1 462	1 369	1 287	1 129
Net pension liabilities 31 December	**(532)**	**(460)**	**(316)**	**(341)**	**(325)**
Actuarial gains/losses pension liabilities 31 December	76	136	12	98	89
Actuarial gains/losses pension assets 31 December	(46)	(79)	(35)	4	(9)
Accumulated actuarial gains/losses recognised in the statement of comprehensive income	**(1 245)**	**(1 145)**	**(968)**	**(929)**	**(852)**
Of this experience deviations	(1 094)	(1 053)	(968)	(929)	(852)

The old contractual early retirement plan was closed in 2010, providing a net gain. The old contractual early retirement plan was replaced by a new contractual early retirement plan in 2011. The new contractual early retirement plan is, as opposed to the old one, not an early retirement plan, but rather a regime that gives a life-long supplement to the ordinary pension. Employees can elect to draw on the new plan as from age 62, even if they continue to work. The new plan is a defined benefit multi-employer pension plan, and it is funded through premiums established as a percentage of wages. For the moment, there is no reliable measurement or allocation of liabilities and funding as regards the plan. For accounting purposes, the plan is therefore considered a deposit-based pension plan in which premium payments are expensed against income on an ongoing basis, and no provisions are made in the financial statements. A premium is paid to the new plan of the total payments made between 1G and 7.1G to the company`s employees. For 2012 the premium was 1.75 percent, while it for 2013 is set at 2.0 per cent (estimated as MNOK 55). No fund will be built up in connection with the plan, and the premium level is expected to increase in the coming years.

The pension expenses for the year are calculated on the basis of actuarial assumptions at the beginning of the year. Gross pension liabilities are calculated on the basis of the financial and actuarial assumptions at year end. The gross value of pension fund assets is calculated on the assumption that there will be an annual return of 4.1 per cent, which was the expectation on 31 December 2012. The actual return on investments was 5.9 per cent, but will not be included in the capitalised assets until 2013.

The total pension premium payments for the defined benefit plan for 2013 are expected to be MNOK 140.

The pension benefits are based 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 estimates predicated on assumptions related to the discount rate, future wage growth, pension adjustments, projected return on pension fund assets, and employee turnover. These assumptions are updated annually. The discount rate is stipulated on the basis of the covered bond interest rate, which reflects the time frame for paying out on the pension liabilities for the benefit plan. In KONGSBERG's opinion, the market for covered bonds is sufficiently deep and shows reliable pricing. The pension liability would have been approximately 18 per cent higher using a government bond rate of 2.2 per cent, all other factors held constant. Pension adjustments are now calculated after adjustment for inflation compared to minimum adjustment previous years. The pension liability would have been approximately 12 per cent lower using minimum adjustment, all other factors held constant.

The balance sheet shows net pension liabilities including social security.

Sensitivity analysis of pension calculations

The following estimates are based on facts and circumstances that applied at 31 December 2012, provided all other parameters are constant. Actual results may deviate significantly from these estimates.

	Discount rate		Annual adjustment/ Basic amount		Annual adjustment of pension		Retirement rate	
Changes in % are percentage points	*1%*	*-1%*	*1%*	*-1%*	*1%*	*-1%*	*1%*	*-1%*
Changes in pension								
Defined benefit obligation (PBO)	11–12%	11–12%	5–6%	5–6%	7–8%	7–8%	2–3%	2–3%
Net pension cost for the period	12–13%	12–13%	5–6%	5–6%	7–8%	7–8%	2–3%	2–3%

10 PROPERTY, PLANT AND EQUIPMENT

MNOK	*Machinery and plants*	*Equipment and vehicles*	*Buildings and other real property*	*Land*	*Total*
Cost of acquisition					
1 Jan 2011	824	1 507	1 490	195	4 016
Additions	189	159	74	16	438
Additions through business combinations	19	23	21	-	63
Disposals	(6)	(149)	(4)	-	(159)
Translation differences	4	7	7	(1)	17
Total acquisition cost 31 Dec 2011	**1 030**	**1 547**	**1 588**	**210**	**4 375**
Additions	100	230	199	7	536
Additions through business combinations	1				1
Disposals	(11)	(8)	(8)	-	(27)
Translation differences	(8)	(17)	(18)	(2)	(45)
Total acquisition cost 31 Dec 2012	**1 112**	**1 752**	**1 761**	**215**	**4 840**
Accumulated depreciation					
1 Jan 2011	348	1 036	450	-	1 834
Depreciation for the year	56	145	61	-	262
Disposals	(6)	(148)	(1)	-	(155)
Translation differences	1	1	2	-	4
Total accumulated depreciation 31 Dec 2011	**399**	**1 034**	**512**	**-**	**1 945**
Depreciation for the year	72	178	73	-	323
Disposals	(5)	(6)	(3)	-	(14)
Translation differences	(4)	(8)	(4)	-	(16)
Total accumulated depreciation 31 Dec 2012	**462**	**1 198**	**578**	**-**	**2 238**
Carrying amount 31 Dec 2011	**631**	**513**	**1 076**	**210**	**2 430**
Carrying amount 31 Dec 2012	**650**	**554**	**1 183**	**215**	**2 602**
Useful life	**3–10 years**	**3–10 years**	**10–33 years**	**N/A**	
Annual rent paid for off-balance sheet property, plant and equipment	**-**	**9**	**64**		

11 INTANGIBLE ASSETS

MNOK	Goodwill	Technology	Development costs	Other intangible assets	Total
Cost of acquisition					
1 Jan 2011	2 203	615	330	70	3 218
Additions	-	4	121	6	131
Additions through business combination	210	42	1	12	265
Disposals	-	-	-	(30)	(30)
Translation differences	5	5	-	-	10
Total acquisition cost 31 Dec 2011	**2 418**	**666**	**452**	**58**	**3 594**
Additions		5	115	2	122
Additions through business combination [1]	38	13	-	2	53
Disposals	-	-	(2)	-	(2)
Translation differences	(26)	(20)	-	(2)	(48)
Total acquisition cost 31 Dec 2012	**2 430**	**664**	**565**	**60**	**3 719**
Accumulated amortisation					
1 Jan 2011	422	244	95	21	782
Amortisation	-	58	32	7	97
Disposals	-	-	-	(30)	(30)
Translation differences	(2)	3	-	-	1
Total accumulated amortisation 31 Dec 2011	**420**	**305**	**127**	**(2)**	**850**
Amortisation	-	73	37	9	119
Impairment	-	10	2	-	12
Disposals	-	-	(2)	-	(2)
Translation differences	-	(9)	-	(1)	(10)
Total accumulated amortisation and impairment 31 Dec 2012	**420**	**379**	**164**	**6**	**969**
Carrying amount 31 Dec 2011	**1 998**	**361**	**325**	**60**	**2 744**
Carrying amount 31 Dec 2012	**2 010**	**285**	**401**	**54**	**2 750**
Useful life		**8–10 years**	**5 years**	**8–10 years**	
Remaining useful life		**1–9 years**	**3–5 years**	**4–9 years**	

1) Business combinations mainly applies to the purchase of 100 per cent of the shares in Advali AS and Jotron Consultas AS. For preliminary purchase price allocation, see Note 29 "Business combinations".

With the exception of goodwill, which cannot be amortised, the amortisation of intangible assets is either linear over the useful life or based on the number of units produced.

Development cost recognised in profit and loss

	2012			2011		
MNOK	Product maintenance	Development costs	Total	Product maintenance	Development costs	Total
Expenses related to internally financed development						
Kongsberg Maritime	175	523	698	117	450	567
Kongsberg Defence Systems	10	100	110	10	82	92
Kongsberg Protech Systems	29	67	96	78	47	125
Other	17	29	46	16	21	37
Total	**231**	**719**	**950**	**221**	**600**	**821**

In adittion the Group has product development through customer-financed projects.

Capitalisation development projects

Development projects financed by customers are not capitalised, but KONGSBERG seeks to obtain ownership rights to the product developed. During the development phase in an internally financed project, the decision is taken whether to complete development and begin capitalisation based on technical success and market assessments.

At Kongsberg Defence Systems the capitalisations are related to the development of map and communication systems.

At Kongsberg Protech Systems, capitalised development costs are mainly related to the development of a new product concept in the RWS family, the Medium Caliber RWS.

Internally financed development projects at Kongsberg Maritime generally consist of many projects, each of which has a limited overall scope. These development projects are not considered to be eligible for capitalisation. Many of the projects also entail considerable uncertainty about whether they are technologically feasible and how the final solution will turn out. As long as there is uncertainty about the final technological solution, it is difficult to estimate market value. Accordingly, the criteria for capitalisation will not be satisfied until fairly late in the development project. Remaining expenses will often be insignificant.

Significant accounting estimates

Capitalised development projects are amortised according to the estimated production volume or lifetime. Both estimated production volume or lifetime could change over time. When testing the value of capitalised development costs the Group applies the same principles and methods as used for impairment testing. Regarding estimate uncertainty associated with this matter, see Note 12 "Impairment test of goodwill".

12 IMPAIRMENT OF GOODWILL

Goodwill

Goodwill obtained through acquisitions is allocated to the Group's operating segments and followed up and tested collectively for the group of cash-generating units that constitute the operating segment. Goodwill is followed up for groups of cash-generating units that are similar to what is defined as the operating segment pursuant to note 6 "Segment information".

Goodwill is assigned to operating segments as follows:

MNOK	*31 Dec 11*	*31 Dec 10*
Kongsberg Maritime	1 457	*1 476*
Kongsberg Defence Systems	168	*170*
Other activities [1]	385	*352*
Total goodwill recognised on the balance sheet	**2 010**	**1 998**

1) Goodwill from 'Other activities' is related to Kongsberg Oil & Gas Technologies.

The Group tests goodwill for impairment yearly, or more frequently if there are indications of impairment.

The Group has used value in use to determine recoverable amounts for the cash flow-generating entities. Value in use is determined by using the discounted cash flow method. The expected cash flow is based on the business areas' budgets and long term plans, which are approved by Kongsberg's Board of Directors and executive management. Budgets and long-term plans cover a five-year period (explicit prognosis period). Approved budgets and long-term plans are adjusted for cash flows related to investments, restructuring, future product improvements and new development, where this is considered significant for the impairment test. After the five years of explicit plans, the units' cash flows are stipulated by extrapolation. At the beginning of the extrapolation period, the entity is assumed to be in a stable phase. To calculate value in use, the Group has used anticipated cash flows after tax and, correspondingly, discount rates after tax. The recoverable amount would not have been significantly different if cash flows before tax and the discount rate before tax had been used. The discount rate before tax has been stipulated using an iterative method and is shown in a separate table.

The assumptions are based on historical results and observable market data.

Key assumptions

Discount rate

The discount rates are based on a weighted average cost of capital (WACC) method, whereby the cost of equity and the cost of liabilities are weighted according to estimated capital structure. The discount rates reflect the market's required return on investment at the time of the test and in the industry to which the cash generating unit belongs. The estimated capital structure is based on the average capital structure in the industry in which the cash generating unit operates and an assessment of what is a reasonable and prudent long-term capital structure. The CAPM model is used to estimate the cost of equity. In accordance with the CAPM model, the cost of equity consists of risk-free interest as well as an individual risk premium. The risk premium is the entity's systematic risk (beta), multiplied by the market's risk premium. The risk-free interest is estimated on a 10-year Norwegian government bond interest rate and is based on all cash flows being translated to NOK. The cost of liabilities represents an expected long-term after-tax interest rate for comparable liabilities and consists of risk-free interest and an interest spread.

Profit margin (EBITDA)

Profit margins are based on historical levels, adjusted for expectations about the future. Earnings before depreciation and amortisation (EBITDA) are used as the basis for the calculation.

Growth rate

Growth rates in the explicit prognosis period are based on management's expectations of market trends in the markets in which the undertaking operates. The Group uses stable growth rates to extrapolate cash flows beyond five years. The long-term growth rate beyond five years is not higher than the expected long-term growth rate in the industry in which the undertaking operates.

Market shares
For entities operating in markets where it is relevant to measure market shares, it is expected that established positions will generally be maintained, but that there might occure increases and setbacks in certain areas.

Key assumptions per cash generating unit

Per cent	*Kongsberg Maritime*	*Kongsberg Defence Systems*	*Other activities*
Discount rate before tax	13.6	10.5	13.4
Discount rate after tax	10.3	8.3	10.3
Long-term nominal growth rate	2.0	2.0	2.0
Inflation	2.0	2.0	2.0

Impairment
There has not been conducted any impairment of goodwill in 2012 (or in 2011).

Sensitivity analysis
In connection with impairment tests of goodwill, sensitivity analysis are carried out for each individual cash generating unit. Kongsberg Maritime and Kongsberg Defence Systems will not be in an impairment situation before there are relatively large changes in the key assumptions, and these changes are considered to be outside the probable outcome. Kongsberg Oil & Gas Technology constitute "Other activities". Sensitivity analysis provides no indications of impairment in this business area. However, the business area is still in a start-up phase and are thus more sensitive to substantial changes.

Significant accounting estimates
There will always be uncertainty related to the estimate of value in use. Assessments are based on best judgement and with the parameters used for comparable industries in the varuious cash-generating units. These calculations are based on discounted cash flows in the future. Significant changes in the cash flows will affect the value of goodwill.

13 FINANCIAL INCOME AND FINANCIAL EXPENSES

MNOK	*Note*	*2012*	*2011*
Interest income from assets at amortised cost		39	31
Derivatives at fair value through profit/(loss)		8	17
Other financial income		12	1
Financial income		**59**	**49**
Interest expenses from liabilities at amortised cost		(38)	(35)
Foreign currency loss		(5)	(7)
Discounting, non-current provisions		(3)	(3)
Other financial expenses		(31)	(13)
Write-down on shares available-for-sale	16	(5)	(18)
Financial expenses		**(82)**	**(76)**
Financial items, net recognised in profit/ (loss)		**(23)**	**(27)**

14 TAXES

Taxes

MNOK	*2012*	*2011*
Tax payable	265	*399*
Change in deferred tax	246	*179*
Taxes	**511**	**578**

Reconciliation from nominal to effective tax rate

MNOK	*2012*	*2011*
Earnings before tax (EBT)	**1 831**	**2 008**
Estimated tax based on a tax rate of 28 per cent of the profit before tax	513	*562*
Effect of tax rate differences and unrecognised tax assets abroad	2	2
Supplementary taxation abroad	20	-
Tax effect of gains/losses on the sale of shares and impairment of shares	(29)	5
Other permanent differences	5	9
Taxes	**511**	**578**
Effective income tax rate	27.9%	28.8%

Income from long-term construction contracts is not recognised for tax purposes until the risk and responsibility has been transferred to the customer. Tax expense in the income statement is not impacted, but as a consequence, tax payable will fluctuate over time.

Deferred tax asset and deferred tax liability

MNOK	*31 Dec 12*	*31 Dec 11*
Deferred tax asset		
Pensions	149	*129*
Provisions	608	664
Deferred tax assets – gross	**757**	**793**
Deferred tax liabilities		
Fixed assets	313	312
Construction contracts in progress	1 088	1 076
Net derivatives	203	14
Deferred tax liabilities – gross	**1 604**	**1 402**
Net deferred tax liabilities recognised	**(847)**	**(609)**

Change in deferred tax recognised in the statement of comprehensive income:

MNOK	*31 Dec 12*	*31 Dec 11*
Pensions	(39)	*(69)*
Cash flow hedges	31	(73)
Total	**(8)**	**(142)**
Addition of deferred tax through business combinations	-	27

The payment of dividends to the parent company's shareholders has no impact on the Group's payable or deferred tax.

15 EARNINGS PER SHARE

MNOK	*Note*	*2012*	*2011*
Net profit for the year accruing to the shareholders			
Earnings after tax		1 320	1430
Non-controlling interests' share of the profit/(loss)		(5)	(1)
Net profit/ (loss) for the year/diluted profit/ (loss) accruing to owners of ordinary shares		**1 325**	**1 431**

Number of shares	*Note*	*2012*	*2011*
Average weighted number of shares outstanding 1 Jan	22	120	120
Average weighted number of shares at 31 Dec		**120**	**120**

NOK	*2012*	*2011*
Earnings per share for the year	11.05	11.93
Earnings per share for the year, diluted	11.05	11.93

16 AVAILABLE-FOR-SALE SHARES

Available-for-sale shares

MNOK	*31 Dec 12*	*31 Dec 11*
Quoted shares	68	*52*
Unquoted shares (OTC list)	1	6
Other shareholdings	56	56
Available-for-sale shares	**125**	**114**

Available-for-sale shares are recognised at fair value. Quoted shares at 31 December 2012 consisted of shares in Kitron ASA (19 per cent ownership). The shares are valued at market price on the stock exchange. KONGSBERG has a representative on the Board, but it has been concluded that this is not sufficient to demonstrate that significant influence is present.

Shares listed on the OTC list consist of Remora ASA. As of 31 December 2012, the share value is impaired by MNOK 5. As a percentage of total market value, quoted and unquoted OTC shares accounted for 55 per cent of the available-for-sale shares.

Change in the fair value of shares, with the exception of impairment losses, is recognised in the statement of comprehensive income. In case of significant and prolonged impairments they are recognised through profit/(loss). In additon, the added value of the total investment portfolio is increased by MNOK 16 from 31 December 2011, reflected in the statement of comprehensive income. The amount is related to shares in Kitron ASA.

Fair value of shares

The shares are measured at market value on the balance sheet date. The market value is calculated as follows:

1) Last traded price on the stock exchange or last traded price on the OTC list (The Norwegian Securities Dealers Association's Over-The-Counter List)
2) The price of the last share transactions for the sale/purchase or issue of unquoted 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

Sensitivity analysis on investments in shares

A change in market prices of the quoted shares and the OTC-listed shares of 10 per cent would lead to an increase/decrease in the added value of MNOK 7 which would be recognised directly in the statement of comprehensive income at 31 December 2012 (MNOK 6 based on balance sheet values at 31 December 2011).

17 OTHER NON-CURRENT ASSETS

MNOK	*31 Dec 12*	*31 Dec 11*
Loans to employees	36	37
Other non-current assets	119	107
Total other non-current assets	**155**	**144**

18 RECEIVABLES

MNOK	*31 Dec 12*	*31 Dec 11*
Gross receivables	1 970	2 024
Provision for bad debts	(155)	(170)
Net accounts receivable	**1 815**	**1 854**
Other receivables	295	189
Prepayments to suppliers	449	602
Total receivables	**2 559**	**2 645**

Credit risk

Exposure to credit risk

For information about KONGSBERG's currency risk and how it is managed,see Note 5 "Financial risk management objectives and policies". The carrying amount for financial assets represents the Group's maximum credit exposure:

MNOK	*Note*	*31 Dec 12*	*31 Dec 11*
Gross accounts receivable		1 970	2 024
Gross other receivables		744	791
Other non-current assets	17	155	144
Cash and cash equivalents	21	2 509	3 083
Currency forward contracts and interest rate swaps used as hedges	20A	782	385
Total exposure to credit risk		**6 160**	**6 427**

Gross receivables by region:

MNOK	*31 Dec 12*	*31 Dec 11*
Norway	332	267
EU	448	440
Rest of Europe	66	67
North America	348	631
South America	150	43
Asia	461	523
Other countries	165	53
Total	**1 970**	**2 024**

Gross receivables by type of customer:

MNOK	*31 Dec 12*	*31 Dec 11*
Government institutions	747	538
Private companies	1 223	1 486
Total	**1 970**	**2 024**

Impairment

Age distribution, trade receivables and provisions for losses on trade receivables:

	31 Dec 12		**31 Dec 11**	
MNOK	*Gross*	*Provisions for bad depts*	*Gross*	*Provisions for bad debts*
Not due	896	-	748	-
Due, 1–30 days	453	(12)	610	(3)
Due, 31–90 days	287	(3)	372	(12)
Due, 91–180 days	194	(3)	147	(8)
Due, more than 180 days	140	(137)	147	(147)
Total	**1 970**	**(155)**	**2 024**	**(170)**

Change in the provision for bad debts:

MNOK	*2012*	*2011*
Provision at 1 January	(170)	(165)
Actual losses	13	11
Provision	(2)	(22)
Dissolved	4	5
Translation differences	-	1
Provision at 31 December	**(155)**	**(170)**

Significant accounting estimates

Provision for bad debts is based on the best estimate and judgement with respect to the probability of loss on a receivable or a group of receivables.

19 CONSTRUCTION CONTRACTS IN PROGRESS

The Group's main business activity is to develop and manufacture products and systems based on signed orders. For recognition and classification of construction contracts, see Note 3C "Construction contracts/ system deliveries".

Projects in progress in the table below 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 income less accumulated invoicing for all current contracts where accumulated invoicing exceeds accumulated operating income. Project accruals are the net amount of costs incurred based on the project's percent of completion less accumulated costs charged to the construction contract.

Net construction contracts in progress

MNOK	*31 Dec 12*	*31 Dec 11*
Projects in progress	1 694	1 239
Prepayments from customers	(2 705)	(2 371)
Project accruals, assets	1 087	663
Project accruals, liabilities	(1 033)	(1 435)
Net construction contracts in progress	**(957)**	**(1 904)**

MNOK	*31 Dec 12*	*31 Dec 11*
Construction contracts in progress, assets	1 327	799
Construction contracts in progress, liabilities	(2 284)	(2 703)
Net construction contracts in progress	**(957)**	**(1 904)**

The Group has long-term construction contracts in three of its business areas. Most of the projects executed by Kongsberg Maritime and Kongsberg Oil & Gas Technologies have a duration of less than two years, and earnings on the individual projects account for a limited share of consolidated earnings. The projects performed by Kongsberg Defence Systems are of longer duration and the overall earnings from each individual project make a significant contribution to the Group's operations.

Summary of important contract data below:

MNOK	*2012*	*2011*
Total orders	33 120	30 464
Operating revenues for the year	8 187	6 786
Accumulated operating revenues	23 685	19 914
Accumulated variable expenses	17 569	14 476
Remaining operating revenues	9 435	10 551
Prepayments received	2 705	2 371
Remaining variable costs on onerous contracts	163	113

Significant accounting estimates

Income related to construction contracts is recognised in line with the estimated percentage of completion. Percentage of completion is normally calculated as accrued production costs as a percentage of total expected production costs. In certain cases, progress is calculated as a function of accrued hourly costs, or milestones achieved. The contracts' revenues are agreed. Total anticipated production costs are estimated based on a combination of empirical data, systematic estimation procedures, monitoring of efficiency targets and best judgement. In general, the number of remaining manhours necessary to develop or complete a project will constitute a large part of total project costs. The uncertainty of the estimates is influenced by a project's duration and technical complexity. Principles have been established for categorising projects in terms of technological complexity and the content of the development. This constitutes the basis for risk assessments and recognition of project profits. The projects are reviewed on a quarterly basis at minimum.

20 FINANCIAL INSTRUMENTS

A) Derivatives

MNOK	*Note*	*31 Dec 12*	*31 Dec 11*
Current assets			
Fair value forward contracts, cash flow hedges		173	78
Fair value currency options, cash flow hedges		2	-
Fair value interest rate swaps, cash flow hedges		(1)	-
Fair value currency options, project hedges		602	310
Fair value, loan hedges		5	(3)
Total derivatives, current assets		**782**	**385**
Non-current liabilities			
Interest rate swaps related to sale and lease-back	20D	9	6
Total derivatives, non-current liabilities		**9**	**6**
Current liabilities			
Fair value forward contracts, cash flow hedges		-	54
Fair value forward contracts, project hedges		44	279
Interest rate swaps and loan hedges		5	(3)
Total derivatives, current liabilities		**49**	**330**

B) Currency risk and hedging of currency

For information about KONGSBERG's currency risk and how it is handled, see Note 5 "Financial risk management objectives and policies".

KONGSBERG`s exposure to currency risk related to capitalised accounts receivable and accounts payable in USD and EUR was as follows, based on nominal amounts:

	31 Dec 12		31 Dec 11	
Amounts in mill.	*USD*	*EUR*	*USD*	*EUR*
Accounts receivable	355	28	117	49
Accounts payable	(156)	(13)	(26)	(15)
Net balance sheet exposure	**199**	**15**	**91**	**34**
Forward contracts project hedges [1]	1 020	349	1 018	312

1) According to KONGSBERG's currency strategy, all contracts in functional currency are hedged.

The specified forward currency contracts mentioned above are intended to hedge all contractual currency flows. This means that in addition to hedging capitalised trade receivables in foreign currency, the currency forwards will be used to hedge the invoicing remaining on signed contracts. KONGSBERG is also exposed to other currencies, but this is insignificant compared with its exposure in USD and EUR.

Significant foreign exchange rates applied in the consolidated financial statements during the year:

	Average exchange rates		Spot rates at 31 Dec.	
	2012	*2011*	*2012*	*2011*
USD	5.84	5.57	5.53	5.99
EUR	7.56	7.78	7.32	7.76

Currency hedging

At 31 December, the Group had the following foreign currency hedges, divided by hedge category:

2012 *Amounts in mill.*	*The gross value in NOK at 31 Dec 12, based on hedged rates*	*Net added(+)/ less(-) value in NOK at 31 Dec 12*	*Total hedged amount in USD 2012*	*Average hedged exchange rate in USD at 31 Dec 12*	*Total hedged amount in EUR at 31 Dec 12*	*Average hedged exchange rate in EUR at 31 Dec 12*
Hedge category						
Forward contracts, cash flow hedge [1]	3 272	173	410	5.95	109	7.63
Currency options, cash flow hedges [1]	140	2	25	5.60	-	-
Total hedges of forecasted sale	**3 412**	**176**	**435**		**109**	
Project hedges (fair value hedges) [2) 3)]	9 399	558	1 020	5.86	349	8.06
Loan hedges (fair value hedges) [2]	656	5	105	-	1	-
Total	**13 467**	**738**	**1 560**		**459**	

2011 *Amounts in mill.*	*The gross value in NOK at 31 Dec 11, based on hedged rates*	*Net added(+)/ less(-) value in NOK at 31 Dec 11*	*Total hedged amount in USD 2011*	*Average hedged exchange rate in USD at 31 Dec 11*	*Total hedged amount in EUR at 31 Dec 11*	*Average hedged exchange rate in EUR at 31 Dec 11*
Hedge category						
Forward contracts, cash flow hedges [1]	3 561	24	382	6.04	156	7.98
Currency options, cash flow hedges [1]	-	-	-	-	-	-
Total hedges of forecasted sale	**3 561**	**24**	**382**		**156**	
Project hedges (fair value hedges) [2) 3)]	8 063	32	1 018	5.81	312	8.48
Loan hedges (fair value hedges) [2]	610	(3)	91	5.98	1	7.82
Total	**12 234**	**53**	**1 491**		**469**	

1) Change in fair values associated with effective cash flow hedges (forward contracts and currency options) are recognised in the statement of comprehensive income (OCI). The component not regarded as an effective hedge is recognised through profit and loss.
2) The figures in the table linked to values based on agreed exchange rates and net fair values also include currencies other than USD and EUR. Loan hedges are currency hedges related to foreign currency loans.
3) Total change in value on hedged projects during 2012 is 526. Derivatives used as project hedges have correspondingly had positive values throughout the year. Thus, the hedging has been 100 % effective. Change in value is recognised in accounts receivables and construction contracts in progress (asset and liabilities).

In addition to the exchange rate on 31 December, the fair value of forward contracts is affected by interest yield curve. The interest yield curve within the various time intervals are received from Reuters which retrieves data from a variety of market participants. We also refer to to Note 4 “Fair value” and Note 20G “Financial instruments – Assessment of fair value”.

Sensitivity analysis

A strengthening of NOK against the USD and EUR at 31 December 2012 of 10 per cent (10 per cent in 2011) would have increased the statement of comprehensive income with the amounts included in the table. The analysis assumes that the other variables remain constant. As KONGSBERG has a hedging strategy that generally hedges all contractual currency flows and receivables in foreign currency, foreign exchange fluctuations will not fully affect the profitability of contracts signed. Any changes in the value of the currency options is not reflected in the table.

Estimated equity effect (after tax):[1]

Amounts in mill.	*31 Dec 12*	*31 Dec 11*
USD	163	165
EUR	57	87
Total	**220**	**252**

1) Cash flow hedges (hedges of forecasted sale) are considered to be 100 per cent effective, and all effects from a currency fluctuation will therefore be recognised on the statement of comprehensive income. For project hedges, neither the statement of comprehensive income nor the profit and loss will be affected as long as the hedges are 100 per cent effective.

A similar weakening of NOK against the above-mentioned currencies would have the same effect in terms of amount, but with an opposite sign, provided all variables remain constant.

C) Cash flow hedges

The periods in which cash flows related to derivatives that are cash flow hedges (hedges of forecasted sale and interest hedges) are expected to arise:

	31 Dec 12					31 Dec 11				
MNOK	*Carrying amount*	*Expected cash flow*	*2013*	*2014*	*2015*	*Carrying amount*	*Expected cash flow*	*2012*	*2013*	*2014*
Forward contracts										
Assets	173	177	118	59		78	79	76	3	-
Liabilities	-	-	-	-		(54)	(55)	(40)	(15)	-
Currency options										
Assets	2	2	2	-	-	-	-	-	-	-
Liabilities	-	-	-	-	-	-	-	-	-	-
Interest swap agreements										
Assets	-	-	-	-	-	-	-	-	-	-
Liabilities	(1)	(1)	(1)			-	-	-	-	-
Total	**174**	**178**	**119**	**59**	**-**	**24**	**24**	**36**	**(12)**	**-**

The periods in which cash flows related to derivatives that are cash flow hedges (hedges of forecasted sale and interest hedges) are expected to be reflected in profit and loss:

	31 Dec 12				31 Dec 11			
MNOK	*Carrying amount*	*Expected cash flow*	*2013*	*2014 and later*	*Carrying amount*	*Expected cash flow*	*2012*	*2013 and later*
Forward contracts								
Assets	173	177	106	71	*78*	79	48	31
Liabilities	-	-	-	-	*(54)*	(55)	(33)	(22)
Currency options								
Assets	2	2	2	-	-	-	-	-
Interest swap agreements								
Assets	-	-	-	-	-	-	-	-
Liabilities	(1)	(1)	-	(1)	-	-	-	-
Total	**174**	**178**	**108**	**70**	**24**	**24**	**15**	**9**

Cash flow hedges - hedging reserve

MNOK	*2012*	*2011*
Opening balance	112	301
Changes in added/ less value during the period		
- Currency forward contracts, option contracts and deferred gain 1)	155	(238)
- Interes rate swaps	(1)	-
Tax on items recognised directly in the statement of comprehensive income	(31)	74
Recognised gain/ loss during the period		
- Currency forward contracts, option contracts and deffered gain 1)	(44)	(25)
Closing balance hedge reserve 2)	**191**	**112**

If an expected contract becomes contractual and a project hedging is established, the recognised hedging reserve are transferred from the statement of comprehensive income to the carrying value of the hedged project. If an expected cash flow arise and does not result in a project hedging, the hedging reserve is recognised in the income statement along with the hedged transactions.

1) Deferred gains on cash flow hedges represents MNOK 89 at 31 December 2012 (MNOK 131 at 31 December 2011) allocated to projects. The gain arise when the forward contracts due to forecast hedges is realised and new forward contracts are established for the project. Any incurred gain/ loss are deferred and realised in line with the progress of the project.

2) The net effect of cash flow hedging before tax, recognised in the statements of comprehensive income, represents MNOK 110 in 2012 (MNOK 261 in 2011).

D) Interest rate risk on loans

	2012					2011				
Amounts in MNOK	*Due date*	*Nominal interest rate*	*Years to maturity*	*Nominal amount*	*Carrying amount*	*Due date*	*Nominal interest rate*	*Years to maturity*	*Nominal amount*	*Carrying amount*
Bond issue KOG 07	10 Sep 19	4.80%	6.7	250	250					
Bond issue KOG 06	10 Sep 17	3.63%	4.7	500	500					
Bond issue KOG 05	14 Apr 14	5.58%	1.3	500	500	14 Apr 14	6.64%	2.3	500	500
Bond issue KOG 04						30 Mar 12	3.39%	0.2	300	300
Other long-term loans				61	61				70	70
Other short-term loans									22	22
Total loans				**1 311**	**1 311**				**892**	**892**
Credit facility (undrawn borrowing limit)	1 Jul 15			1 000		1 Jul 15			1 000	-

At 31 December 2012, the credit facility was a syndicated credit facility totalling MNOK 1,000. The agreement was signed with four banks: DNB, Nordea, SEB and Danske Bank. The agreement will run until 2015. The interest rate is currently 3-month NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.20 per cent to 0.575 per cent. The credit facilities require that 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.

The bond loans were issued in NOK and are listed on the Oslo Stock Exchange. The interest is 3-month NIBOR + 3.75 per cent for loans with a nominal value of MNOK 500 and maturity in 2014, 3-month NIBOR + 1.8 per cent for loans with a nominal value of MNOK 500 and maturity in 2017, and fixed interest rate at 4.8 per cent p.a. for bond loans with a nominal value of MNOK 250 and maturity in 2019. The loans are capitalised at their amortised cost using the effective interest method.

Other loans comprise minor debts incurred directly by individual subsidiaries in local banks.

Interest rate swaps

	2012				2011	
Amounts in MNOK	*Due date*	*Interest rate*	*Amount 2012*	*Added (+)/ less value (-) 31 Dec 12*	*Amount 2011*	*Added (+)/ less value (-) 31 Dec 11*
Interest rate swaps, floating to fixed rate 1)	2 Jan 15	3.4%	150	(4)	150	(4)
Interest rate swaps, floating to fixed rate 1)	2 Jan 15	3.2%	120	(3)	120	(2)
Interest rate swaps, fixed to floating rate 2)	2 Jan 18	3-month NIBOR	247	(2)		
Total interest rate swaps			**517**	**(9)**	**270**	**(6)**

1) KONGSBERG has entered into swap agreements from floating to fixed interest for a nominal amount of MNOK 270. The agreements were entered into in connection with the Tenancy Agreements signed in connection with the sale and leaseback agreements as mentioned in Note 26 “Sale and leaseback”. The change in value on interest rate swaps is recognised in the income statement.

2) KONGSBERG has entered into swap agreements from fixed to floating interest for a nominal amount of MNOK 247. The agreement was entered into in connection with financing the business area real estate to reduce interest exposure. The change in value on the swap agreement is recognised in the income statement.

Sensitivity analysis of cash flow for instruments with variable interest rates

A change in the interest rate of 50 basis points (bp) on the date of the balance sheet would have increased (decreased) equity and the profit/(loss) by the amounts as shown in the table. The analysis assumes that other variables remain constant. The analysis was performed on the same basis in 2011.

Effect of an interest rate increase of 50 bp:

MNOK	*31 Dec 12 Profit/(loss)*	*31 Dec 11 Profit/(loss)*
Investments with floating interest rates	6	8
Loans with variable interest rates	(5)	(4)
Interest swap agreements	10	(4)
Cash flow sensitivity (net)	11	-

E) Liquidity risk

The table shows due dates under the terms of contract for financial liabilities, including interest payments. Liabilities such as public taxes/duties and income taxes are not financial liabilities and are therefore not included. The same applies to pre-payments from customers and the accrual of projects.

31 Dec 12 *MNOK*	*Carrying amount*	*Contractual cash flows*	*2013*	*2014*	*2015*	*2016*	*2017 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	1 250	(1 460)	(58)	(538)	(30)	(30)	(804)
Other loans and non-current liabilities	57	(57)	(45)	(1)	(1)	(1)	(10)
Accounts payable	927	(927)	(927)	-	-	-	-
Financial obligations that are derivatives							
Currency derivatives (gross less value)	44	(45)	(33)	(8)	(4)	-	-
Interest rate swaps	1	(1)	-	-	-	-	(1)
Loan hedging	5	(5)	(5)	-	-	-	-
Total	**2 284**	**(2 495)**	**(1 068)**	**(547)**	**(35)**	**(31)**	**(815)**

31 Dec 11 *MNOK*	*Carrying amount*	*Contractual cash flows*	*2012*	*2013*	*2014*	*2015*	*2016 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	800	(878)	(336)	(33)	(509)	-	-
Other loans and non-current liabilities	70	(70)	(44)	(12)	(5)	(5)	(4)
Accounts payable	1 036	(1 036)	(1 036)	-	-	-	-
Financial obligations that are derivatives							
Currency derivatives (gross less value)	333	(339)	(258)	(77)	(4)	(1)	-
Interest rate swaps	6	(6)	(2)	(2)	(2)	-	-
Loan hedging	3	(3)	(3)	-	-	-	-
Total	**2 248**	**(2 332)**	**(1 679)**	**(124)**	**(520)**	**(6)**	**(4)**

F) Summary of financial assets and liabilities

Financial assets and liabilities broken down into different categories for accounting purposes at 31 December 2012:

2012 *MNOK*	*Note*	*Derivatives used for hedging*	*Derivatives that do not qualify for hedging*	*Loans and receivables*	*Available for-sale*	*Other financial liabilities*	*Total*	*Fair value*
Assets - fixed assets								
Investment in available-for-sale shares	16	-	-	-	125	-	125	125
Other non-current assets	17	-	-	155	-	-	155	155
Assets - current assets								
Derivatives	20A	782	-	-	-	-	782	782
Receivables	18	-	-	2 559	-	-	2 559	2 559
Cash and cash equivalents	21	-	-	2 509	-	-	2 509	2 509
Financial liabilities - non-current								
Interest-bearing loans	20D	-	-	-	-	1 311	1 311	1 290
Derivatives	20A	-	9	-	-	-	9	9
Other non-current liabilities		-	-	-	-	74	74	74
Financial liabilities - current								
Derivatives	20A	49	-	-	-	-	49	49
Accounts payable	24	-	-	-	-	927	927	927

2011 MNOK	Note	Derivatives used for hedging	Derivatives that do not qualify for hedging	Loans and receivables	Available for-sale	Other financial liabilities	Total	Fair value
Assets - fixed assets								
Investment in available-for-sale shares	16	-	-	-	114	-	114	114
Other non-current assets	17	-	-	144	-	-	144	144
Assets - current assets								
Derivatives	20A	385	-	-	-	-	385	385
Receivables	18	-	-	2 645	-	-	2 645	2 645
Cash and cash equivalents	21	-	-	3 083	-	-	3 083	3 083
Financial liabilities - non-current								
Interest-bearing loans	20D	-	-	-	-	570	570	583
Derivatives	20A	-	6	-	-		6	6
Other non-current liabilities						105	105	105
Financial liabilities - current								
Interest-bearing loans	20D	-	-	-	-	322	322	321
Derivatives	20A	330	-	-	-		330	330
Accounts payable	24	-	-	-	-	1 036	1 036	1 036

G) Assessment of fair value

The following table illustrates the Group's assets and liabilities measured at fair value:

		2012			2011		
MNOK	*Note*	*Level 1*	*Level 2*	*Level 3*	*Level1*	*Level 2*	*Level 3*
Assets							
Investments in available-for-sale shares [1)]	16	69	-	56	58	-	56
Derivative financial assets	20A	-	782	-	-	385	-
Total assets at fair value		**69**	**782**	**56**	**58**	**385**	**56**
Liabilities							
Derivative financial liabilities	20A	-	58	-	-	336	-
Total liabilities at fair value		**-**	**58**	**-**	**-**	**336**	**-**

1) During 2012, there has not been additions, disposals or change in value of shares categorised as held for sale and included in level 3 above.

The different levels have been defined as follows:

Level 1: Fair value is measured by using quoted prices in active markets for identical financial instruments. No adjustments are made related to these prices.

Level 2: The fair value of financial instruments that are not traded on an active market is determined using valuation methods. These valuation methods maximise the use of observable data where they are available, and rely as little as possible on the Group's own estimates. Classification at level 2 requires that all significant data required to determine fair value are observable data.

Level 3: Fair value is measured using significant data that are not based on observable market data.

H) Significant accounting estimates

KONGSBERG has a number of financial instruments recgonised at fair value. When market prices are not observed directly through quoted prices, fair value is estimated by using various models based on internal estimates or input from banks or other market participants. Assumptions for such valuations include spot prices, forward rates and yield curves. In recent years, the market has been in a situation that has required a significant degree of judgement in the valuation of certain financial instruments.

Assessments are always based on KONGSBERG`s own critical judgement, but it is likely that observable market inputs and assumptions will change over time. Such changes may affect the calculated values of financial instruments significantly, and result in gains and losses with impact on the income statement in future periods. How these changes will affect the income statement depends on the type of instrument and whether it is part of a hedging relation.

21 CASH AND CASH EQUIVALENTS

Nominal amounts in MNOK	*31 Dec 12*	*31 Dec 11*
Short-term investments in the money market	1 153	1 330
Bank deposits, operating accounts	1 355	1 753
Total	**2 509**	**3 083**

Bank deposits contain funds related to withholding tax withdrawn from employees.

Bank guarantees amounting to MNOK 253 (MNOK 207 in 2011) have been furnished for these funds.

The Group's liquidity management is handled by the Group's corporate treasury unit.

22 SHARE CAPITAL

Share capital

At 31 December 2012, the Group's share capital consisted of 120,000,000 shares with a nominal value of NOK 1.25.

Changes in share capital

	Date	*Number of shares*	*Nominal value (NOK)*	*Amounts in MNOK*	*Adjustment factor*	*Share capital in MNOK*
Type of change						
Stock Exchange listing	13 Dec 93	5 850 000	20	117		117
Private placement with employees	1996	6 000 000	20	3		120
Share split	1997	24 000 000	5		1:4	120
Share issue	1999	30 000 000	5	30		150
Share split	2009	120 000 000	1.25		1:4	150

List of the largest shareholders at 31 December 2012

Shareholders	*Number of shares*	*Percentage*
The Norwegian State repr. by the Ministry of Trade and Industry	60 001 600	50.001%
The National Insurance Fund	10 379 462	8.650%
Arendals Fossekompani ASA	9 552 796	7.961%
MP Pensjon	4 812 800	4.011%
Skagen Vekst	3 110 267	2.592%
JP Morgan Chase Bank - nominee	1 984 550	1.654%
Verdipapirfondet Odin Norden	1 683 238	1.403%
Verdipapirfondet Odin Norge	1 497 245	1.248%
Danske invest Norske Instit. II	1 150 661	0.959%
Danske invest Norske Aksjer Inst	895 244	0.745%
Total	**95 067 863**	**79.223%**
Other (stake < 0.75%)	24 932 137	20.777%
Total number of shares	**120 000 000**	**100.000%**

Shareholders, by size of holding at 31 December 2012

Number of shares	*Number of owners*	*Number of shares*	*Holding percentage*
1–1 000	5 543	1 779 169	1.48%
1 001–10 000	1 645	4 446 365	3.71%
10 001–100 000	165	5 243 616	4.37%
100 001–1 000 000	47	14 358 231	11.97%
1 000 001–10 000 000	7	23 791 557	19.83%
Over 10 000 000	2	70 381 062	58.65%
Total	**7 409**	**120 000 000**	**100.00%**

By the 7 409 shareholders at 31 December 2012, 858 foreign shareholoders owned a total of 9.19 per cent of the shares.

Treasury shares

KONGSBERG held 69,804 treasury shares at year-end 2012. The shares were purchased in accordance with the authorisation granted by the Annual General Meeting, authorising the repurchase of up to five per cent of the shares outstanding.

	Number
Number of treasury shares at 31 December 2011	74 955
Purchase of treasury shares	618 736
Treasury shares conveyed to employees	623 887
Number of treasury shares at 31 Dec 2011	**69 804**

Disposals of treasury shares are recognised at market value on the date of the disposal, while the employee discount were expensed as salaries by MNOK 12.0 excluding social security tax in 2012 and MNOK 12.8 excluding social security tax in 2011.

Dividends

Number of shares	*2012*	*2011*
Dividends paid in MNOK	450	450
Dividends paid in NOK per share	3.75	3.75

The Board has proposed dividends for 2012 of MNOK 450. This is equivalent to NOK 3.75 per share.

23 PROVISIONS

Non-current provisions

MNOK	*Sale and lease-back*
1 Jan 2012	**126**
Provision	7
Effect of discounting	(3)
Dissolved	(13)
Provision used	(3)
31 Dec 2012	**114**

Current provisions

MNOK	*Warranty*	*Other*	*Total*
1 Jan 2012	**676**	**399**	**1 075**
Provision	262	101	363
Dissolved	(122)	(130)	(252)
Provision used	(152)	(44)	(196)
31 Dec 2012	**664**	**326**	**990**

Non-current provisions

KONGSBERG has, in the period from 1999 to 2007, sold properties in the Kongsberg Technology Park. The properties have been leased back on long-term leases that expire from 2014 to 2025. In connection with sale and lease-back, subleases were signed at rates lower than the total of rental, ownership and refurbishment costs for the buildings that were leased back. This net loss is considered an onerous contract pursuant to IAS 37, and the net current value of future losses has been provided for in the financial statements. In addition, provision has been made related to lease expiration. The remaining provision is subject to annual review. The effect on discounting has been recognised as financial expenses.

Provisions for warranties

Provisions for warranties are provisions for warranty costs on completed deliveries. Unused warranty provisions are dissolved upon expiry of the warranty period. Warranty provisions are estimated based on a combination of empirical data, specific calculations and best judgement. The increase in warranty provisions is a natural consequence of the Group's growth. Warranty periods vary from one to two years within Kongsberg Maritime. For Kongsberg Defence Systems and Kongsberg Protech Systems, the warranty periods normally extend from one to five years, but for Kongsberg Defence Systems they can last for up to 30 years under certain circumstances.

Other provisions

Provisions are recognised when the Group has an obligation as a result of a past event, it is probable that there will be a financial settlement as a result of this commitment, and the size of that obligation can be measured reliably.

Provisions apply to circumstanses where there is a disagreement between the contracting parties, uncertainty in relation to the warranty, or products that are early in their life cycles.

Uncertainty associated with estimates

The evaluations are based on a combination of actual figures, technical assessments and best judgement. The estimates are updated on a quarterly basis. There is considerable uncertainty related to these provisions as to amount and time.

24 OTHER CURRENT LIABILITIES

Other current liabilities

MNOK	*31 Dec 12*	*31 Dec 11*
Accounts payable	927	1 036
Public duties payable	307	375
Tax payable	225	344
Accrued holiday pay	380	343
Prepayments from customers on delivery projects	293	502
Liabilities related to performance-based salary	160	214
Other	1 499	1 014
Total	**3 791**	**3 828**

25 ASSETS PLEDGED AS COLLATERAL AND GUARANTEES

Assets pledged as collateral

The Group's loan contracts, i.e. the bond loan agreements and the agreement on syndicated credit facilities, are based on negative pledges.

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 and by Kongsberg Gruppen ASA (parental guarantees). Kongsberg Gruppen ASA is responsible for all guarantees:

MNOK	*31 Dec 12*	*31 Dec 11*
Prepayments from and completion guarantees to customers	3 300	4 026

Kongsberg Gruppen ASA has non-committed framework agreements for guarantees with banks and insurance companies.

26 SALE AND LEASE-BACK

During the period from 1999 to 2007, KONGSBERG sold properties in Kongsberg Technology Park. The properties have been leased back on long-term leases that expire from 2014 to 2025. The leasebacks are considered operational leasing agreements.

In addition to lease payments, KONGSBERG is responsible for certain expenses related to taxes and maintenance of the properties. The leases have durations ranging from three months to 15 years. With the exception of the properties sold in 2007, the properties are mainly leased to external tenants. Provisions related to this are discussed in Note 23 "Provisions".

MNOK	*Year of disposal*	*Annual lease payments 2013*	*Lease payments 2014 –2018*	*Lease payments beyond 2018*	*Remaining term of lease*	*Lease payments –sublease 2013*	*Weighted average subleasing period*
Contract 1 – a total of 28,000 m² industrial/office	1999	32	33	-	2 years	36	2 years
Contract 2 – a total of 38,000 m² industrial/office	2001	34	181	-	6 years	36	3.5 years
Contract 3 – a total of 6,000 m² industrial/office	2002	6	23	-	5 years	6	3.5 years
Contract 4 – a total of 10,000 m² industrial/office	2006	16	88	51	9 years	19	9 years
Contract 5 – a total of 39,000 m² industrial/office	2007	56	296	396	12 years	56	12 years
Total		**144**	**621**	**447**		**153**	

For all agreements the Group has pre-emptive rights based on market conditions. The Group has the right to extend all leases for at least five years at a time. The lease payments are fixed by a 2.5 per cent annual adjustment for agreement 1, and a 2.25 per cent annual adjustment for agreements 2 and 3. Contracts 4 and 5 will be adjusted by 100 per cent of the change in the consumer price index, which is assumed equal to 2 per cent annually. The lease payments for contract 1 is also influenced by the interest rate, as 100 per cent is based on floating interest rates since a renegotiation in 2010. The lease payment is adjusted annually based on the consumer price index.

Contract 5 was signed in connection with the disposal of property carried out in 2007. Kongsberg Maritime AS has signed a long-term lease for the entire term of the lease. The lease agreement consists of two buildings and the lease payments are adjusted annually based on the consumer price index. The Group has the right to extend the term of the lease for five years at a time on existing terms.

27 RELATED PARTIES

Statement on the Group CEO and Executive Management Remuneration

The Board proposes that the following guidelines are applied for 2013 and until the Annual General Meeting in 2014.

The main principles of the company's remuneration policy for the Group CEO and Executive Management

The principles that apply to remuneration of executive management are adopted by the Board. Each year, the Board of Directors assesses the CEO's remuneration and other compensation conditions, as well as the Group's performance-based salary plan for executives. The Board's Compensation Committee prepares the cases on the agenda for the Board of Directors. The CEO stipulates compensation for the other members of corporate executive management in consultation with the Chairman of the Board.

Management remuneration at Kongsberg Gruppen ASA and Group companies ("KONGSBERG") are based on the following main principles:

- Management remuneration is to be competitive, but not leading, and thus support a general moderation with regards to the development of the management remuneration; the company aspires to attract and retain skilled leaders.
- Management remuneration is to be motivational, i.e. they should be structured to motivate managers to strive to achieve constant improvements in operations and the company's results.
- The remuneration system should be understandable and acceptable both inside and outside of KONGSBERG.
- The remuneration system is to be flexible and open to adaptations when needs change.
- The remuneration system is to encourage cooperation.

Compensation to corporate management shall reflect their responsibility for management, performance and sustainable development at KONGSBERG, and take into account the business segment's size and complexity. The arrangements shall otherwise be transparent and in line with the principles for good corporate governance.

Other companies in the Group are to observe the main principles of the senior executive remuneration policy. One of the goals is to coordinate remuneration policy and the schemes used for variable benefits throughout the Group.

Elements of Management Remuneration –fixed salary and variable benefits

The basis for wage setting is the aggregate level of a manager's regular salary and variable benefits. Fixed salary consists of a basic salary plus regular benefits in kind and post-employment benefit plans. As of 2012 the Board decided to introduce a long-term incentive (LTI) as part of the fixed remuneration. Variable benefits consist of performance-based salary as well as the share program. Regular surveys are made of relevant markets to ensure that overall compensation packages are competitive, but not leading.

Base salary

The base salary should normally be the main element of the remuneration of management. It is normally considered once a year.

Regular benefits in kind

Key management personnel will normally be offered the benefits in kind that are common for comparable positions, e.g. free telephone service, free broadband service, newspapers, company car/car arrangement and parking. No particular limitations have been placed on the type of benefits in kind that can be agreed.

Pension plans

Key management personnel shall normally have pension plans that guarantee pensions that are proportional to their salary level. Generally, this is satisfied by membership in KONGSBERG's collective main pension plan for salaries of up to 12G.

The Group's collective main pension plan is a defined contribution plan. The contributions are 0 per cent of salary between 0G and 1G, 5 per cent of salary from 1G to 6G and 8 per cent of salary from 6G to 12G. The assets can be invested in one of three savings portfolio options, consisting of 30, 50 or 80 per cent shares, respectively. The plan was introduced on 1 January 2008. Employees ages 52 or older at the time of transition remained in a closed defined benefit pension plan.

Managers with a base salary in excess of 12G also earn pensions on the component of their salaries that exceeds 12G through an unfunded contribution plan. The contribution is 18 per cent of the base salary exceeding 12G, and the investment options are the same as for the main pension plan. This plan will continue in 2013.

Employees aged 52 or older on 1 January 2008 remained in a closed defined benefit pension plan. There is a ceiling on maximum pensionable income of NOK 2,750,000, which was adjusted for inflation in line with the consumer price index at 1 January 2009 and thereafter annually on 1 January.

One member of corporate executive management is covered by the old defined benefit plans. The CEO has a separate agreement for retirement at age 67. The combination of the National Insurance Plan (based on full accrual) and KONGSBERG's Obligatory Service Pension will provide a benefit of NOK 1,200,000 per year from age 67 to age 77 and then NOK 1,000,000 each year from age 77 and for life. The amounts are adjusted annually in line with benefits paid from the National Insurance Plan, i.e. to date with general salary increases less 0.75 per cent.

Early retirement agreements have been and can be signed. However, KONGSBERG would like to limit the use of such agreements. As from 1 January 2009, KONGSBERG introduced new rules regarding retirement with severance pay (early retirement), in line with the State's Ownership Report. The rules offer a possibility for retirement from age 65, but with a reciprocal right for KONGSBERG and the corporate executive to call for retirement with severance pay from age 63. The benefit equals 65 per cent of the annual salary, based on a minimum of 15 years of accrual. If the employee resigns between ages 63 and 65, the pension earnings will be reduced compared with the defined contribution pension that applies from age 67. The company started to consider a restructuring of early retirement in 2012 and will continue this work in 2013.

One member of corporate executive management has older agreement that release him from the obligation to work from age 60. Providing a vested period of at least 10 years, the benefit is 90 per cent of salary from age 60, diminishing by 10 per cent per year to 60 per cent of salary from age 63 to age 67. Similarly, three other executive vice presidents have agreements that allow retirement from age 62. With a vested period of at least 15 years, the benefit will be 65 per cent of salary up to age 67. These older plans were winded up in 2006 and 2008, respectively. The CEO has a contract for retirement with severance pay of NOK 1,400,000 per year from age 65 to age 67. The CEO and KONGSBERG can reciprocally call for retirement with severance pay from age 63 or 64, based on compensation of NOK 1,300,000 or NOK 1,350,000 per year, respectively, up to age 65. The amounts are adjusted for annually in line with benefits paid from the National Insurance Plan.

Long-term incentive (LTI)
From 2012, the Board implemented, as a part of the fixed remuneration, a long-term incentive in the form of compensation of 25 per cent and 15–20 per cent of annual basic salary, respectively to CEO and other members of the corporate management. First payment may be in 2013. The reason for this is to be competitive with comparable companies. In order to be paid, KONGSBERG have to obtain a positive operating profit (EBIT) in the previous year. Participants in the plan will be obliged to invest the net amount after tax in Kongsberg shares, purchased in the market and held in a period of three years. If participants leave the company on their own initiative, they have to repay an amount equal to equity value after tax on termination date for all shares that do not meet the three-year requirement. The plan will not provide a basis for pension benefits. For those covered by the plan, the annual maximum accrual of salary is reduced from 75 per cent to 60 per cent of basic salary. The plan will be subject to an evaluation annually.

Performance-based salar
KONGSBERG's top executives and most important decision-makers have been given direct financial incentives linked to KONGSBERG's development and improvement. For this purpose, in 2006 the Board adopted a performance-based plan that covers roughly 90 managers. The plan is designed for the purpose that managers who perform well over time will earn an average performance-based salary of 20-30 per cent of their regular salary. Performance-based salary is not included in pensionable salary. The plan will be continued in 2013.

The performance-based salary plan is based on three independent components – change in EBITA, operating margin achieved (if more than 10 per cent) and personal, non-financial targets. The performance-based plan distinguishes between accrued performance-based salary (into an account) and paid performance-based salary (out of an account). The year's accrued performance-based salary, positive or negative, will be credited to an individual's performance-based salary account, and then 1/3 of any positive balance in the performance-based salary account will be paid out once the accounts have received final approval from the Board.

Changes in the year's EBITA, adjusted for 10 per cent calculated interest rate on changed capital expenditure (adjusted EBITA) is the most significant parameter of the performance-based salary for executives. The performance-based salary is weighted for a manager's own sphere of responsibility and higher levels. Estimated performance- based salary is thereby favourable if the adjusted EBITA shows progress. In the event of a decrease in the adjusted EBITA, estimated performance-based salary can be negative, reducing the balance in the performance-based salary account.

Annual accruals to the account may not exceed a maximum of 75 per cent of the basic salary, while annual disbursements from the account cannot exceed 50 per cent of the basic salary. The introduction of LTI will, as mentioned above, lead to a maximum annual performance-based salary of 60 per cent for those covered by the LTI plan. The account will not be paid out in the event of resignation from the Group prior to retirement. The account has an equalising effect over time, encourages a long-term perspective and ensures that the participants have not only an upside, but also a downside.

The performance-based salary provides no basis for pension and is annually assessed by the Compensation Committee and the Board of Directors to make sure that it works as intended and the requisite adjustments are made.

Compensation linked to shares or to the development of the share price
Key management personnel have an opportunity to participate fully in KONGSBERG's discounted employee share program on the same terms as all Group employees. KONGSBERG has no arrangement for the allocation of share options or other instruments associated with the company's shares. There are no plans to introduce such arrangements.

Severance package arrangements
To satisfy KONGSBERG's need at all times to ensure that the composition of management accords with the needs of the business segments, agreements have been and can be signed regarding severance package arrangements. Efforts will be made to design severance arrangements that will be perceived as acceptable inside and outside the company, and from 2011, severance packages constitutes maximum the value of six months' salary and remuneration. Before 2011, severance package arrangements gave right to up to 12 months' severance pay. Such agreements have been signed for the corporate EVPs under the framework of the Working Environment Act. The Chief Executive Officer has an agreement that accommodates KONGSBERG's need to ask the CEO to leave immediately if that were to be in KONGSBERG's best interest. Beyond the reciprocal six-month period of notice, the CEO can receive full pay until accepting a new position, if any, limited to up to 12 months and provided that it is KONGSBERG that asks for the CEO's resignation.

Statement of the fiscal year 2012
The executive compensation policy for the fiscal year 2012 has been implemented in accordance with the above-mentioned information and the guidelines discussed at KONGSBERG's annual general meeting in 2012.

Following the ordinary wage settlement on 1 July 2012, the CEO's basic salary was adjusted up by 4.1 per cent to NOK 3,720,000 a year (2011: 4.5 per cent). For the rest of the corporate management the basic salary was adjusted up by an average of 4.1 per cent (2011: 5.7 per cent). In addition, there is performance-based salary, as described above, which resulted in payments as described below.

In the consolidated financial statements for 2012, performance-based salary for executive management of MNOK -1 is calculated; 1 per cent of the salary base for the participants in the arrangement, excluding social security tax, (MNOK 29 in 2011, equalling 25 per cent). During 2012, MNOK 37 was paid, corresponding to 32 per cent of the salary base for the participants in the arrangement, excluding social security tax (39 MNOK for 2011, corresponding to 36 per cent). KONGSBERG has not entered into or amended any agreements for compensation with material impact on KONGSBERG or the shareholders in the previous financial year.

Compensation and other benefits, specified for the members of Corporate Executive Management for 2012 and 2011 1)

Corporate management *Amounts in TNOK*	*Year*	*Salary including holiday pay*	*Performance based salary including holiday pay 2)*	*Other benefits reported during the accounting year 3)*	*Total benefits*	*Estimate pension earning for the year 4)*	*Balance car loans/ loans*	*Number of shares*
Walter Qvam, CEO	2012	3 676	1 350	298	5 324	1 948	-	5 197
	2011	3 525	1 531	286	5 342	1 885	-	4 808
Hans-Jørgen Wibstad, CFO, from 1 January 2012	2012	2 065	80	333	2 478	182		389
Stig Trondvold, EVP, Business Development	2012	1 905	847	462	3 214	878	376	14 773
	2011	1 823	883	443	3 149	654	440	14 384
Johnny Løcka, EVP, Corporate functions	2012	1 607	645	507	2 759	371	495	957
	2011	1 581	695	663	2 939	357	562	568
Hilde Øygarden, EVP, Strategy and analysis, from 1 January 2012	2012	1 268	508	350	2 126	133	265	4 031
	2011							
Even Aas, EVP, Public Affairs	2012	1 408	646	315	2 369	403	-	10 981
	2011	1 354	656	306	2 316	340		10 592
Arne Solberg, CFO, until 31 December 2011	2012							
	2011	1 782	864	243	2 889	214	586	31 084
Total salary and compensation to management at the parent company	**2012**	**11 929**	**4 076**	**2 265**	**18 270**	**3 915**	**1 136**	**36 328**
	2011	**10 065**	**4 629**	**1 941**	**16 635**	**3 450**	**1 588**	**61 436**
Geir Håøy, President, Kongsberg Maritime	2012	2 100	624	218	2 942	363	490	631
	2011	1 902	572	214	2 688	232	-	242
Harald Ånnestad, President, Kongsberg Defence Systems	2012	2 118	864	715	3 697	542	418	3 573
	2011	2 002	960	683	3 645	524	481	3 184
Egil Haugsdal, President, Kongsberg Protech Systems	2012	2 177	864	780	3 821	628	475	9 589
	2011	2 045	960	845	3 850	521	543	9 200
Pål Helsing, President, Kongsberg Oil & Gas Technologies	2012	2 190	496	517	3 203	572	678	-
	2011	2 132	347	432	2 911	534	-	-
Total salary and compensation to corporate management	**2012**	**20 514**	**6 924**	**4 495**	**31 933**	**6 020**	**3 197**	**50 121**
	2011	**18 146**	**7 468**	**4 115**	**29 729**	**5 261**	**2 612**	**74 062**

1) Compensation and other benefits to members of corporate executive management are based on their time as part of corporate management.

2) The payment of performance-based part of salary in 2012 accounted for 1/3 of the balance in the performance-based salary account, which was expensed during the period 2007-2011. Performace-based salary is recognised in the same year it is calculated and transferred to performance-based salary account. The remaining part of performance-based salary is paid in subsequent years. However, the remaining part is contingent on continued employment and is affected by future goal achievement. Current year's estimated and expensed performance-based salary for corporate management equals MNOK 0.3 in 2012 (MNOK 3.9 in 2011). Holiday pay is related to the payment of performance-based salary the previous year.

3) Benefits other than cash refers to expensed discounts on shares in connection with the employee share programme for all employees, telephone/broadband, car agreements and compensation for the taxable share of pensions and insurance, as well as other taxable benefits.

4) An adjustment for 2011 is made with the share of pension earnings related to ITP (deposit-based occupational pension plan) below 12G for affected individuals in corporate management.

Shares owned by, and compensation to the Members of the Board of Directors

	Year	Number of shares		Fixed compensation to the Board of Directors	Compensation for committee meetings	Total compensation to the Board of Directors	Number of Board meetings[2)]
Finn Jebsen, Chairman of the Board	2012	20 000	(through the company Fateburet AS)	385 667	33 000	418 667	12
	2011	20 000	(through the company Fateburet AS)	372 667	28 550	401 217	11
Erik Must[1)], member the Board	2012	524 600	(personally owned through the company Must Invest AS)	193 000	28 200	221 200	12
	2011	524 600	(personally owned through the company Must Invest AS)	186 667	23 800	210 467	11
John Giverholt, member the Board	2012	3 200		193 000	48 600	241 600	9
	2011	3 200		186 667	48 000	234 667	11
Anne-Lise Aukner, member the Board, Deputy Chairman of the Board from 1 May 2011	2012	-		211 667	42 600	254 267	10
	2011	-		198 667	42 000	240 667	8
Kai Johansen, member the Board	2012	-		193 000	34 200	227 200	11
	2011	-		186 667	42 000	228 667	11
Roar Marthiniussen, member the Board	2012	4 657		193 000	28 200	221 200	12
	2011	4 268		186 667	23 800	210 467	11
Helge Lintvedt, member the Board	2012	-		193 000	-	193 000	12
	2011	-		186 667	-	186 667	11
Irene Waage Basili, member the Board from 1 May 2011	2012	-		193 000	-	193 000	11
	2011	-		126 000	-	126 000	8
Roar Flåthen, permanent alternate member from 1 May 2012	2012	-		130 000	-	130 000	3
Arve Stengelsrud, alternate member	2012	-		9 800	-	9 800	1
Benedicte Berg Schilbred, Deputy Chairman of the Board until 30 April 2011	2011	-		66 667	-	66 667	3
Total compensation to the Board	**2012**	**-**		**1 895 134**	**214 800**	**2 109 934**	
	2011	**-**		**1 697 336**	**208 150**	**1 905 486**	

1) Erik Must is the chairman of the Board of Arendals Fossekompani ASA, which owns 9,552,796 shares in Kongsberg Gruppen ASA.
2) 12 Board meetings were held in 2012 (11 Board meetings in 2011).

Transactions between related parties

The Norwegian State as the largest owner

The Norwgian State as represented by the Minstry of Trade and Industry is KONGSBERG's largest owner (50.001 per cent of the shares in Kongsberg Gruppen ASA). The State represented by the Ministry of Defence 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 December 2012 KONGSBERG had an outstanding balance from State-owned customers of MNOK 81, while other liability items in respect of state suppliers amounted to MNOK 2.3 at 31 December 2012. In 2012, KONGSBERG issued invoices to state customers for a total of MNOK 977. Goods and services purchased from state suppliers in 2012 amounted to MNOK 62.

In 2010, an agreement was signed with the Ministry of Trade and Industry regarding a State guarantee in connection with building the composite plant. The guarantee has been furnished in the case the Norwegian authorities decide not to procure fighter aircraft. The frame of the guarantee is for MNOK 737, with a counter guarantee of MNOK 240 to cover any repurchase of property, plant and equipment.

28 AUDITOR FEES

NOK 1 000	2012 Parent company	2012 Sub-sidiaries in Norway	2012 Sub-sidiaries abroad	Total 2012	2011 Parent company	2011 Sub-sidiaries in Norway	2011 Sub-sidiaries abroad	Total 2011
Group auditor Ernst & Young								
Statutory audit	772	5 609	885	7 266	594	4 572	951	6 117
Other assurance services	-	176	-	176	10	89	298	397
Tax consultancy	143	923	2 464	3 530	62	699	1 461	2 222
Other services	364	95	-	459	573	28	-	601
Total fees, Ernst & Young	**1 279**	**6 803**	**3 349**	**11 431**	**1 239**	**5 388**	**2 710**	**9 337**
Others auditors								
Estimated auditing fees		442	1 842	2 284	-	21	1 115	1 136

29 BUSINESS COMBINATIONS

Total acquisitions 2012

KONGSBERG has during 2012 acquired some smaller-sized businesses. The following values have been added to the Group through these acquisitions:

Preliminary purchase price allocation for various acquisitions during 2012

MNOK	*Recognised values at acquisition*	*Adjustments of fair value*	*Carrying amount prior to acquisition*
Intangible assets excluding goodwill	18	18	-
Other Assets	20	-	20
Liabilities	(6)	-	(6)
Net identifiable assets and liabilities	**32**	**18**	**14**
Goodwill upon aquisition	38		
Total remuneration incl. cash payment and estimated additional remuneration	**70**		
Estimated additional remuneration	-		
Cash acquired	-		
Net closing cash flow	**70**		

Goodwill arising from the preliminary purcahse price allocation is mainly related to the competence, capacity, market acess, networking, synergies, distribution channels and geographic location.

No pro forma figures have been prepared for the the acquisitions conducted in 2012 as the amounts are considered immaterial to the consolidated financial statements.

30 LIST OF GROUP COMPANIES

The following companies are consolidated:

Company name	*Country of origin*	*Stake as a percenage 31 Dec 12*	*Stake as a percenage 31 Dec 1*
Kongsberg Gruppen AS	**Norway**	**Parent**	**Parent**
Kongsberg Defence & Aerospace AS	Norway	100	100
Kongsberg Spacetec AS	Norway	100	100
Kongsberg Satellite Services AS	Norway	50	50
Konsberg Norspace AS	Norway	100	100
Kongsberg Oil & Gas Technologies AS	Norway	100	100
Kongsberg Drilling Managment Solutions AS	Norway	100	100
Kongsberg Teknologipark AS	Norway	100	100
Kongsberg Næringseiendom AS	Norway	100	100
Kongsberg Næringsparkutvikling AS	Norway	100	100
Kongsberg Næringsbygg 2 AS	Norway	100	100
Kongsberg Næringsbygg 3 AS	Norway	100	100
Kongsberg Næringsbygg 5 AS	Norway	100	100
Kongsberg Næringsbygg 6 AS	Norway	100	100
Kongsberg Næringsbygg 7 AS	Norway	100	100
Kongsberg Næringsbygg 8 AS	Norway	100	100
Kongsberg Næringsbygg 9 AS	Norway	100	100
Kongsberg Seatex AS	Norway	100	100
Vehicle Tracking and Information Systems AS	Norway	100	100
Nerion AS	Norway	100	100
Kongsberg Maritime AS	Norway	100	100
Lodic AS	Norway	55	55
Kongsberg Norcontrol IT AS	Norway	100	100
Kongsberg Maritime Engineering AS	Norway	100	100
Portside AS	Norway	100	100
Kongsberg Evotec AS	Norway	100	100
Advali AS	Norway	100	0
Kongsberg Maritime Srl.	Italy	100	100
Simrad Srl	Italy	100	100
Kongsberg Maritime Holland BV	The Netherlands	100	100
Kongsberg Maritime Poland Sp.z o.o.	Poland	100	100
Kongsberg Defence Sp.zo.o.	Poland	100	100
Simrad Spain SL	Spain	100	100
Kongsberg Maritime Sweden AB	Sweden	100	100
Kongsberg Defence Oy	Finland	100	100
Kongsberg Maritime GmbH	Germany	100	100
Kongsberg Reinsurance Ltd.	Ireland	100	100
Kongsberg Norcontrol IT Ltd.	Great Britain	100	100
Seatex Ltd.	Great Britain	100	100
Kongsberg Maritime Holding Ltd.	Great Britain	100	100
Kongsberg Maritime Ltd.	Great Britain	100	100
Simrad Leasing Ltd.	Great Britain	100	100

Company name	*Country of origin*	*Stake as a percenage 31 Dec 12*	*Stake as a percenage 31 Dec 1*
Kongsberg Oil & Gas Technologies Ltd. (former Kongsberg Process Simulation Ltd.)	Great Britain	100	100
GeoAcoustics Ltd.	Great Britain	100	100
Kongsberg Hungaria Engineering Service Development and Trading Llc	Hungary	100	100
KM Greece AE	Greece	100	100
KM Tech LLC	Russia	100	100
Gallium Visual Systems Inc.	Canada	100	100
Kongsberg Maritime Simulation Ltd.	Canada	100	100
Kongsberg Maritime Canada Ltd.	Canada	100	100
Kongsberg Mesotech Ltd.	Canada	100	100
Kongsberg Protech Systems Canada Corporation Inc.	Canada	100	100
Kongsberg Maritime Simulation Inc.	USA	100	100
Simrad North America Inc.	USA	100	100
Kongsberg Maritime Inc.	USA	100	100
Kongsberg Underwater Technology Inc.	USA	100	100
Kongsberg Protech Systems USA Corporation Inc.	USA	100	100
Kongsberg Oil & Gas Technologies Inc.	USA	100	100
Geo Acoustics Inc.	USA	100	100
Seaflex Riser Technology Inc.	USA	100	100
GlobalSim Inc.	USA	100	100
Hydroid Inc.	USA	100	100
Gallium Visual Systems Inc.	USA	100	100
Kongsberg Integrated Tactical Systems Inc.	USA	100	100
Kongsberg Maritime do Brasil S.A.	Brazil	80	80
KM Traning do Brasil LTDA	Brazil	100	100
KOGT do Brazil S.A.	Brazil	100	100
KM Mexico S.A. de CV	Mexico	100	100
Kongsberg Asia Pacific Ltd.	Norway	100	100
Kongsberg Maritime Hoi Tung Holding Ltd.	China	90	90
Kongsberg Maritime China (Shanghai) Ltd.	China	100	100
Kongsberg Maritime China (Zhenjiang) Ltd.	China	56.2	56.2
Kongsberg Maritime China (Jiangsu) Ltd.	China	100	100
Kongsberg Maritime Korea Ltd.	South Korea	96.9	96.9
Kongsberg Norcontrol IT Pte. Ltd.	Singapore	100	100
Kongsberg Maritime Pte. Ltd.	Singapore	100	100
GeoAcoustics Asia Pacific Pte Ltd.	Singapore	100	100

Company name	Country of origin	Stake as a percenage 31 Dec 12	Stake as a percenage 31 Dec 1
Kongsberg Process Simulation PVT Ltd.	India	Merged	100
GeoAcoustics India	India	100	100
Kongsberg Maritime India Pvt. Ltd.	India	Merged	70
Kongsberg Maritime India Pvt. Ltd. (SRD Engineering PVT)	India	91	100
Kongsberg Oil & Gas Technologies PVT Ltd.	India	100	100

Company name	Country of origin	Stake as a percenage 31 Dec 12	Stake as a percenage 31 Dec 1
Digimaker PVT	India	100	-
Kongsberg Defence Ltd.	Saudi Arabia	100	100
KM Middle East DMC	Dubai	70	70
Kongsberg Protech Systems Australia Pty Ltd.	Australia	100	100
Kongsberg Oil & Gas Technologies	Australia	100	-
KM Malaysia	Malaysia	100	-

31 INVESTMENT IN JOINT VENTURES

Kongsberg Satellite Services AS is consolidated using the proportionate method. Summarized financial information regarding the joint venture:

MNOK	Revenues	Profit for the year	Fixed assets	Current assets	Equity	Non-current liabilities	Current liabilities
Kongsberg Satellite Services AS 50% (Tromsø)	208	45	204	51	196	49	10

The table above represents KONGSBERG's share. The company is not listed , hence no observable market values exist.

32 SUBSEQUENT EVENTS

Acquisition of Apply Nemo AS (now Kongsberg Nemo AS)

Kongsberg Oil & Gas Technologies AS (KOGT), a wholly owned subsidiary of Kongsberg Gruppen ASA has with effect from 8 January 2013 acquired 100 per cent of the shares in Apply Nemo AS. Apply Nemo AS is an independent supplier of advanced engineering services, products and solutions for oil and gas installations at seabed. The acquisition will strengthen Kongsberg Oil & Gas Technologies' supply and capasity in subsea oil and gas market. The company is headquartered in Oslo and is established both in the North Sea and in Australia. The company has 172 employees. The shares in Apply Nemo AS is acquired for MNOK 340. The purchase price allocation has commenced but is not completed. Preliminary purchase price allocation is presented below.

Preliminary purchase price allocation for Apply Nemo AS

MNOK	Recognised values at acquisition	Adjustments of fair value	Carrying amount prior to acquisition
Intangible assets excluding goodwill	135	130	5
Goodwill from previous acquistions	-	(71)	71
Other Assets	114	-	114
Liabilities	(154)	(36)	(118)
Net identifiable assets and liabilities	**95**	**23**	**72**
Goodwill upon aquisition	245		
Total remuneration incl. cash payment and estimated additional remuneration	**340**		
Estimated additional remuneration	-		
Cash acquired	(11)		
Net closing cash flow	**329**		

Goodwill arising from the preliminary purcahse price allocation is mainly related to competence, capacity and synergies.

INCOME STATEMENT AND BALANCE SHEET

Kongsberg Gruppen ASA

INCOME STATEMENT 1 JANUARY–31 DECEMBER

MNOK	*Note*	*2012*	*2011*
Revenues	9	**202**	**193**
Payroll expenses	4, 5	(106)	(117)
Depreciation		(2)	(2)
Other operating expenses	4	(116)	(123)
Total operating expenses		**(224)**	**(242)**
EBIT		**(22)**	**(49)**
Interest from Group companies		52	51
Impairment on shares		(5)	(22)
Currency trading gains/(loss)		(2)	13
Interest to Group companies		(46)	(59)
Other interest expenses		(6)	(6)
Other financial expenses		8	(2)
Group contribution received		400	700
Net financial items		**401**	**675**
Earnings before tax (EBIT)		**379**	**626**
Tax expense	6	(110)	(189)
Profit for the year		**269**	**437**
Distributable and equity transfers			
Proposed dividends		(450)	(450)

BALANCE AT 31 DECEMBER

MNOK	*Note*	*2012*	*2011*
ASSETS			
Non-current assets			
Deferred tax asset	6	57	65
Fixed assets		8	7
Shares in subsidaries	3	2 215	2 215
Other shareholdings		53	57
Long-term receivables from sub-sidiaries	9	1 809	1 525
Other long-term receivables		46	46
Total non-current assets		**4 188**	**3 915**
Current assets			
Receivables from subsidiaries	9	486	799
Other short-term receivables		33	30
Cash and cash equivalents		1 141	1 318
Total current assets		**1 660**	**2 147**
Total assets		**5 848**	**6 062**
EQUITY AND LIABILITIES			
Equity			
Share capital		150	150
Total paid-in capital		**150**	**150**
Retained earnings		883	1 067
Total retained earnings		**883**	**1 067**
Total equity	2	**1 033**	**1 217**
Non-current liabilities			
Pension liabilites	5	187	189
Long-term interest-bearing loans	7	1 250	500
Other non-current liabilites		39	39
Total non-current liabilites		**1 476**	**728**
Current liabilities			
Dividends		450	450
Current financial liabilities			300
Current liabilities to subsidiaries	9	2 266	1 644
Other current liabilities		186	289
Bank overdraft facilities		437	1 434
Total current liabilities		**3 339**	**4 117**
Total equity and liabilites		**5 848**	**6 062**

CASH FLOW STATEMENT

Kongsberg Gruppen ASA

MNOK	2012	2011
Net cash flow from investing activies		
Earnings before tax	379	626
Depreciations	2	2
Impairment of financial assets	5	22
Taxes paid	(193)	(193)
Changes in accruals, etc	(1)	41
Net cash flow from operating activities	**192**	**498**
Net cash flow from investing activies		
Purchase of fixed assets	(4)	(2)
Net cash flow from investing activities	**(4)**	**(2)**
Net cash flow from financing activities		
Proceeds from loans	450	-
Dividends paid	(450)	(450)
Net receipt/disbursement for purchase/disposal of treasury shares	(19)	(19)
Changes in intercompany balances	651	(279)
Changes in bank overdraft facilities	(997)	(230)
Net cash flow from financing activities	**(365)**	**(978)**
Net increase (decrease) in cash and cash equivalents	**(177)**	**(482)**
Cash and cash equivalents at the beginning of the period	**1 318**	**1 800**
Cash and cash equivalents at the end of the period	**1 141**	**1 318**

NOTES

Kongsberg Gruppen ASA

1 ACCOUNTING POLICIES

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

Subsidiaries and associates

Subsidiaries and associates are measured at cost in the statutory accounts. The investments are measured at acquisition cost, unless impairment has been necessary. Such assets are deemed to be impaired at fair value when a decrease in value cannot be considered to be of temporary nature and in accordance with generally accepted accounting principles. Impairments are reversed when the basis for the impairment no longer applies.

Classification and valuation of balance sheet items

Current assets and current liabilities include items due for payment within one year after the date of acquisition, as well as items associated with the operational cycle. Other items are classified as fixed assets/non-current liabilities. Current assets are measured at the lower of cost and fair value. Current liabilities are recorded at their nominal values on the date of acquisition. Fixed assets are measured at acquisition cost less depreciation. However, fixed assets are impaired when a decrease in value is not expected to be of temporary nature. Non-current liabilities are measured at nominal value at the date they are incurred.

Receivables

Accounts receivables and other receivables are measured on the balance sheet at nominal values less provision for doubtful debts. Provision for doubtful debts is made on the basis of individual assessment of each receivable. In addition, a unspecified provision is made to cover expected losses on other receivables.

Foreign currency

Monetary items in a foreign currency are translated into NOK using the exchange rate applicable at the year end.

Short-term investments

Short-term investments (shares and units considered to be current assets) are measured at the lower of acquisition cost and fair value at the date of the balance sheet. Dividends and other allocations from the companies are recognised as "Other financial income".

Pensions

The defined contribution plan

The Group introduced a defined contribution pension plan for all employees under age 52 as of 1 January 2008. Employees aged 52 or more at the time of the transition remained with the defined benefit plan. Deposit is expensed as incurred.

The defined benefit plan

Pension expenses and pension liabilities are calculated using linear accrual based on estimated salary level at retirement and on a number of assumptions including discount rates, future salary adjustments, pensions and benefits from the National Insurance Scheme, and future interest income on pension fund assets, as well as actuarial assumptions on mortality and voluntary retirement. Pension fund assets are measured at their fair value, less net pension liabilities at date of the balance sheet.

Income tax

The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated at 28 per cent on all differences between the book value and tax value of assets and liabilities, and loss carried forward at the end of the reporting period. Taxable and deductible temporary differences that reverse or may reverse in the same period are offset. Deferred tax assets are recognised when it is probable that the company will have a sufficient profit for tax purposes in subsequent periods to utilise the tax asset.

Cash flow statement

The cash flow statement presents cash flow using the indirect method. Cash and short-term deposits comprise cash reserves, bank deposits and other short-term liquid investments.

2 EQUITY RECONCILIATION

MNOK	*Share capital*	*Retained earnings*	*Total equity*
Equity at 31 December 2010	**150**	**1 103**	**1 253**
Profit for the year	-	437	437
Trading in treasury shares	-	(6)	(6)
Dividends for 2011	-	(450)	(450)
Actuarial gains/loss on pension expenses	-	(17)	(17)
Equity at 31 December 2011	**150**	**1 067**	**1 217**
Profit for the year	-	269	269
Trading in treasury shares	-	(6)	(6)
Dividends for 2012	-	(450)	(450)
Actuarial gains/loss on pension expenses	-	3	3
Equity at 31 December 2012	**150**	**883**	**1 033**

Other information about the company's share capital is provided in Note 22 "Share capital" to the consolidated financial statements.

3 SHARES IN SUBSIDIARIES

MNOK	*Date of acquisition*	*Registered office*	*Ownership / Share of votes per cent*	*Carrying amount at 31 Dec*
Kongsberg Defence & Aerospace AS	1997	Kongsberg	100	506
Kongsberg Teknologipark AS	1987	Kongsberg	100	5
Kongsberg Holding AS	1987	Kongsberg	100	-
Kongsberg Basetec AS	1992	Kongsberg	100	106
Kongsberg Maritime AS [1)]	1992	Kongsberg	89	1 101
Kongsberg Forsvar AS	1995	Kongsberg	100	-
Norsk Forsvarsteknologi AS	1987	Kongsberg	100	-
Kongsberg Næringseiendom AS	1997	Kongsberg	100	198
Kongsberg Næringsparkutvikling AS	2005	Kongsberg	100	48
Kongsberg Næringsbygg 2 AS	2006	Kongsberg	100	25
Kongsberg Næringsbygg 3 AS	2006	Kongsberg	100	24
Kongsberg Næringsbygg 5 AS	2007	Kongsberg	100	68
Kongsberg Næringsbygg 6 AS	2007	Kongsberg	100	130
Kongsberg Næringsbygg 7 AS	2007	Kongsberg	100	-
Kongsberg Næringsbygg 8 AS	2011	Kongsberg	100	-
Kongsberg Næringsbygg 9 AS	2011	Kongsberg	100	-
Nerion AS	2002	Trondheim	100	-
Kongsberg Hungaria KFT [2)]	2003	Budapest	10	-
Kongsberg Reinsurance LTD	2001	Dublin	100	4
Total				**2 215**

1) The remaining shares in Kongsberg Maritime AS are owned by Kongsberg Basetec AS with 11 per cent.
2) The remaining shares in Kongsberg Hungaria KFT are owned by Kongsberg Defence & Aerospace AS with 90 per cent.

4 PAYROLL EXPENSES

Refer to Note 27 “Related parties” to the consolidated financial statements for salary and remuneration for executive management and board members.

Auditor fees

NOK 1 000	*2012*	*2011*
Corporate auditor Ernst & Young		
Statutory audit	772	594
Other assurance services	-	10
Tax consultancy	143	62
Other services	364	573
Total fees, Ernst & Young	**1 279**	**1 239**

Payroll expenses

MNOK	*2012*	*2011*
Salaries	73	70
Social security tax	12	12
Pension	18	15
Other benefits	3	20
Total payroll expenses	**106**	**117**

5 PENSIONS

KONGSBERG has a service pension plan that consists of a defined contribution plan and a defined benefit plan. The service pension plan applies to all employees in Norway.

The defined contribution plan

The Group introduced a defined contribution pension plan for all employees under age 52 as of 1 January 2008. The contribution rates are 0 per cent of the basic wage up to 1G, 5 per cent of the basic wage between 1G and 6G, and 8 per cent of the basic wage from 6G up to 12G. The employees can influence the way the funds are managed by choosing to invest either 30, 50 or 80 per cent, respectively, of their portfolios in shares. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The entity's deposits in this plan are 18 per cent of the share of the basic wage in excess of 12G, up to a ceiling of 15G. Special terms and conditions apply for executives. This is described in Note 27 "Related parties" to the consolidated financial statements. The employees have the same investment choices in the supplementary plan as in the main plan. The contributions are expensed as they are incurred.

The defined benefit plan

In connection with the transition to the defined contribution plan as of 1 January 2008, employees aged 52 or more at the time of the transition continued to be in the defined benefit plan. The pension plan is insured through DNB Life Insurance. Parts of the pensions are covered by payments from the National Insurance plan. Such payments are calculated on the basis of the National Insurance plan's basic amount (G), as approved each year by the Norwegian parliament. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. Pension costs are distributed over the employee's accrual period. Based on the current National Insurance system before 31 January 2011 and full accrual, the plan gives entitlement to about 65 per cent of salary level at retirement, including benefits from the National Insurance plan until age 77, then the service pension component will be reduced by 50 per cent. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. Special terms and conditions apply for executives. This is described in Note 27 "Related parties" to the consolidated financial statements. The collective, unfunded benefits plan is comparable to about 60 per cent of the share of the basic wage that exceeds 12G until age 77, and then the benefit is reduced to 50 per cent of the share of the basic wage that exceeds 12G. This supplementary plan was discontinued in connection with the transition to defined contribution pension plans.

Risk coverage

Disability pension from the company shall give an addition to expected disability pension from the National Insurance Plan so that total payment constitutes approximately 65 per cent of pensionable income. An additional 10 per cent disability pension is paid for each child up to maximum 6 children under the age of 21. The payment depends on grade of disability and the possibility for full coverage.

Early retirement

In 2009, the Group introduced new rules for early retirement with severance pay for newly hired members of corporate management. The rules entail earlyretirement with severance pay at age 65 at the latest, but with reciprocal rights for the company and the employee in corporate management to request early retirement with severance pay from age 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 years of accrual. If the employee resigns between age 63 and 65, this will nevertheless reduce pension earnings for those with a defined contribution retirement pension that applies from age 67.

Pension expenses for the year are calculated on the basis of the financial and actuarial assupmtions that apply at the beginning of the year. Gross pension liabilities are based on the financial and actuarial assuptions made at year end.

Reference is also made to Note 9 "Pensions" to the consolidated financial statements.

The calculation of future pensions in the benefits plan is based on the following assumptions:

	31 Dec 12	*31 Dec 11*
Discount rate	3.75%	2.60%
Asset return	3.75%	4.10%
Wage adjustment	3.00%	2.75%
Pension base-level (G) adjustment	3.50%	3.25%
Pension adjustment	2.25%	0.10%
Voluntary turnover	4.50%	4.50%

The year's pension costs were calculated as follows:

MNOK	*2012*	*2011*
Service cost	6	5
Interest cost on accrued pension liabilities	4	4
Estimated return on pension plan assets	(1)	(1)
Accrued social security expenses	1	1
Total net pension cost for the year	**10**	**9**
Cost of defined contribution pension plans	**8**	**6**

MNOK	*2012*	*2011*
Gross pension liabilities	(207)	(208)
Fair value pension plan assets	43	42
Net pension liabilities 31 December	**(164)**	**(166)**
Social security expenses	(23)	(23)
Net pension liabilites recognised on the balance sheet 31 December	**(187)**	**(189)**

6 INCOME TAX

Income tax expenses

MNOK	*2012*	*2011*
Taxes payable	103	193
Change in deferred taxes	7	(4)
Tax expense	**110**	**189**

MNOK	*2012*	*2011*
Earnings before tax (EBT)	**379**	**626**
Calculated income tax at statutory rate		
28 per cent of earnings before tax	106	175
Impairment on share investments	1	6
Other permanent differences	3	8
Tax expense	**110**	**189**

Deferred tax and deferred tax asset

MNOK	*2012*	*2011*
Pension	52	53
Other	5	12
Recognised deferred tax asset	**57**	**65**

Change in deferred tax is recognised in equity as follows:

MNOK	*31 Dec 12*	*31 Dec 11*
Pensions	1	(6)
Total	**1**	**(6)**

7 LONG-TERM INTEREST BEARING LOANS AND CREDIT FACILITIES

At 31 December 2012, the Group had the following loans and credit facilities:

Amounts in MNOK	*Due date*	*Nominal interest rate*	*Years to maturity*	*Nominal amount*	*Carrying amount*
Bond issue KOG 07	10 Sep 19	4.80%	6.7	250	250
Bond issue KOG 06	10 Sep 17	3.63%	4.7	500	500
Bond issue KOG 05	14 Apr 14	5.58%	1.3	500	500
Total loans				**1 250**	**1 250**
Credit facility (undrawn borrowing limit)	1 Jul 15			1 000	-

At 31 December 2012, the credit facility was a syndicated credit facility totalling MNOK 1,000. The agreement was signed with four banks: DNB, Nordea, SEB and Danske Bank. The agreement will run until 2015. The interest rate is currently 3-month NIBOR + a margin that depends on the ratio between net interest-bearing loans/ EBITDA and can vary from 0.20 per cent to 0.575 per cent. The credit facilities require that 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. The bond loans were issued in NOK and are listed on the Oslo Stock Exchange. The interest is 3-month NIBOR + 3.75 per cent for loans with a nominal value of MNOK 500 and maturity in 2014, 3-month NIBOR + 1.8 per cent for loans with a nominal value of MNOK 500 and maturity in 2017, and fixed interest rate at 4.8 per cent p.a. for bond loans with a nominal value of MNOK 250 and maturity in 2019. The loans are capitalised at their amortised cost using the effective interest method. All loans in the Group are centralised to Kongsberg Gruppen ASA and handled by the Group's treasury unit.

8 GUARANTEES

Kongsberg Gruppen ASA has in the period from 1999 to 2007 sold properties in the Kongsberg Technology Park. The properties have been leased back on long-term leases that expire from 2014 to 2025. The leasebacks are considered operational leasing agreements.

In addition to lease payments, Kongsberg Gruppen ASA is responsible for certain expensess related to taxes and maintenance of the properties. The leases have durations ranging from three months to 15 years. With the exception of the properties sold in 2007, the properties are mainly leased to external tenants. Further information related to these leases are included in Note 23 "Provisions" to the consolidated financial statments.

The parent company has guaranteed lease amount related to sale and lease-back agreements at a total of MNOK 1,212.

Prepayment and completion guarantees

Group 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.

MNOK	*2012*	*2011*
Prepayments from and completion guarantees to customers	3 300	4 026

Kongsberg Gruppen ASA has non-committed framework agreements for guarantees with banks and insurance companies.

9 RELATED PARTIES

Operating revenues

MNOK	*2012*	*2011*
Kongsberg Maritime AS	80	71
Kongsberg Oil & Gas Technologies AS	9	6
Kongsberg Defence & Aerospace AS	96	107
Other	7	5
Total operating revenues related parties	**192**	**189**
Operating revenues, external	10	4

Operating revenues from related parties are mainly invoicing of group management fees and insurance.

Long-term receivables from related parties

MNOK	*2012*	*2011*
Kongsberg Næringseiendom AS	100	126
Kongsberg Teknologipark AS	20	40
Kongsberg Næringsbygg 2 AS	79	89
Kongsberg Næringsbygg 3 AS	68	48
Kongsberg Norcontrol IT AS	10	10
Kongsberg Næringsbygg 5 AS	68	80
Kongsberg Næringsbygg 6 AS	33	50
Kongsberg Maritime Engineering AS	25	25
Kongsberg Oil & Gas Technologies AS	437	379
Kongsberg Næringsbygg 7 AS	105	10
Kongsberg Evotec AS	167	15
Kongsberg Gallium Ltd	53	80
Kongsberg Defense Corporation	74	97
Hydroid Inc	357	387
Kongsberg Maritime Holding Ltd	39	40
Kongsberg Oil & Gas Techonologies INC	10	6
Kongsberg Protech Systems Canada Corp	20	-
Kongsberg Maritime Hoi Tung Holding Ltd	44	-
Kongsberg Maritime Training LTDA	10	-
Kongsberg Maritime Middle East DMCCO	9	13
Kongsberg Integrated Tactical systems Inc (KITS)	58	-
Konsberg Maritime Hellas AS	5	6
Other companies	18	24
Total	**1 809**	**1 525**

Current liabilities to related parties

MNOK	*2012*	*2011*
Kongsberg Maritime AS	-	656
Kongsberg Norcontrol IT AS	-	25
Kongsberg Seatex AS	204	124
Kongsberg Defence & Aerospace AS	1 950	750
Kongsberg Spacetec AS	17	25
Kongsberg Maritime Inc	8	9
Global Sim Inc	19	12
Kongsberg Underwater Technology Inc	17	18
Kongsberg Reinsurance Ltd	40	15
Other companies	11	10
Total	**2 266**	**1 644**

Short-term receivables from related parties

MNOK	*2012*	*2011*
Kongsberg Maritime AS	293	595
Kongsberg Oil & Gas Technologies AS	3	3
Kongsberg Defence & Aerospace AS	77	146
Kongsberg Seatex AS	60	-
Kongsberg Basetec AS	40	40
Other companies	13	15
Total	**486**	**799**

10 CURRENCY HEDGES

At 31 December, the Company had the following foreign currency hedges, divided by hedge category:

2012 *Amounts in mill.*	*The gross value in NOK at 31 Dec 12, based on hedged rates*	*Net added(+)/ less(-) value in NOK at 31 Dec 12*	*Total hedged amount in USD 2012*	*Average hedged ex-change rate in USD at 31 Dec 12*	*Total hedged amount in EUR at 31 Dec 12*	*Average hedged ex-change rate in EUR at 31 Dec 12*
Hedge category						
Forward contracts, cash flow hedges	3 272	173	410	5.95	109	7.63
Currency options, cash flow hedges	140	2	25	5.60		
Total cash flow hedges	**3 412**	**175**	**435**		**109**	
Project hedges (fair value hedges)	9 399	558	1 020	5.86	349	8.06
Loan hedges (fair value hedges)	656	5	105	-	1	-
Total currency hedges	**13 467**	**738**	**1 560**		**459**	

2011 *Amounts in mill.*	*The gross value in NOK at 31 Dec 11, based on hedged rates*	*Net added(+)/ less(-) value in NOK at 31 Dec 11*	*Total hedged amount in USD 2011*	*Average hedged ex-change rate in USD at 31 Dec 11*	*Total hedged amount in EUR at 31 Dec 11*	*Average hedged ex-change rate in EUR at 31 Dec 11*
Hedge category						
Forward contracts, cash flow hedges	3 561	24	382	6.04	156	7.98
Currency options, cash flow hedges	-	-	-	-	-	-
Total cash flow hedges	**3 561**	**24**	**382**		**156**	
Project hedges (fair value hedges)	8 063	32	1 018	5.81	312	8.48
Loan hedges (fair value hedges)	610	(3)	91	5.98	1	7.82
Total currency hedges	**12 234**	**53**	**1 491**		**469**	

Currency hedges, related parties

2012 *Amounts in mill.*	*The gross value in NOK at 31 Dec 12, based on hedged rates*	*Net added(+)/ less(-) value in NOK at 31 Dec 12*	*Total hedged amount in USD 2012*	*Average hedged ex-change rate in USD at 31 Dec 12*	*Total hedged amount in EUR at 31 Dec 12*	*Average hedged ex-change rate in EUR at 31 Dec 12*
Hedge category						
Kongsberg Maritime, Forward contracts, cash flow hedges	2 393	146	323	5.94	59	7.86
Kongsberg Maritime Engineering, Forward contracts, cash flow hedges	-	-	-		-	
Kongsberg Oil & Gas Technologies, Forward contracts, cash flow hedges	46	2	8	5.76	-	-
Kongsberg Defence System, Forward contracts, cash flow hedges	399	12	45	5.84	19	7.40
Kongsberg Protech System, Forward contracts, cash flow hedges	432	14	34	5.95	31	7.35
Kongsberg Protech System, Currency options, cash flow hedges	140	2	25	5.60		
Total cash flow hedges	**3 410**	**175**	**435**		**109**	
Kongsberg Maritime, Project hedges	4 008	192	567	5.84	74	7.65
Kongsberg Maritime Engineering, Project hedges	-	0	2	5.58		
Kongsberg Oil & Gas Technologies, Project hedges	25	1	4	5.73	0	
Kongsberg Defence System, Project hedges	3 516	295	216	5.85	261	7.69
Kongsberg Protech System, Project hedges	1 254	30	118	5.75	18	7.53
Kongsberg Satellite Service, Project hedges	433	30	55	5.94	12	7.81
Kongsberg Spacetec	16	0	-	-	2	7.47
Other companies	16	1	-	-	1	7.45
Total currency hedges	**12 677**	**724**	**1 396**		**477**	

2011 *Amounts in mill.*	*The gross value in NOK at 31 Dec 11, based on hedged rates*	*Net added(+)/ less(-) value in NOK at 31 Dec 11*	*Total hedged amount in USD 2011*	*Average hedged ex-change rate in USD at 31 Dec 11*	*Total hedged amount in EUR at 31 Dec 11*	*Average hedged ex-change rate in EUR at 31 Dec 11*
Hedge category						
Kongsberg Maritime, Forward contracts, cash flow hedges	2 416	18	292	6.00	80	8.19
Kongsberg Maritime Engineering, Forward contracts, cash flow hedges						
Kongsberg Oil & Gas Technologies, Forward contracts, cash flow hedges	103	(0)	16	6.04	1	7.90
Kongsberg Defence System, Forward contracts, cash flow hedges	648	(8)	67	5.93	33	7.98
Kongsberg Protech System, Forward contracts, cash flow hedges	392	15	8	5.95	43	7.76
Kongsberg Protech System, Currency options, cash flow hedges						
Total cash flow hedges	**3 558**	**24**	**382**		**156**	
Kongsberg Maritime, Project hedges	3 427	(136)	508	5.73	66	7.92
Kongsberg Maritime Engineering, Project hedges	82	(2)	14	5.86		
Kongsberg Oil & Gas Technologies, Project hedges	45	0	6	5.80	1	8.15
Kongsberg Defence System, Project hedges	3 288	214	128	5.86	289	8.04
Kongsberg Protech System, Project hedges	1 408	(50)	229	5.87	(13)	7.81
Kongsberg Satellite Service, Project hedges	336	1	41	6	(10)	8
Kongsberg Spacetec	13	(0)	0	-	(1)	8
Other companies	0	(0)	-			
Total currency hedges	**12 157**	**51**	**1 308**		**488**	

STATEMENT FROM THE BOARD OF DIRECTORS

Kongsberg Gruppen ASA

We hereby confirm, to the best of our conviction, that the annual accounts for 1 January to 31 December 2012 have been drawn up in compliance with recognised accounting standards, and that the information disclosed therein gives a true picture of the enterprise's and the Group's assets, liabilities, financial position and performance as a whole, and that the information disclosed in the director's report gives a true picture of the progress, profits and position of the enterprise and the Group, as well as a description of the most central risk and uncertainty factors facing them.

Kongsberg, 21 March 2013

Finn Jebsen *Chairman*	Anne-Lise Aukner *Deputy Chairman*	Erik Must *Director*	Irene Waage Basili *Director*	John Giverholt *Director*	Roar Marthiniussen *Director*
Helge Lintvedt *Director*	Kai Johansen *Director*		Walter Qvam *President and CEO*		

AUDITOR'S REPORT 2012

ERNST & YOUNG

State Authorised Public Accountants
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Member of the Norwegian Institute of Public Accountants

To the Annual Shareholders' Meeting of
Kongsberg Gruppen ASA

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of Kongsberg Gruppen ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2012, the statements of income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2012, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Chief Executive Officer's responsibility for the financial statements

The Board of Directors and Chief Executive Officer are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the Parent Company and the International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as the Board of Directors and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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Ernst & Young

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Opinion on the financial statements of the Parent Company

In our opinion, the financial statements of Kongsberg Gruppen ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the financial statements of the Group

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and the report on corporate governance

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and the report on corporate governance concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Chief Executive Officer have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 21 March 2013
Ernst & Young AS

Anders Gøbel
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

CORPORATE GOVERNANCE

KONGSBERG's MODEL FOR CORPORATE GOVERNANCE

Owners

- Shareholders
- Annual general meeting
- Nominating committee

Board of Directors

- Board of Directors
- Compensation Committee
- Audit Committee

Management

- Chief Executive Officer
- Corporate Management

The Annual General Meeting elects five representatives of the owners to the Board of Directors based on a recommendation from the Nominating Committee. They are elected for a two-year term of office.

Ultimate responsibility for strategy and the management of the company. Provide advice and monitor management.

Strategy and operational management.

REPORT ON CORPORATE GOVERNANCE

KONGSBERG's objective is to protect and enhance stakeholder value by engaging in profitable, growth oriented industrial development in a long-term, global perspective.

Good corporate governance will maximise the value creation and reduce the business risk, at the same time as the company's resources are used in an efficient, sustainable manner. The Group will achieve its goals by further developing first-class hubs of expertise and supplying leading systems, products and services to its global market segments, as well as by operating in an ethically, environmentally and socially responsible manner. KONGSBERG is listed on the Oslo Stock Exchange and is subject to Norwegian securities legislation and stock exchange regulations.

How we understand the concept

The Group's value platform and the Corporate Code of Ethics are fundamental for KONGSBERG's corporate governance. Corporate governance deals with issues and principles associated with the segregation of roles between the governing bodies in a company, and the responsibility and authority assigned to each body. Good corporate governance is characterised by responsible interaction between owners, the Board of Directors and the management, seen from a long-term, productive and sustainable perspective. This requires an effective cooperation, a defined segregation of responsibilities and roles between shareholders, the Board and management, respect for the Group's other stakeholders, and open and reliable communication with the communities in which the Group operates.

Corporate Governance in 2012

The topic of corporate governance is subject to annual reviews and discussions by the Board of Directors. Among other tasks, the Group's governance documents are reviewed and revised annually and the contents of this chapter of the annual report is reviewed by the Board of Directors in detail.

KONGSBERG's POLICY

KONGSBERG is subject to reporting requirements for corporate governance under the Accounting Act § 3-3b as well as "the Norwegian Code of Practice for Corporate Governance", see the Continuing obligations of stock exchange listed companies", section 7. The Accounting Act is available at www.lovdata.no. "The Norwegian Code of Practice for Corporate Governance", last revised 23 October 2012 is available at www.nues.no. This report will, in accordance with the Public Limited Companies Act § 5-4 be subject to discussions at the Annual General Meeting of Kongsberg on 3 May 2013. KONGSBERG's compliance with and deviations, if any, from the Code of Practice will be commented on and made available to stakeholders. The above decision has been adopted by the Board of Directors. The Norwegian State, which owns 50.001 per cent of the Group, also assumes that all companies in which the Norwegian State has stake will comply with the Code of Practice. Since the Norwegian State owns a stake of 50.001 per cent, the Group also complies with White Paper No. 13 (2006–2007), referred to as the 'Ownership Report', White Paper No. 13 (2010–2011), referred to as the 'Active ownership Report', the Norwegian State's 10 Principles for Good Corporate Governance and the OECD's Guidelines regarding Government Ownership and Corporate Governance. These guidelines are available on the Group's website at www.kongsberg.com.

The following elements are fundamental to KONGSBERG's corporate governance policy:

- KONGSBERG shall maintain open, reliable and relevant communication with the public about its business activities and factors 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 of Directors and management.
- KONGSBERG will have a clear segregation of responsibilities between the Board of Directors and management.
- All shareholders are to be treated equally.

The Group's Corporate Social Responsibility is considered as an integrated part of the principles for good corporate governance. This is in line with the Norwegian State's vision, as expressed in the 'Ownership Report'.

ARTICLES OF ASSOCIATION

KONGSBERG GRUPPEN

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

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

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

§ 4 The Company's share capital is NOK 150,000,000, divided among 120,000,000 shares with a nominal value of NOK 1.25. 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 public limited 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 alone, or the Deputy Chair and another Director may sign jointly for the Company.

§ 7 General Meetings will be held in Kongsberg or in Oslo, and shall be convened in writing with at least 21 days' notice. Documents that apply to items on the agenda for the general meeting need not be sent to the shareholders if the documents are made available to the shareholders on the Company's website. This also applies to documents which are required by law to be included in or attached to the notification of the General Meeting. A shareholder can nevertheless ask to be sent documents that apply to items on the agenda at the general meeting.

§ 8 The Annual General Meeting shall:

1. Adopt the Financial Statements and the Directors' Report, including the payment of dividends.
2. Discuss other matters which, pursuant to legislation or the Articles of Association, are the province of the General Meeting.
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 made by the General Meeting.
6. Stipulate the Board's compensation and approve compensation to the Auditor.
7. Deal with the Board's declaration regarding the stipulation of salary and other compensation to key management personnel.

The convening letter shall state that shareholders who would like to participate in the General Meeting are to sign up by a deadline specified in the convening letter. The deadline shall expire no more than five days prior to the General Meeting. The General Meetings are led by the Chairman of the Board, or if he is absent, by the Deputy Chairman. If they both are absent, the General Meeting elects a chairperson.

§ 9 The Nominating Committee shall consist of three members who shall be shareholders or representatives of shareholders. The members of the Nominating Committee, including the chair, shall be elected by the Annual General Meeting.

The Nominating Committee shall submit its roster of candidates to the General Meeting 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 General Meeting shall stipulate the compensation to be paid to the Nominating Committee's members. The Nominating Committee shall present to the Annual General Meeting 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 enfranchised to vote, be called in to at least one meeting of the Nominating Committee before the Nominating Committee presents its final recommendation.

THE NORWEGIAN CODE OF PRACTICE

The following is a detailed discussion of each individual section of the Norwegian Code of Practice. The review is based on the latest revision of the Code, dated 23 October 2012. For the complete version of the Code, see the Oslo Stock Exchange's website at www.oslobors.no/ob/cg or NUES (the Norwegian Corporate Governance Committee): www.nues.no.

The information that KONGSBERG is obliged to give according to The Accounting Act § 3-3b of report on corporate governance, is taken into account in this report and the Code of Practice is applied as far as considered appropriate. A detailed description of where the requirements according to The Accounting Act § 3-3b is included in the report are listed below:

1. "a statement of the recommendations and regulations concerning corporate governance that the enterprise is subject to or otherwise chooses to comply with,": The report section "KONGSBERG's Policy"
2. "information on where the recommendations and regulations mentioned in no. 1 are available to the public": The report section "KONGSBERG's Policy"
3. "the reason for any non-conformance with recommendations and regulations mentioned in no. 1": The report section "Deviations from the code of practice"
4. "a description of the main elements in the enterprise's and, for enterprises that prepare consolidated accounts, if relevant also the group's internal control and risk management systems linked to the accounts reporting process ": The report section 10 "Risk management and internal control"
5. "articles of association that completely or partially extend or depart from provisions stipulated in chapter 5 of the Public Limited Companies Act": Report Section 6 "General Meeting"
6. "the composition of the board of directors, corporate assembly, shareholders' committee/supervisory board and control committee and any working committees that these bodies have as well as a description of the main elements in prevailing instructions and guidelines for the bodies' and any committees' work": Report Section 8 "Board of Directors - composition and independence", and Section 9 "The Board's work"
7. "articles of association that regulate the appointment and replacement of directors": Report Section 8 "Board of Directors - composition and independence"
8. "articles of association and authorisations that allow the board to decide that the enterprise is to repurchase or issue the enterprise's own shares or equity certificates": Report Section 3 "Share capital and dividends"

Deviations from the Code of Practice

According to the Group's own evaluation, we deviate from the code of practice on one point:

Point 6 – The General Meeting

There are two deviations on this point. The entire Board of Directors has not usually attended the General Meeting. Thus far, the agenda for the General Meeting have not required the entire Board of Directors to attend. The Chairman of the Board is always present to respond to any questions. Other board members participate when needed. From the Group's perspective, this is considered to be sufficient.

The other deviation refers to §8 of the Articles of Association, which specifies that General Meetings are to be chaired by the Chairman of the Board. If the Chairman is absent, the General Meeting is chaired by the Board's Vice Chairman. In absence of both, the chair is pointed out by the General Meeting. This is a deviation from the recommendation of an independent chairman. The arrangement is adopted by the shareholders through a unanimous resolution in the General Meeting and has so far worked satisfactorily.

The description is generally structured in accordance with the Code of Practice. As recommended, more details are provided on the individual points. Point 16, 'Management and internal procedures', is not covered by the Code. It has nonetheless been included as it is considered crucial to KONGSBERG's discussion on corporate governance.

1 REPORT ON CORPORATE GOVERNANCE

The Group has prepared a separate policy for corporate governance, and the Board has decided that the Group will comply with the Norwegian Code of Practice for Corporate Governance.

The Group's vision is "World Class - through people, technology and dedication." The values that shall support the vision are: Determined, Innovative, Collaborative and Reliable. The values are important to develop a healthy and strong corporate culture and thereby the basis of good corporate governance. Further explanation of our values can be found on the Group's website; www.kongsberg.com and the Group's sustainability report for 2012.

The Group's ethical guidelines were approved by the Board of Directors in February 2013. They are based largely on international initiatives and policies related to social responsibility, which the Group has endorsed, including the UN Global Compact, OECD Guidelines for Multinational Enterprises and the ILO Conventions. The guidelines include the topics of human rights, labour rights, climate and environment, corruption, our relationship with customers, suppliers and agents, competence to act and confidentiality. They apply to the Group's directors, leaders, employees, all contractor personnel, consultants, agents and lobbyists and others who act on behalf of KONGSBERG. See the detailed description in the sustainability report for 2012.

The Group's social responsibility policy is adopted by the Board. A new revised policy was adopted by the Board in 2012. The policy is incorporated into the Group's business strategy. The Group's policy and strategy for social responsibility is discussed in the sustainability report for 2012 and the Group's website.

2 OPERATIONS

Kongsberg Gruppen ASA is a company whose object is to engage in technological and industrial activities in the maritime, defence and related sectors. The company may participate in and own other companies. The above stated is included in §3 of KONGSBERG's Articles of Association. The Articles of Association can be found on the Group's website, www.kongsberg.com

The Group's main objectives and strategies are described in the annual report and the Group's website, www.kongsberg.com.

3 SHARE CAPITAL AND DIVIDENDS

Equity

At 31 December 2012, consolidated equity is MNOK 6,274 (MNOK 5,484), which is equivalent to 38.6 (35.1) 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 strive to achieve an annual dividend over time of approx. 30 per cent of the Group's annual profit from ordinary operations, after tax. The General Meeting approves the annual dividend, based on the Board's recommendation. The proposal is the ceiling for what the Annual General Meeting can approve. A dividend of NOK 3.75 per share was paid for 2011, and the Board proposes to the Annual General Meeting that a dividend of NOK 3.75 per share be paid for 2012, equivalent to a dividend ratio of 33.9 per cent.

Capital increase

The Board has not been given the mandate to undertake issue of capital.

Purchase of treasury shares

The General Meeting can authorise the Board to acquire up to 10 per cent of the treasury shares. At the Annual General Meeting on 7 May 2012, the Board was given authorisation to acquire treasury shares up to a value of NOK 7,500,000. That is equivalent to 5 per cent of the share capital. The authorisation can be used several times and applies up until the next General Meeting, but not later than until 30 June 2013. The Board's acquisition of shares pursuant to this authorisation can be exercised only between aminimum price of NOK 50 per share and a maximum price of NOK 300 per share. At 31 December 2012, the Group owned a total of 69,804 (74,955) treasury shares.

The shares were purchased for the employee share programme and in relation to the company's long-term incentive (LTI) arrangement, but can also be sold in the market. Shares included in the employee share program are 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.

4 EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS BETWEEN RELATED PARTIES

Class of shares

KONGSBERG's shares are all Class A shares. Each share represents one vote. The nominal amount per share is NOK 1.25. The Articles of Association place no restrictions on voting rights. All shares have equal rights.

Trading in treasury shares

The Board's mandate to acquire treasury shares is based on the assumption that acquisitions will take place in the market. Acquired shares may be disposed in the market, as payment for acquisitions, or through the share schemes for employees.

Transactions with related parties

In 2012, the Board determined that there were no transactions between the Company and shareholders, directors, executive personnel or parties closely related to such individuals that could be described as material transactions. If such transactions should arise, the Board will ensure that an independent valuation is made by a third party. For further information, see Note 27 to the consolidated financial statements for 2012.

Guidelines for directors and executives

The Corporate Code of Ethics discusses the topic under

"Conflicts of interest". Similarly, this applies to Point 8 of the Board's instructions – independence and disqualification. It is emphasized that the Board shall act independently of special interests. Independence in this context is defined by the Board as follows:

- Board members shall normally not receive any other remuneration than their directors' fee and remuneration for work in board committees. Any deviation from this general rule shall be approved by the entire Board and entered in the minutes. When significant transactions between the company and the directors or CEO take place an independent assessment by a third party will be obtained.
- Board members shall inform the Board about any relationships with or interests in the Group's significant business partners or transactions.
- The directors' fee shall not be linked to the financial performance of the Group and options shall not be assigned to board members.
- Cross relationships between directors, CEO or other management shall be avoided.
- Board members shall not have or represent significant business relationships with the Group.

If a director is in doubt about their competence to act, the question shall be discussed in the entire Board. The conclusion on the question of disqualification shall be included in the minutes.

The Norwegian 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 account, 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 Norwegian State , as represented by the Ministry of Trade and Industry. The topics discussed at these meetings are first and foremost the Group's financial development, and there are briefings on strategic questions related to KONGSBERG. The Norwegian State's expectations regarding investment performance and yield are also communicated. These 'one-on-one' meetings with the Norwegian 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. Corporate social responsibility is the main topic of these meetings once a year. The requirement regarding equal treatment of the shareholders limits the opportunity for exchanging data between the company and the ministry.

As a shareholder, the Norwegian State does not usually have access to more information than available to other shareholders. However, that does not preclude discussions on matters of importance to society. Under certain circumstances, i.e. when the Norwegian State's participation is imperative and the Norwegian State must obtain an authorization from the Storting (session of the Norwegian parliament), from time to time, it will be necessary to give the ministry insider information. In such case, the Norwegian State is subject to the general rules for dealing with such information.

5 FREE TRADABLE

The shares are freely tradable, with the exception of shares purchased by employees at a discount, and shares assigned in relation to the company's long-term incentive (LTI) arrangement, see Point 3 and 12. The Articles of Association place no restrictions on negotiability.

6 GENERAL MEETING

Via the General Meeting, shareholders are secured participation in the Group's supreme governing body. The Articles of Association are adopted by this body. Shareholders representing at least 5 per cent of the shares can call for extraordinary General Meetings.

Notification
The Annual General Meeting is ordinarily held by 1 June each year. The Annual General Meeting is scheduled for 3 May in 2013. Notification is usually distributed three weeks in advance. This is one week earlier than the statutory minimum requirement (two weeks). The relevant documents, including the Nominating Committee's well-founded recommendation of nominees when new candidates are up for election or existing members are up for re-election, are available on the Group's website at least 21 days prior to the date of the General Meeting. It is important that the documents contain all the information required 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 may expire no earlier than five days prior to the date of the General Meeting. Efforts are made to set the deadline as close to the meeting date as possible. All shareholders registered in the Norwegian Central Securities Depository receive the notice and are entitled to submit motions and vote directly or by proxy. The Financial Calendar is published on the Group's website.

Participation
Registration is done by post, fax or the Internet. The Board of Directors would like to make it possible 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 on each individual item on the agenda. A person is appointed to vote as the shareholders' representative. Representatives of the Board, at least one member of the Nominating Committee and the auditor will attend the General Meeting. Management is represented by the Chief Executive Officer and the Chief Financial Officer, at the very least. In 2012,

the General Meeting was held on 7 May, and 80.8 per cent (78.7) of the aggregate share capital was represented. A total of 98 (97) shareholders were present or represented by proxies.

Agenda and execution

The agenda is set by the Board, and the main items are specified in § 8 of the Articles of Association. The same section stipulates that the Chairman of the Board will chair the General Meeting. The CEO reviews the status of the Group. The minutes of the Annual General Meeting will be made available on the Group's website at www.kongsberg.com

7 NOMINATING COMMITTEE

The nominating committee policy is defined in § 9 of KONGSBERG's Articles of Association. The Committee works under instructions from the General Meeting. These instructions were last revised by the Annual General Meeting on 8 May 2007.

The Nominating Committee's duty is to nominate candidates to the General Meeting for the shareholder-elected directors' seats including substitutes. The basis for the nomination shall be described and particularly with respect to the nomination of the Chairman of the Board.

In addition, the Nomination Committee shall submit proposals for remuneration of Board members and substitutes, and make an annual evaluation of the work of the Board.

The Nominating Committee consists of three members who shall be shareholders or representatives of the shareholders. The General Meeting shall elect all members of the Nominating Committee, including the chair. The Nominating Committee itself proposes to the General Meeting a list of nominees for the Committee. The term of office is two years. The Nominating Committee's remuneration is approved by the General Meeting based on the Board's recommendation.

Composition

The current committee was elected by the Annual General Meeting on 7 May 2012 and consists of:

- Knut J. Utvik, deputy director general, Ministry of Trade and Industry (re-elected)
- Alexandra Morris, portfolio manager, ODIN Forvaltning (re-elected)
- Sverre Valvik, managing director, Arendals Fossekompani ASA (re-elected). Valvik 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 considered to have a composition that 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

8 BOARD OF DIRECTORS – COMPOSITION AND INDEPENDENCE

At the Annual General Meeting in 1999 it was decided to discontinue the Corporate Assembly. The reason was an agreement between unions and the Group which meant that the number of employee representatives on the Board was increased from two to three.

Composition of the Board of Directors

The Board of Directors consists of eight members and currently has the following composition: Finn Jebsen (Chair), Anne-Lise Aukner (Deputy Chair), Erik Must, John Giverholt, Irene Waage Basili. Roar Flåthen was elected as permanent alternate board member by the Annual General

Left: High competence and knowledge sharing are essential to the competitiveness.

Right: A significant portion of the value created by KONGSBERG consists of the development of high-tech solutions to the domestic and international market

Meeting at 7 May 2012. Roar Marthiniussen, Kai Johansen and Helge Lintvedt are board members elected by and among the employees. Detailed information on the individual directors can be found on the website at www.kongsberg.com.

Participation in the board meetings and board committees in 2012:

Participation in meetings	*Board meetings*	*Audit committee*	*Compensation committee*
Finn Jebsen	12		4
Anne-Lise Aukner	10	5	
Erik Must	12		4
John Giverholt	9	5	
Irene Waage Basili	11		
Roar Flåthen, new from May 2012 (alternate member)	3		
Roar Marthiniussen	12		4
Kai Johansen	11	4	
Helge Lintvedt	12		

It is essential that the entire Board is capable of dealing with Board work and the Group's main business activities.

In addition, the directors must have the capacity to carry out their duties. According to the Articles of Association, the Group shall have five to eight directors. The CEO is not a member of the Board of Directors.

The directors are elected for two-year terms. The General Meeting elects the Chairman of the Board. This is stated in the instructions for the Nominating Committee. Finn Jebsen is elected as Chairman of the Board.

The Board's independence

All shareholder-elected directors are considered autonomous and independent of the Group's corporate executive management. The same applies relative to important business associates. Arendals Fossekompani ASA, in which Erik Must directly and indirectly has a substantial stake, owned 7.96 per cent (7.96) of Kongsberg Gruppen ASA at year end. The Board of Directors is favourable to long-term shareholders being represented on the Board. There shall be no conflicts of interest between owners, the Board, management and the Group's other stakeholders.

Among the shareholder-elected directors, there are three men and two women, i.e. 40 per cent women.

Election of the Board of Directors

The General Meeting elects the five shareholder-elected representatives to the Board. The Nominating Committee draws up a recommendation for the shareholders' nominees to the Board in prior to the election. The recommendation of nominees is sent to the shareholders along with the notification of the General Meeting. 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 shareholder-elected directors. Three directors are elected directly by and from among the Group's employees.

The directors are elected for two-year terms and are eligible for re-election. All board members elected by the shareholders stand for re-election in 2013.

The directors' shareholdings

At 31 December 2012, the shareholder elected directors held the following portfolios of shares in the Group: Finn Jebsen, Chairman of the Board, owns 20,000 shares through his wholly-owned enterprise Fateburet AS. Erik Must owns 124,600 (shares personally and 400,000 shares through Must Invest AS. John Giverholt owned 3,200 shares personally.

The employee-elected directors had the following holdings of KONGSBERG shares at 31 December 2012: Roar Marthiniussen owned 4,657 personally.

9 THE BOARD'S WORK

Board responsibilities

The Board of Directors bears the ultimate responsibility for managing the Group and for monitoring day-to-day management and the Group's business activities. This means that the Board is responsible for establishing control systems and for the Group operating in compliance with the adopted value platform and the Corporate Code of Ethics, as well as in accordance with the owners' expectations of good corporate governance. First and foremost, the Board of Directors protects the interests of all shareholders, but it is also responsible for safeguarding the interests of the Group's other stakeholders.

Its main tasks are to contribute to corporate competitiveness, and to ensure that the Group develops and creates value. Further, the Board of Directors is to participate in the shaping of and adopt the Group's strategy, exercising the requisite control functions and ensuring that the Group is well run and organised. The Board sets the objectives for financial structure and adopts the Group's plans and budgets. The Board also handles items of major strategic or financial importance to the Group. In cases of substantial nature in which the chairmen and other board members have been actively engaged, this will be disclosed in the proceedings and considered by the Board in each case. These tasks are not constant and 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.

Rules of procedure for the Board of Directors

The Board's rules of procedure are extensive and were most recently revised on 11 February 2011. The rules cover the following items: the notification of Board meetings, notification deadlines, administrative preparations, Board meetings, Board decisions, the keeping of minutes, the Board's competency and items on the Board's agenda, segregation of duties between the Board and the CEO, relations between subsidiaries and the parent company, independence and disqualification, main principles for the work of the Board in connection with a possible corporate takeover, confidentiality and professional secrecy, relations to legislation, regulations and rules of procedure.

The Board of Directors can decide to deviate from the rules of procedures in individual cases.

Instructions for the CEO

There is a clear segregation of duties between the Board and executive management. The Chairman is responsible for the Board's work being conducted in an efficient, correct manner and in compliance with the Board's terms of reference.

The CEO is responsible for the Group's operational management. The Board has prepared special instructions for the CEO, which were most recently revised on 17 February 2010

Financial reporting

The Board of Directors receives monthly financial reports and comments on the Group's economic and financial status. The report is a financial presentation that describes what has happened in the Group's operative and administrative functions during the reporting period. In connection with reporting on operations, the individual units shall held meetings to review operating activities.

The business areas present their reports on operations to the Group Executive Board in separate meetings once reporting has been concluded. Quarterly financial reports are reviewed at board meetings, and these form the basis of the external financial reporting.

Notice of meetings and discussion of items

The Board schedules regular board meetings each year. Ordinarily, there are eight meetings held each year. Additional meetings are held when considered necessary. In 2012, there were 12 board meetings. The Board meeting had 93 (97) per cent attendance in 2012.

All directors receive regular information about the Group's operational and financial progress well in advance of the scheduled board meetings. The directors also receive monthly operations reports. The Group's business plan, strategy and risk are regularly reviewed and evaluated by the Board. The directors are free to consult the Group's corporate management as needed. The Board prepares and establishes an annual plan, including topics for the board meetings. Ordinarily, the CEO proposes the agenda for each board meeting. The final agenda is decided in consultation between the CEO and the Chairman of the Board.

Besides the directors, board meetings are attended by the CEO, CFO, other EVP's as needed, and the General Counsel (secretary of the Board). Other participants are called in as needed.

The Board adopts decisions of material importance to the Group, including the approval of the annual and quarterly accounts, strategies and strategic plans, the approval of significant investments, the approval of significant contracts and the approval of material business acquisitions and disposals.

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

Professional secrecy – communication between the Board and shareholders

The Board's proceedings and minutes are in principle confidential unless the Board decides otherwise or there is obviously no need for such treatment. This ensues from the rules of procedure for the Board of Directors.

Expertise

The entire Board has completed a programme to gain insight into the Group's business activities. In that connection, the Board makes excursions to different Group locations. The purpose of the excursions is to improve the Board's insight into the commercial activities in the area.

Disqualification

The Board is bound by the rules regarding disqualification as they appear in §6-27 of the Public Limited Companies Act and in the Rules of Procedure for the Board. In 2012, one Board member has renounced due to disqualification in connection with one case.

Use of Board Committees

The Board set up two subcommittees in 2005: An Audit Committee and a Compensation Committee.

Both committees prepare items for consideration by the Board. They are responsible only to the entire Board and their authority is limited to making recommendations to the Board.

The Board's Audit Committee

The Audit Committee shall support the Board of Directors in their responsibilities related to financial reporting, external audit, internal controls, compliance of code of conduct as well as overall risk management. In 2012, the Committee focused on the Group's risk management. The Committee consists of two shareholder-elected directors and one employee-elected director. The external auditor usually attends the meetings. The CEO and the other directors are entitled to attend if they so desire. Five (six) meetings were held in 2012.

Members: John Giverholt (Chair), Anne- Lise Aukner, Kai Johansen. The mandate for the Audit Committee is on the Group's website at www.kongsberg.com

The Board's Compensation Committee

The Committee addresses tasks linked to the CEO's terms of employment, questions of principle related to wage levels, the bonus system, pension plans/terms, employment contracts, etc. for executives, as well as other matters related to compensation that the Committee believes to be of special importance to the Group. The Committee consists of the Chairman of the Board, one shareholder-elected director and one employee-elected director. The CEO is entitled to participate in the Committee's meetings if he so desires, except when his own situation is under discussion. Four (four) meetings were held in 2012.

Members: Finn Jebsen, Erik Must, Roar Marthiniussen. The mandate for the Compensation Committee is made available on the Group's website at www.kongsberg.com.

The Board's self-evaluation

The Board has one extended meeting each year to evaluate the work done by the Board and the CEO. In this connection, the Board also holds its own activities up for comparison with the Norwegian Code of Practice for Corporate Governance. Thus far, the Board has not found it necessary to use external consultants for the Board's self-evaluation. The Board's evaluation is made available to the Nominating Committee. Individual performance interviews are conducted each year between the Chairman of the Board and the other directors.

10 RISK MANAGEMENT AND INTERNAL CONTROL

The Board's responsibilities and objectives of internal control

KONGSBERG's internal control and risk management system for financial reporting are based on the internationally recognized framework COSO.

The Group has established a decentralized management model featuring delegated responsibility for profits. As a result, the control function parallels the Group's management model, and is the individual unit's responsibility to make sure that it has the capacity and expertise it requires to carry out proper internal control.

A master management document has been adopted, describing how the requirements for internal control establish a framework for the units' responsibilities.

Management prepares monthly financial reports that are sent to the directors.

In addition, quarterly financial reports are prepared. When the Group's quarterly financial reports are to be presented, the Audit Committee reviews the reports prior to the Board meeting. The auditor takes part in the Audit Committee's meetings and meets with the entire Board in connection with the presentation of the interim annual financial statements, and when required.

The Board's annual review and reporting

Annual review of the strategic plans of the Board is the basis for the Board's discussions and decisions through the year. Review of the Group's risks is part of this annual review. In addition, it is conducted a quarterly review of the operative risks. Health and safety matters are reviewed quarterly by the Board.

The Board conducts an annual review of key policy documents in the Group to ensure that these are updated and cover the relevant topics. Risk assessment and status of the Group's work regarding compliance and social responsibility is reported annually to the Board.

The Group's financial position and risks are described in a thorough manner in the annual report.

Compliance with our values, ethics and social responsibility

In 2011, our revised values were introduced together with the revision of KONGSBERG's ethical guidelines. At KONGSBERG, we emphasize that our values and ethical guidelines shall be an integrated part of business. We expect our employees and partners to demonstrate high ethical standards and compliance with applicable regulations.

In 2012 we have continued developing our anti-corruption program for use by third-parties, and procedures for monitoring compliance with social responsibility in the supply chain.

The Group has compliance functions at Group level and in business areas. In the same way as for financial reporting, internal control has been established in accordance with a decentralized management model. KONGSBERG's compliance program is coordinated and monitored from the Group level. The status of compliance and corporate responsibility is reported annually to the Board.

Procedures are established for notification and follow-up on any alleged misconduct.

The Group has an ethics committee whose purpose is to promote high ethical standards, good behaviour and to ensure that KONGSBERG maintains a good reputation.

11 DIRECTORS' FEES

The Annual General Meeting approves the Board's compensation each year. The proposal for compensation is made by the chair of the Nominating Committee. In 2012, total remuneration to the Board came to NOK 1,895,134 (NOK 1,697,336). The remuneration breaks down as follows: Chairman of the Board of Directors NOK 385,667 (NOK 372,667), deputy chair NOK 211,667 (NOK 198,667), other directors NOK 193,00(NOK 186,667).

In addition, the members of the Audit Committee receive NOK 8,700 (NOK 8,400) per meeting, and a maximum NOK 43,500 (NOK 42,000) per year. The committee's chair receives NOK 9,900 (NOK 9,600) per meeting, and a maximum of NOK 49,500 (NOK 48,000) per year. The members of the Compensation Committee receive NOK 7,400 (NOK 6,000) per meeting, and a maximum of NOK 37,000 (NOK 30,000) per year. The committee's chair receives NOK 8,600 (NOK 7,200) per meeting, and a maximum of NOK 43,000 (NOK 36,000) per year.

The directors' fees are not related to financial performance, option programs or the like. None of the Board's shareholder-elected directors work for the company outside of their directorships, and no one has any agreement regarding a pension plan or severance pay from the company.

12 REMUNERATION OF EXECUTIVE MANAGEMENT

Guidelines

The Board has prepared special guidelines for the stipulation of salaries and other remuneration to executive management. 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 evaluation is based on market surveys of corresponding positions.

The structure of the incentive system for the other members of corporate management is determined by the Board and presented to the Annual General Meeting for information purposes. The terms are stipulated by the CEO in consultation with the Chairman of the Board.

The Board's attitude to executive management's salaries is that they shall be competitive and provide incentive, but not be at the very top end of the scale.

The incentive system consists of basic wages, bonus, pension and severance arrangements and other benefits.

Performance-based compensation

In 2006, the Board introduced a new bonus system for executive management. Performance-based compensation is linked to the performance trend, profit margin and non-financial goals. For a more detailed description of the system, see Note 27 to the 2012 consolidated financial statements. Altogether, the Group has 93 (92) managers who are covered by an incentive plan that includes an element of individual performance.

Long-term incentive (LTI)

The Board of Directors decided in 2012 to introduce a long-term incentive arrangement (LTI) as part of the regular remuneration for CEO and other members of executive management. The remuneration constitutes 25 per cent of annual base salary for CEO and 15-20 per cent for other members of the executive management. The rationale is to be competitive with comparable companies. Further description of the arrangement is provided in Note 27 to the 2012 consolidated financial statements.

Conditions

Remuneration to executive management and the Board is described in Note 27 to the 2012 consolidated financial statement.

13 INFORMATION AND COMMUNICATIONS

The annual report and accounts – interim reporting

The Group usually presents preliminary annual accounts in late February. Complete accounts, the Directors' Report and the annual report are sent to shareholders and other stakeholders in March/April. Beyond this, the Group presents its accounts on a quarterly basis. The Financial Calendar is published on the Group's website and in the annual report. The Group's report on corporate social responsibility is made available on the Group's website (pdf version), along with other information on corporate social responsibility, as well as in a limited number of paper copies. The report is verified by a third party.

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 markets and prospects for the future. The Group's CFO also participates in these presentations, as do other members of corporate management from time to time.

The annual and quarterly reports are made available on the Group's website simultaneously with the presentation of the results. The annual and mid-year results are also presented on webcast. Beyond this, the Group conducts an ongoing dialogue with and makes presentations to analysts and investors.

Informing owners and investors about the Group's progress and economic and financial status is considered to be of great importance. Attention is also devoted to ensuring that the equity market gets the same information at the same time. The prudence principle is applied to guarantee impartial distribution of information when communicating with shareholders and analysts.

The Group has a separate directive for investor relations, which includes sections on communication with investors and how price-sensitive information shall be treated. The Board of Directors has prepared guidelines for the Group's contact with shareholders outside the General Meeting.

14 TAKE-OVERS

There are no defence mechanisms against take-over bids in the Group's Articles of Association, nor have other measures been implemented to limit the opportunity to acquire shares in the company. The Norwegian State owns 50.001 per cent of the shares. The marketability of these shares is subject to parliamentary discretion. The Board's rules of procedures contain an item that refers to the guiding principles for how the Board of Directors shall react in the event of any takeover bid. The Board of Directors is responsible for ensuring that KONGSBERG's shareholders are treated equally and that operations are not disrupted unnecessarily.

Where a bid is made for the company, the Board of Directors shall draw up a statement containing a well-grounded evaluation of the bid and, if required, an independent assessment.

The evaluation shall specify how, for example, a takeover would affect long-term value creation at KONGSBERG.

If a bid on the Group's shares is made, the company will not limit others from presenting similar bids on the company's shares, unless this clearly is justified with the company's and shareholders' common interest. In case of bid on the company's shares, the company will announce required disclosures according to laws and regulations for companies listed at Oslo Stock Exchange.

15 AUDITOR

The auditor's relationship to the Board

The Group's auditor is elected by the General Meeting. A summary of the work planned by the auditor shall be presented to the Audit Committee once a year.

The auditor is always present at the Board's discussions of the preliminary annual accounts. At that meeting, the Board is briefed on the interim financial statements and any other issues of particular concern to the auditor, including any points of disagreement between the auditor and management. The auditor also participates in the meetings of the Audit Committee.

The Audit Committee arranges annual meetings with the auditor to review the report from the auditor that addresses the Group's accounting policy, risk areas and internal control routines.

At least one meeting a year will be held between the auditor, the Audit Committee and the Board without the presence of the CEO or other members of executive management.

The auditor submits a written statement to the Board on compliance with the Statutory Audit Independence and Objectivity Requirements, cf. the Auditing and Auditors Act.

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

The Group's auditing services were put out for tender as from fiscal 2010. The General Meeting decided to continue cooperation with the auditing company Ernst & Young as group auditor. Some minor companies within the group use other audit firms. At the same time, a new engagement audit partner was appointed. In addition to ordinary auditing, the auditing company has provided consultancy services related to accounting, tax and due diligence. For further information, see Note 28 to the 2012 consolidated financial statements.

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

16 MANAGEMENT AND INTERNAL PROCEDURES

This point is not covered by the Code of Practice.

Chief Executive Officer

The Board has adopted instructions for the CEO, ref section 9.

Executive management

Corporate executive management currently consists of eleven individuals. In addition to the CEO, corporate executive management consists of the CFO, the presidents of the four business areas Kongsberg Maritime, Kongsberg Oil & Gas Technology, Kongsberg Defence Systems and Kongsberg Protech Systems, the EVP Business Development, the EVP Public Affairs, EVP Strategy and Analysis, EVP Corporate Functions and the Corporate Compliance Officer. The CEO appoints members to corporate executive management.

Executive management's main responsibility is the operation of the Group, where KONGSBERG's overall situation is essential to the decisions to be made. Executive management's other tasks include strategic development of the Group, development of the group's business areas and issues of principle character. Executive management evaluates its own work and working methods annually.

Executive management meets regularly, and otherwise has regulary contact on an operational basis. Executive management conducts monthly follow-ups of results and budgets with the various performance entities in the Group. The Group subscribes to the general principle of making binding commitments to agreed targets. Consequently, it practices a decentralised form of corporate governance that gives individual units considerable autonomy, accompanied by the responsibility that entails.

Executive Steering Group (ESG)

From 2013, the Group has established an "Executive Steering Group" (ESG) for each business area. The aim is to improve procedures for desicion-making and follow-up, by, among other things, transferring several important business area-related decisions to the current business area's ESG. ESG is led by the CEO. Other permanent members are CFO and EVP Business Development. Further 2–3 other EVP's from the Corporate Executive Management attend based on the agenda. Participants in the ESG include the leader of the current business area as well as whole or part of his/her management.

Inter-group Boards of Directors

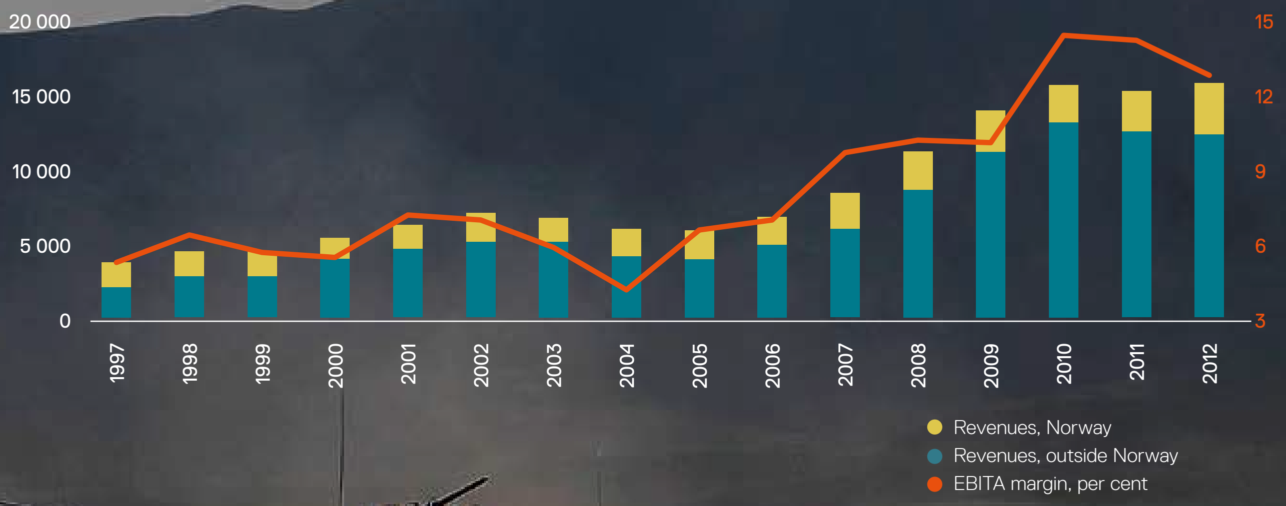
The Group's subsidiaries have their own Boards of Directors, which are comprised of internal managers and employees. The president of the holding company or a person authorised by the president will chair the Board of the subsidiary. Appointment of the Boards and the board work in subsidiaries are handled in accordance with the Group's principles for good corporate governance.

Guidelines for share trading

The company has stipulated in-house guidelines for trading in the company's shares. These guidelines are updated regularly to maintain compliance with the legislation and regulations that apply at any given time. The Group has internal guidelines for primary insiders, which require internal clearance by the CEO before primary insiders can buy or sell shares in KONGSBERG.

SHAREHOLDER'S INFORMATION

HISTORICAL DEVELOPMENT
REVENUES AND EBITA



SHARES AND SHAREHOLDERS

Kongsberg's share price closed at NOK 124.50 at year-end 2012. Including the dividend of NOK 3.75 per share, the return was 10.6 per cent in 2012 compared with an overall increase in the market of 15.4 per cent.

Shareholder policy

KONGSBERG's paramount objective is to enhance stakeholder value through profitable and growth-oriented industrial development in a long-term and international perspective. Good corporate governance and corporate management shall secure the greatest possible value added and reduce business related risk while the company's resources shall be utilized in an effective and sustainable manner. The group shall achieve its goals through further development of first class competency centres, deliveries of leading systems, products and services in its international market segments as well as through running the business in an ethical, environmental and social responsible manner. Growth shall come through internal development and acquisitions within selected strategic market segments. The group shall be among the leading actors worldwide within its areas of commitment.

KONGSBERG shall have a profile which secures reliability and predictability in the stock market. The shareholders shall be assured a long-term, competitive return in proportion to the related risk. The company's objective is that dividends over time shall constitute 30 per cent of the company's net result.

Share price trend in 2012

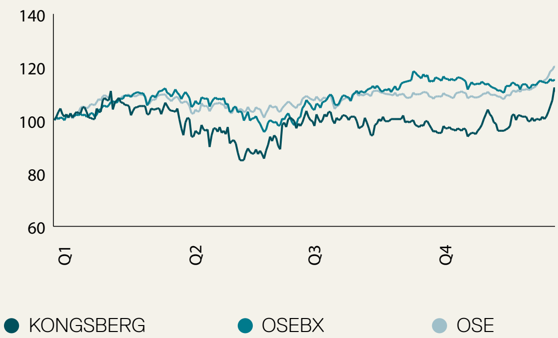
The market cap increased during the year from MNOK 13,920 to MNOK 14,940 (7.3 per cent). The Group was launched on the Oslo Stock Exchange on 13 December 1993 and had a market cap of MNOK 643 at the time. The share price increased by NOK 8.50 per share in 2012

Net profit and dividend per share

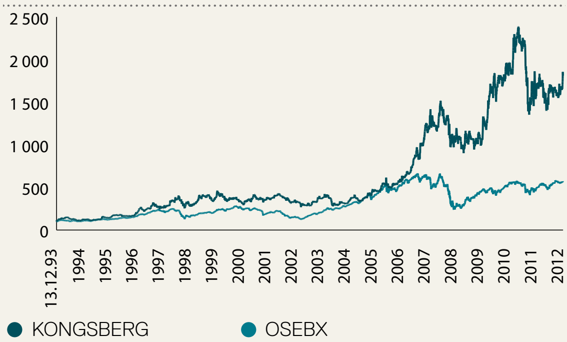
NOK	*2012*	*2011*	*2010*	*2009*	*2008*	*2007*	*2006*	*2005*	*2004[1)]*	*2003[3)]*
Ordinary earnings per share	11.05	11.93	12.46	6.83	4.86	4.04	2.08	1.80	0.92	1.06
Dividends	3.75	3.75	3.75	2.00	1.38	1.25	0.63	0.54	0.50[2)]	0.33

1) Numbers are adjusted for effects at transition to IFRS and disposal of the leisure boat business
2) Dividends for 2004 were proposed based on profit before recognising the effect of MNOK 150 related to the NSM project
3) Not adjusted for effects related to transition to IFRS, but presented according to NGAAP and included the leisure boat business

SHARE PRICE TRENDS IN 2012
NOK (Indexed at NOK 100 – 1 January 2012)



SHARE PRICE TRENDS FROM THE LAUNCH ON THE OSLO STOCK EXCHANGE
NOK (Indexed at NOK 100 – 13 December 1993)



(7.3 per cent). The share price ended at NOK 124.50 at year end, after closing in 2011 at NOK 116.00.

The Oslo Stock Exchange Benchmark Index (OSEBX) and the Oslo Stock Exchange Industrial Index (OSE20GI) increased by 15.4 per cent and 20.2 per cent, respectively, during the same period.

Share capital

Kongsberg Gruppen ASA has a share capital of MNOK 150, divided among 120 million shares with a nominal value of NOK 1.25 per share. There is one class of shares, and there are no limitations on voting rights. At 31 December 2012, KONGSBERG owned a total of 69,804 treasury shares.

The company's objective is that dividends over time shall constitute 30 per cent of the company's net result.

Employees as shareholders

Employee ownership is considered very favourable and an employee share programme is conducted each year, inviting all the Group's regular employees to purchase shares at a discount. In summer 2012, the Group's annual employee share programme was conducted for the 16th time. All employees were given the opportunity to buy Kongsberg shares at a 20 per cent discount. A total of 623,887 shares were sold at a discounted price of NOK 77.20. Shares were awarded to 1,821 employees.

At 31 December 2012, more than 2,300 employees owned a total of about 3.5 million shares. This represents close to 3 per cent of the company's shares.

Investor relations

KONGSBERG furnishes the equity market with relevant, comprehensive information as the basis for a balanced, correct valuation of the share. The Group emphasises 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, has a separate section featuring investor information. The section contains the Group's annual reports, interim reports and company presentations. In 2012, Kongsberg organised presentations and met with owners and potential investors both in Norway and abroad. Kongsberg aspires to be accessible to the market, and parts of corporate management are present at most such events. The quarterly presentations are made available by webcast. In 2012 KONGSBERG was awarded prices for best company and best investor relations officer in class Mid Cap in the IR Nordic Markets competition. In addition the company won the NUES price for best reporting within corporate governance for the 2011 reporting.

In November 2012, Kongsberg organized their annual Capital Markets Day at its premises in Kongsberg. The event was well attended. Several members of the corporate management board gave presentations as well as demonstrations of some of the products. A capital Markets Day will also be organised in 2013.

Historical share information

NOK	*2012*	*2011*	*2010*	*2009*	*2008*	*2007*	*2006*	*2005*	*2004*	*2003*
Market capitalisation 31 Dec (in mill.)	14 940	13 920	15 960	10 590	9 840	10 170	5 250	3 720	2 970	3 180
Change during the year	7.3%	(12.8%)	50.7%	7.6%	(3.2%)	93.7%	41.1%	25.3%	(6.6%)	17.1%
Closing share price 31 Dec	124.50	116.00	133.00	88.25	82.00	84.75	43.75	31.00	24.75	26.50
Closing share price first trading day	113.50	135.00	91.25	82.25	84.75	42.50	31.25	24.75	26.00	22.63
Highest closing price	127.50	164.00	135.00	88.25	104.25	86.25	43.75	33.00	29.00	27.50
Lowest closing price	96.25	93.00	80.75	62.00	66.75	41.75	30.50	22.75	19.19	18.50
Average daily closing price	112.59	132.31	113.50	72.80	85.10	60.88	36.45	27.09	23.05	22.24
Volume (in 1000 shares)	9 927	13 698	14 024	12 029	12 230	16 938	11 960	21 188	31 444	46 944
As a percentage of outstanding shares[1)]	16.5%	22.8%	23.4%	20.0%	20.4%	28.2%	19.9%	35.3%	52.4%	78.2%
Number of transactions	28 949	37 189	25 836	9 310	14 810	5 158	1 980	3 345	4 552	4 329
Number of trading days	251	253	252	251	252	250	225	247	252	238

1) Of shares in circulation. The State's interest of 50,001 per cent (60 001 600 shares) is not included.

List of KONGSBERG's 20 largest shareholders at 31 December 2012

Shareholders	*Number of shares*	*Percentage*
The Norwegian State, represented by the Ministry of Trade and Industry	60 001 600	50.00%
The National Insurance Fund	10 379 462	8.65%
Arendals Fossekompani ASA	9 552 796	7.96%
MP Pensjon	4 812 800	4.01%
Skagen Vekst	3 110 267	2.59%
JP Morgan Chase Bank - nominee	1 984 550	1.65%
Verdipapirfondet Odin Norden	1 683 238	1.40%
Verdipapirfondet Odin Norge	1 497 245	1.25%
Danske Invest Norske Instit. II	1 150 661	0.96%
Danske Invest Norske Aksjer Inst	895 244	0.75%
BNP Paribas Secs services Paris	848 070	0.71%
Reassure Limited	828 000	0.69%
Montague Place Custody Services	691 470	0.58%
The Northern Trust co.	628 662	0.52%
Orkla ASA	566 676	0.47%
Odin Offshore	455 500	0.38%
Verdipapirfondet DNB Norge (IV)	440 031	0.37%
State Street Bank & Trust co.	414 238	0.35%
KLP Aksje Norge Indeks VPF	409 989	0.34%
Must Invest AS	400 000	0.33%
Total	**100 750 499**	**83.96%**
Other (stake < 0.33 per cent)	19 249 501	16.04%
Totalt number of shares	**120 000 000**	**100.00%**

Shareholders, by size of holding

Number of shares	*Number of owners*	*Number of shares*	*Holding percentage*
1–1 000	5 543	1 779 169	1.48%
1 001–10 000	1 645	4 446 365	3.71%
10 001–100 000	165	5 243 616	4.37%
100 001–1 000 000	47	14 358 231	11.97%
1 000 001–10 000 000	7	23 791 557	19.83%
Over 10 000 000	2	70 381 062	58.65%
Total	**7 409**	**120 000 000**	**100.00%**

Share price data, by quarter 2012

Amounts in NOK	*Q1*	*Q2*	*Q3*	*Q4*
Opening share price	108.50	112.50	107.00	116.00
Closing share price	124.50	108.50	112.50	107.00
Return during the period	15%	(4%)	5%	(8%)
Highest closing price	127.50	117.50	114.50	126.00
Lowest closing price	106.50	107.00	96.25	107.00
Average daily closing price	112.65	113.13	106.25	117.76
Median	111.75	113.50	107.00	118.00
Volume (in 1000 shares)	2 786	1 995	2 738	2 407

FINANCIAL CALENDAR

Presentation of quarterly results
Q1 2013 – 30 April
Q2 2013 – 13 August
Q3 2013 – 31 October

Annual General Meeting – 3 May
Capital Markets Day 2013 – 7 November

Ticker code: KOG (Oslo Stock Exchange)

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