KONGSBERG

ANNUAL REPORT AND SUSTAINABILITY REPORT 2007

Growth and progress

Kongsberg Gruppen ASA

Kongsberg Maritime AS
- Offshore & Marine
- Oil & Gas
- Subsea

Kongsberg Defence & Aerospace AS
- Missile Systems & Aerostructures
- Dynamic Systems
- Naval Systems & Surveillance
- Integrated Defence Systems

KONGSBERG IN BRIEF

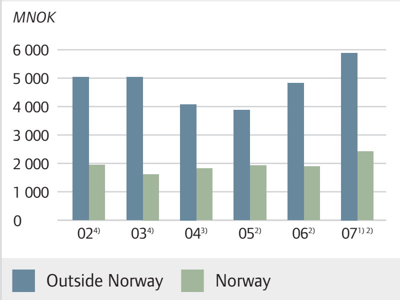
Kongsberg Gruppen (KONGSBERG) is an internationally-oriented, knowledge-based corporation with two business areas: Kongsberg Maritime and Kongsberg Defence & Aerospace. KONGSBERG supplies high-technology systems to customers engaged in offshore oil and gas production, the merchant marine, and the defense and aerospace markets. The Group's activities are generally directed at the international market, with Europe, the USA, the Middle East and Asia as its most important geographical areas.

The Group

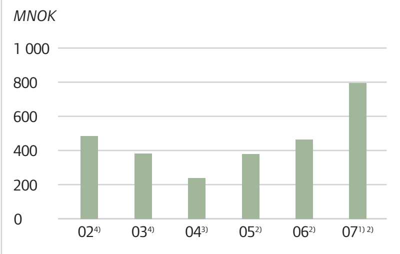
- Total growth in operating revenues of 24%.
- Some 67% of the growth takes place abroad, and the percentage of sales outside Norway accounts for 71% of operating revenues.
- Operating profit (EBITA) up by MNOK 332. Stronger profits in both Kongsberg Maritime and Kongsberg Defence & Aerospace.
- EBITA margin ended at 9.6%. Improved margins in both business areas.

Read more on pages 1–11

Operating revenues



Earnings before interest, tax and amortisation (EBITA)

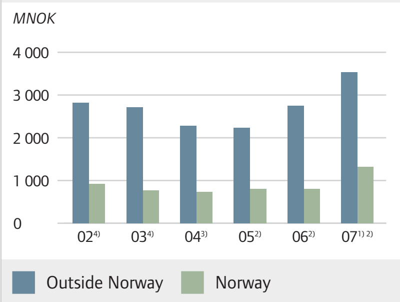


Kongsberg Maritime

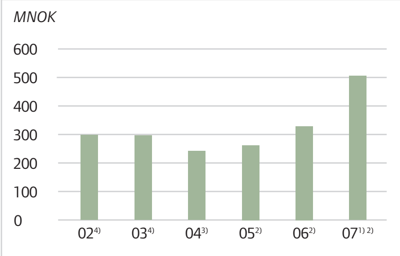
- Growth in operating revenues of 37%.
- 60% of the growth takes place abroad, and the percentage of sales outside Norway account for 73% of operating revenues.
- Operating profit (EBITA) up by MNOK 177. Improvement in all divisions.
- EBITA margin ended at 10.4%.

Read more on pages 78–89

Operating revenues



Earnings before interest, tax and amortisation (EBITA)

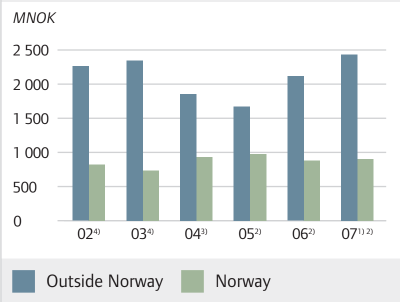


Kongsberg Defence & Aerospace

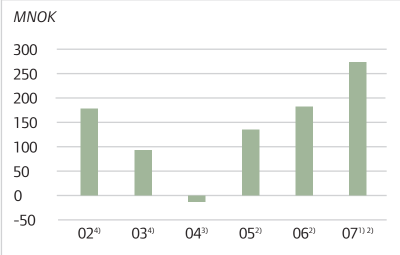
- Total growth in operating revenues of 11%.
- 94% of the growth takes place abroad, and the percentage of sales outside Norway accounts for 73% of operating revenues.
- The operating profit (EBITA) was up MNOK 91. The most pronounced improvement is in weapon control systems.
- EBITA margin ended at 8.2%.

Read more on pages 90–101

Operating revenues



Earnings before interest, tax and amortisation (EBITA)



See page 2 for notes 1, 2, 3 and 4.

2007 IN BRIEF

- Improvement in operating margin to 9.6 per cent
- Improvement in operating revenues of 24 per cent
- New orders: NOK 14.3 billion
- Backlog of orders up 95 per cent to NOK 12.6 billion

Main figures

Amounts in MNOK		*2007[1,2]*	*2006[2]*	*2005[2]*	*2004[3]*	*2003[4]*	*2002[4]*	*2001[4]*	*2000[4]*
Operations									
Operating revenues		8 306	6 720	5 791	5 901	6 651	6 980	6 176	5 296
– Operating revenues, sivilian	%	62	57	59	54	54	58	63	64
– Operating revenues, outside Norway	%	71	72	67	69	76	72	74	74
Earnings before interest, tax and amortisation (EBITA)		796	464	378	239	383	485	437	287
EBITA margin	%	9.6	6.9	6.5	4.1	5.8	6.9	7.1	5.4
Earnings before tax (EBT)		685	390	314	180	190	291	191	188
Profit for the year		490	252	262	118	125	216	123	(56)
Backlog of orders		12 646	6 472	5 416	5 425	5 913	5 143	6 401	6 610
Number of employees		4 205	3 650	3 372	3 495	4 176	4 208	4 012	3 765
Owners' values									
Market capitalisation		10 170	5 250	3 720	2 970	3 180	2 715	2 895	2 550
Earnings per share after tax in NOK		16.17	8.30	7.19	3.66	4.23	7.21	4.18	(1.86)
P/E		20.96	21.08	17.24	27.62	25.06	12.55	23.09	-
Equity ratio	%	30	23	23	26	30	31	27	26
Equity		2 758	1 684	1 505	1 626	1 830	1 741	1 538	1 406
Dividend per share in NOK		5.00	2.50	2.15	2.00	1.30	2.10	0.00	0.00

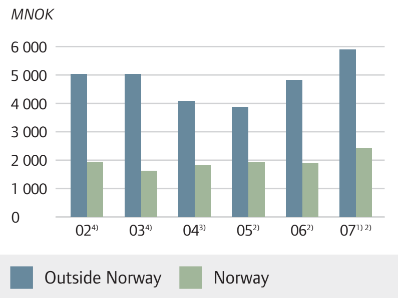
Amounts in MEUR (NOK/EUR = 8.2380)	*2007[1,2]*	*2006[2]*	*2005[2]*	*2004[3]*	*2003[4]*	*2002[4]*	*2001[4]*	*2000[4]*
Operation								
Operating revenues	1 043	844	727	741	835	877	776	665
Earnings before interest, tax and amortisation (EBITA)	100	58	47	30	48	61	55	36
Earnings before tax (EBT)	86	49	39	23	24	37	24	24
Owners' values								
Earnings per share after tax in EUR	2.03	1.04	0.90	0.43	0.53	0.91	0.53	(0.23)

Key figures by business area

	Operating revenues				**Earnings before interest, taxes and amortisation (EBITA)**			
Amounts in MNOK	*2007[1,2]*	*2006[2]*	*2005[2]*	*2004[3]*	*2007[1,2]*	*2006[2]*	*2005[2]*	*2004[3]*
Kongsberg Maritime	4 850	3 553	3 034	3 013	506	329	262	242
Kongsberg Defence & Aerospace	3 338	2 997	2 650	2 791	273	182	135	(13)
Other/elimination	118	170	107	97	17	(47)	(19)	10
Group	**8 306**	**6 720**	**5 791**	**5 901**	**796**	**464**	**378**	**239**

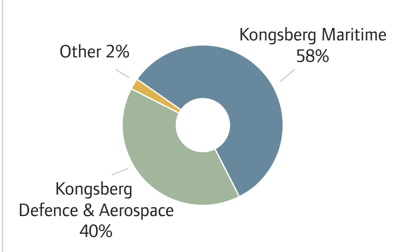
1) The figures are presented before non-recurring items related to the settlement of the pension plan and gains on the disposal of property.
2) The figures are presented in accordance with IFRS (International Financial Reporting Standard), and jointly controlled undertakings are consolidated using the proportionate consolidation method.
3) The figures are adjusted for effects at the transition to IFRS, and the sale of yachting activities and jointly controlled operations are consolidated using the proportionate method of consolidation.
4) The figures are not adjusted for effects in connection with the transition to IFRS, but are presented according to NGAAP. Jointly controlled operations are reported as associates.

Operating revenues



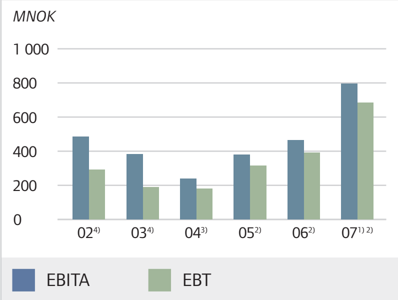
Revenues 2006: MNOK 6 720
Revenues 2007: MNOK 8 306
+24%

Operating revenues, by business area

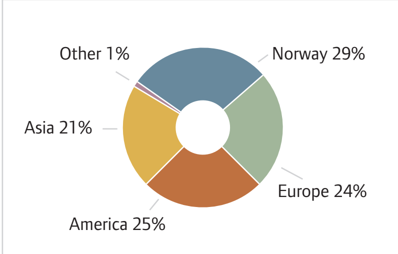


EBT 2006: MNOK 390
EBT 2007: MNOK 685
+76%

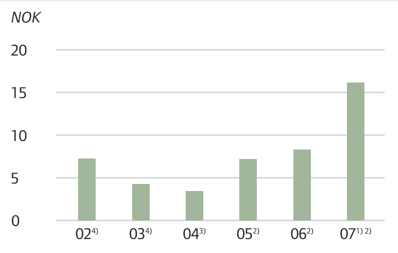
Profit/(loss)



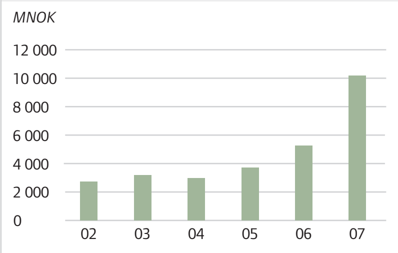
Operating revenues, by region



Earnings per share

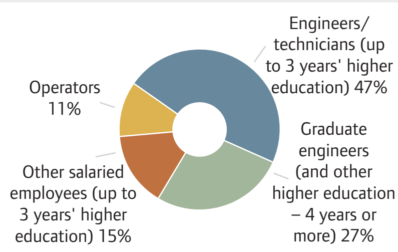


Market capitalisation

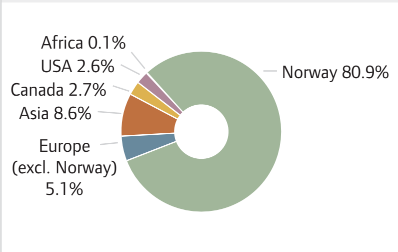


Share price 2006: NOK 175
Share price 2007: NOK 339
+94%

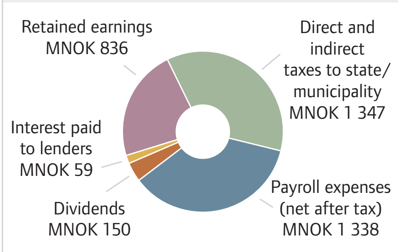
Employees, by level of education



Employees, by region



Value added accounts



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CEO JAN ERIK KORSSJØEN

Investments in the future

The Group's value creation has never been stronger than in 2007. The value of the KONGSBERG share on the Oslo Stock Exchange, including dividends, climbed by 95 per cent, while operating revenues increased by 24 per cent, we posted a record-high aggregate operating margin of 9.6 per cent and new orders increased by 87 per cent from 2006. All in all, we have created significant value for our owners, customers, employees and the communities of which we are a part.

"2007 was a very positive year for KONGSBERG."

This instils pride, but also presents new challenges. The steep increase in the number of orders calls for more space and greater resources. We must still deliver all customers' orders with the agreed quality, on time and on budget. We accomplished that throughout 2007. It is when the challenges are great that one sees the difference between the good, and the less than good suppliers. We do everything in our power to be a good contractor for our customers.

During periods of prosperity, it is also important to build good positions for the future. Customer proximity and being a genuine local supplier are crucial for strengthening our competitiveness. In 2007, we carried out several expansions and set up new ventures, especially in Asia and the USA. These address local markets but are also intended to serve as resource bases for all our international activities.

Doing more work locally is also one of our most important means of avoiding currency fluctuations. Earning and spending in the same currency helps make our profits predictable. Growth remains strong in Norway, although the relative growth rate is highest abroad. The internationalisation of KONGSBERG has helped secure Norwegian jobs.

Despite the feverish pressure for deliveries, we have never spent as much on product development as in 2007, and our ambitions are even higher for the future. The smart application of technology has resulted in good, cost-efficient solutions for our customers and for us as contractor.

KONGSBERG has continued its acquisition of smaller companies with products or market positions that fit into the Group's strategic target areas. Consolidated oil and gas activities and subsea activities have been fortified during the year.

Strong markets

2007 has been a good year in all our markets. KONGSBERG's maritime business area (BA), Kongsberg Maritime, saw strong demand for its products for merchant vessels as well as for purpose-built vessels for the offshore industry. The boom in the markets for drilling rigs and hydroacoustics-based products (seabed surveying, sonars and transponders) has also been favourable for the Group.

2007 also turned out to be a very good year for the BA Kongsberg Defence & Aerospace. Culminating more than 10 years of development efforts, the company signed a contract with the Norwegian Armed Forces for serial production of the new NSM anti-ship missile. The agreement generated new orders worth approx. NOK 2.5 billion.

Further, KONGSBERG consolidated its position as a world leader in vehicle-based weapon control systems through a framework agreement with the US Army valued at approx. NOK 8 billion over a five-year period. Sales of weapon control systems have resulted in aggregate revenues of NOK 1.3 billion in 2007.

Norway's plans to purchase new fighter craft may potentially represent great opportunities for KONGSBERG. We are working actively to position ourselves with the contractors short-listed by the Norwegian Government, and we are devising industrial solutions that are good regardless of which type of aircraft Norway chooses. We are already building new facilities for the production of composite aircraft components. Composite is a state-of-the-art material designed for the future, and our efforts in this field will have a major impact on KONGSBERG's future.

Continued growth in 2008

We expect the trend from 2007 to continue through 2008. Growth improves our capacity utilisation and thus improves profitability. Consequently, we expect profitability to improve further.

The recruitment and training of new employees at the national and international levels are and will continue to be crucial. We are building up resource centres in different parts of the world. They require more leadership and coordination, a challenge we have managed to deal with in a satisfactory manner.

In 2007, we worked hard to make the Group more attractive to job-seekers and students, addressing engineering students in particular. Different polls among relevant groups of students indicate that KONGSBERG is one of the most attractive employers in Norway.

KONGSBERG is highly innovative and spends roughly 10 per cent of its operating revenues on product development each year. The results of an analysis of our core technologies indicate that KONGSBERG has a strong, broad knowledge base. Combined with its genuine understanding of the markets and its ability to deliver, KONGSBERG has what it takes to succeed in the years ahead.

Corporate social responsibility

KONGSBERG's corporate social responsibility is first and foremost to the Group's employees. We emphasise that KONGSBERG is to be a good place of work, where employees can feel that they are working in a positive atmosphere that rests on a foundation of sound basic values.

It is also important that we team up with the local communities in which we operate. Our support generally targets activities for children and young people as well as local colleges and universities. Having favourable conditions for growing up and educating competent, relevant specialists are values we support.

In the larger perspective, corporate social responsibility is a question of human rights, workers' rights, anti-corruption efforts, the struggle against climate change and the practice of good ethics and morals. In 2006, we joined the UN Global Compact and we strive to promote the values underlying this initiative. In 2007, we also joined Transparency International. We support TI's primary objective of combating and eliminating corruption.

Tusen takk

After more than eight years as CEO of KONGSBERG, it is with a mixture of pride and humility that I would like to thank you for your efforts and cooperation. It has been a great honour to be part of such splendid corporation, and to be its most senior representative. As we say in Norwegian, *tusen takk* (a thousand thanks) to our valued customers for placing so much confidence in us. *Tusen takk* to all those employees who compete in the KONGSBERG 'world championships' every single day. And *tusen takk* to all of you others who support KONGSBERG in so many ways. I extend my very best wishes to KONGSBERG's new CEO, Walter Qvam. *Tusen takk* to each and every one of you!

Jan Erik Korssjøen, *CEO*

NEW MAN AT THE HELM

Walter Qvam is the man chosen by KONGSBERG's Board of Directors to take over the helm of the Group as successor to Jan Erik Korssjøen. Korssjøen joined the ranks of pensioners on 1 March following yet another record year for KONGSBERG.

Jan Erik Korssjøen,
CEO, KONGSBERG from 1999–2008

Walter Qvam,
CEO, KONGSBERG from 1 March 2008

"It is the underlying expertise and professionalism that say the most about opportunities in the long term."

Walter Qvam

Korssjøen feels privileged to be stepping down at a time when everything is running so smoothly for KONGSBERG. Meanwhile, he immediately shares the credit. "Our achievements are a result of the hard work of many talented employees over many years, combined with their willingness to strive for continuous improvement, and positive market trends. The fact that large parts of our advancement are not entirely market driven means that our success is likely to continue", comments Korssjøen.

Exciting and challenging future

The new CEO is both eager and excited about the tasks before him and, like Korssjøen, he firmly believes the Group will continue to make progress.

"Things have gone smoothly for the Group for a long time. Inasmuch as markets will invariably fluctuate somewhat, ultimately, our underlying expertise and professionalism will determine our long-term possibilities. KONGSBERG rests on a strong foundation and is well positioned for further growth. Our strong results are supported by a long history featuring the development of technology, world-class products and a fantastic competence base. Combined with the seasoned international sales networks KONGSBERG has in different markets, I believe we have laid the foundation for further progress", maintains Qvam.

Strongest growth abroad

Both Korssjøen and Qvam point out that relative growth in terms of sales and staff will be strongest outside Norway.

"We have become far more international in recent years. A growing percentage of our value creation has been moved closer to our customers, enabling us to strengthen customer relations further.

"In the years ahead, I believe an even greater share of the value chain will be distributed. We will do more in more places. A prime example is the production of the PROTECTOR Remote Weapon Station (RWS). We have set up production lines in Johnstown, Pennsylvania (USA). We see this as a proactive move to provide faster customer service, at the same time as we are positioning ourselves relative to future opportunities in the world's largest defence market.

"Asia has been another geographical focal point for us in recent years. The strategy is the same: proactive positioning relative to the world's largest shipbuilding market. Accordingly, it is profoundly important and right that we continue to internationalise the Group. This will contribute to KONGSBERG's long-term development trend, benefiting our customers as well as our employees", underlines Korssjøen.

"I agree with Korssjøen that it is absolutely essential that KONGSBERG's operations be distributed across different locations. We must be close to the action to pick up signals from customers and markets if we are to maintain our position as a technological leader. Technology is developing more rapidly than before and new solutions are often developed in cooperation with the customer. Moreover, increased globalisation is leading to the development of global resource centres and KONGSBERG may also benefit from be-

WALTER QVAM

Walter Qvam (54) has en engineering degree from NTH (now the Norwegian University of Science and Technology) and studied further at INSEAD in Singapore. He has headed Det Norske Veritas' oil and industrial activities in the Nordic countries, been vice president and headed railway activities for the Norwegian State Railways (NSB), headed Gemini Consulting's Nordic activities, been president of Capgemini in Norway and has held executive positions in Capgemini at the international level. His most recent position was as a partner in Bene Agere.

ing associated with them", Qvam points out.

Combining technologies

"I believe that innovation and product development must invariably rest on two very robust platforms: We must have the best expertise and technical knowledge, and our products and systems must always be developed with the market and the customer in mind", remarks Qvam. "We must constantly search for new areas of application, for new ways to add value for the customer and for new and smarter models for cooperation", he adds.

Korssjøen agrees completely. "KONGSBERG is a user of technology. We possess a wide range of technologies, and our strength lies in our ability to take knowledge from different sources and combine it to make products that meet market needs", continues Korssjøen.

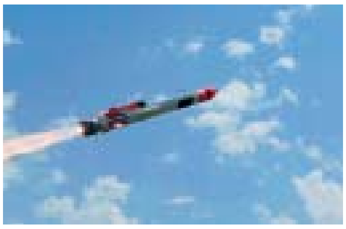
"The very definition of innovation involves taking an idea and developing it into a commercial product which generates revenues. Many companies stumble and fall before achieving commercialisation. KONGSBERG is good at this, however. In fact, I suspect that very few, if any, Norwegian technology enterprises are better at this than KONGSBERG", says Qvam.

Important to have leaders who take responsibility for processes

"Those who work for knowledge enterprises must be involved in the development of the enterprise and they have a great deal to contribute. An inclusive style of management is therefore a prerequisite for dealing successfully with the challenges facing KONGSBERG. This is not merely a question of recruiting the right employees. We also want to retain the talent we have, and ensure that employees feel they are developing better with us than they could with other companies. KONGSBERG has done well in this area so far, and I know that it has been a high priority for the Group. The competition for talent is becoming keener, so we as leaders must devote as much attention to this area as to sales and projects. I am confident that we will find solutions together", concludes Qvam.

HIGHLIGHTS 2007

Group
Best result ever
In 2007, Kongsberg earned operating revenues of MNOK 8 306 and an EBITA of MNOK 796. Revenues climbed by 24 per cent, and profitability was up 2.7 per cent from 2006. Sales orders aggregated NOK 14.3 billion in 2007. At 31 December 2007, the backlog of orders was valued at NOK 12.6 billion, more than 6.1 billion more than at year-end 2006. Market capitalisation increased from NOK 5.3 billion at year-end 2006 to NOK 10.2 billion at 31 December 2007.



Kongsberg Defence & Aerospace
Contract for serial production of the new Naval Strike Missile
A contract for serial production of the new naval strike missile (NSM) was signed with the Armed Forces' Logistics Organisation in June. The NSM will be the main weapon on the Nansen Class frigates and the Skjold Class missile torpedo boats, and the order was worth approx. NOK 2.5 billion. The contract is the culmination of 10 years of development, and the NSM has a good export potential.

Kongsberg Defence & Aerospace
NOK 8 billion framework agreement with the US Army
The company's position as the world's leading supplier of weapon control systems was confirmed by an agreement with the US Army to supply their CROWS programme (Common Remotely Operated Weapon Stations). This is a joint procurement programme for weapon control systems for the US Army's vehicle programmes. The agreement is valued at approx. NOK 8 billion and will have a duration of five years.

Kongsberg Maritime
Burgeoning activity in 2007
Kongsberg Maritime had a strong influx of new orders in 2007. Market demand has been high, not least for products for merchant vessels and purpose-built vessels for the offshore industry. The backlog of orders reached MNOK 5 333 at year end. Kongsberg Maritime has expanded and built new premises in several locations.
A total of 559 new co-workers were hired in 2007.

Kongsberg Defence & Aerospace
Investing in new industrial buildings
Kongsberg is building a factory for composite production and advanced engineering production to prepare for offset agreements associated with the purchase of new Norwegian fighter craft. The investment will total MNOK 900 and the building will cover approx. 30 000 m^2. The Government has furnished a guarantee which reduces Kongsberg's risk until Norway has formally decided which fighter craft to buy.

Kongsberg Maritime
Advanced subsea systems to India
In April, Kongsberg Maritime concluded a contract with the shipyard Alcock Ashdown Ltd. in Gujarat, India, to supply advanced subsea systems worth roughly MNOK 350. The equipment will be installed on six new surveying vessels that India's National Hydrographic Office has ordered from the shipyard. This is by far the largest contract we have landed in this field to date.

THIS IS KONGSBERG

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Paramount objectives

KONGSBERG's main objective is to promote the value of shareholders' assets over time by engaging in profitable, growth-oriented industrial development in a long-term perspective.

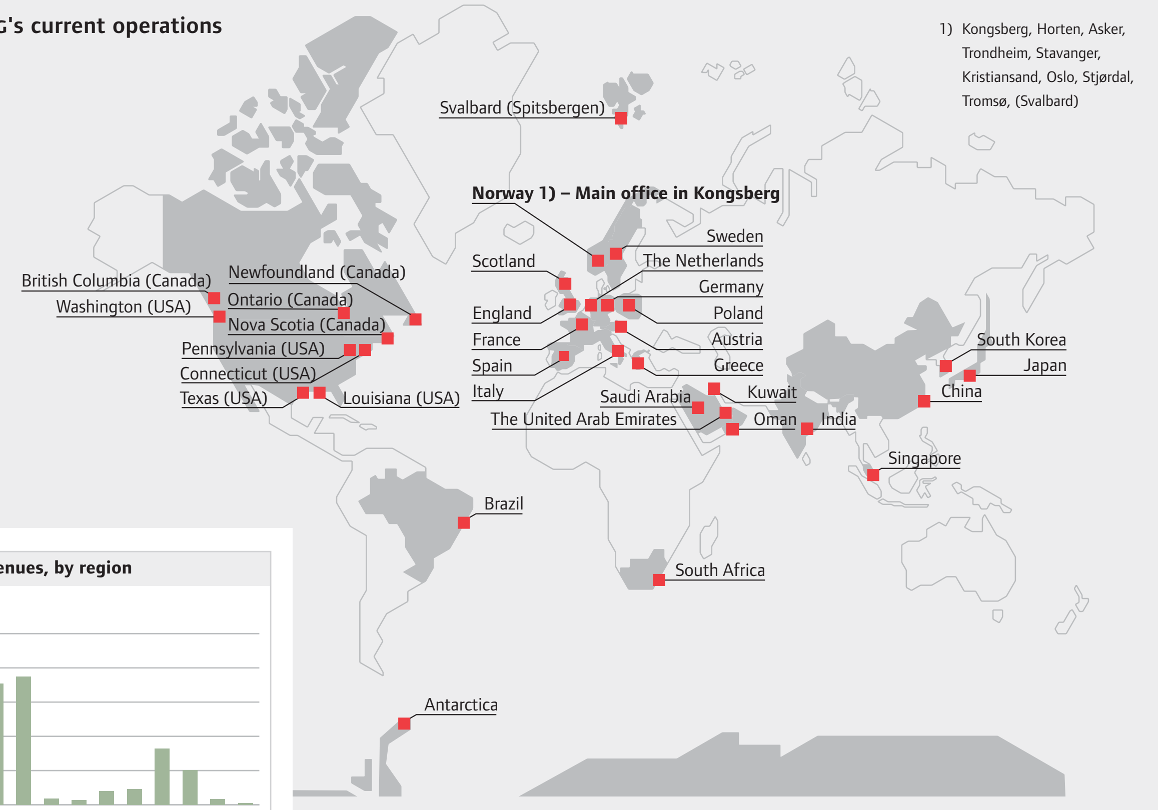
Growth is a key aspect of the Group's strategy. In 2006, KONGSBERG set a target for growth and profitability that implied a doubling of sales revenues in a three- to five-year perspective, based on the 2005 figures. KONGSBERG is well on its way to reaching that target. The Group's overall profitability target is an operating margin of 10 per cent and it is making strong headway here as well. The Group will reach its targets by focusing on knowledge-based products and services in selected market segments, and by engaging in ethical, environment-friendly and socially responsible operations.

Products

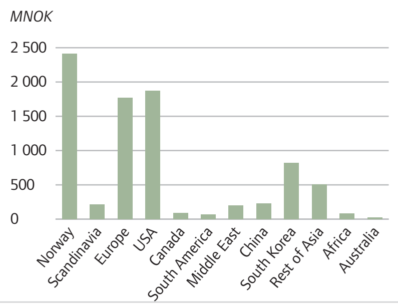
The Group is one of Norway's leading technology enterprises and has one of the country's largest industrial engineering communities.

KONGSBERG's range of products is characterised by a high technology content. The products must work under demanding conditions, from multibeam echosounders that survey the seabed at depths down to 11 000 metres, to control mechanisms for

KONGSBERG's current operations



Operating revenues, by region



Since the 2006 Annual Report, KONGSBERG has opened activities in France, Poland, Austria, Saudi Arabia and Japan. The Group wound up activities in Romania and Hungary during the same period.

solar panels on space probes orbiting through outer space for several years at altitudes of 36 000 km. Consequently, the Group's reliability requirements are sky-high.

Markets

KONGSBERG has sales with good geographical distribution. Markets outside Norway account for an ever larger share of KONGSBERG's total operating revenues. In 1995, MNOK 807 (40 per cent) of KONGSBERG's operating revenues were generated abroad. In 2007, the figure was MNOK 5 889 (71 per cent).

Customer proximity is required to accommodate the needs of local markets and to be considered a local supplier. Business and growth abroad are expected to continue expanding.

Business areas

KONGSBERG's two business areas, Kongsberg Maritime and Kongsberg Defence & Aerospace, work in the same areas of technology. They both have their core competencies in signal processing, engineering cybernetics, software development services and systems integration. Both BAs deliver systems that help users take the right decisions.

Kongsberg Maritime

Kongsberg Maritime delivers products and systems for dynamic positioning, navigation and automation to merchant vessels and offshore installations, as well as for seabed surveying, surveillance, training simulators, and for fishing vessels and fisheries research. Important markets include countries with significant offshore and shipyard industries.

Kongsberg Maritime had operating revenues of NOK 4.9 billion and 2 510 employees in 2007. 73 per cent of its operating revenues originated outside Norway.

Kongsberg Defence & Aerospace

Kongsberg Defence & Aerospace is Norway's premier supplier of defence and aerospace-related systems. The Norwegian Armed Forces is the BAs most important customer. Solutions developed in collaboration with the Norwegian Armed Forces have proven competitive at the international level. In recent years, they have achieved a significant export share. All defence-related exports are contingent on the approval of the Norwegian authorities. One key element of the BA's market strategy is to form alliances with major international defence enterprises.

Kongsberg Defence & Aerospace delivers systems for command and RWS, weapons control and surveillance, as well as different types of communications solutions and missiles. Kongsberg Defence & Aerospace had operating revenues of NOK 3.3 billion and 1 595 employees in 2007. 73 per cent of its operating revenues originated outside Norway.

Expertise

KONGSBERG is a knowledge enterprise. Having the right expertise promotes added value and is decisive for the Group's competitiveness. Some 70 per cent of KONGSBERG's 4 205 employees have higher educations.

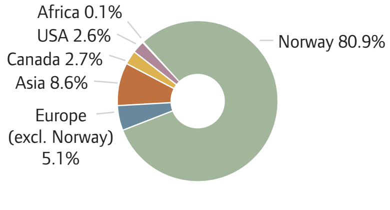
Shareholder policy

KONGSBERG's primary goal is to enhance shareholder value over time. KONGSBERG's corporate policy is that 30 per cent of the Group's annual profit from ordinary operations be returned to the owners in the form of dividends. A dividend of NOK 5.00 per share is proposed for 2007.

Ownership

Kongsberg Gruppen ASA is listed on the Oslo Stock Exchange. The State is the largest shareholder, with a 50.001 per cent interest. There were a total of 5 370 shareholders at 31 December 2007.

Employees, by region



HISTORY

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

1624–1814

The discovery of silver

King Christian IV founded Kongsberg in 1624, after silver was discovered in the area. Kongsberg's silver works and silver mines played a pivotal role in Norwegian history from the late 1600s until the early 1800s. The silver works was Norway's largest enterprise. In about 1720, its aggregate earnings accounted for 20 per cent of the government budget.

The Mining Seminar, formally known as "The Royal Norwegian Mining Seminar" was Europe's first institution for higher education in mining technology. It was founded in Kongsberg on 19 September 1757 and was in operation until 1814. Its purpose was to raise levels of competence for the Kongsberg Silver Mines. Apart from the Norwegian Military Academy in Christiania, up until 1811, the Mining Seminar was Norway's only institution of higher education. Norway's first university was supposed to be located in the Mining Capital of Kongsberg.

1814–1955

Kongsberg Våpenfabrikk and the maritime community at Horten

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

In the late 1800s, the company introduced the Krag Jørgensen rifle, which was subsequently chosen as the main weapon for the US Army. This was one of the first large-scale export contracts ever for Norwegian industry. Norway's main naval yard was established in Horten in 1849, laying the foundation for a strong maritime community.

1955–1987

Industrial locomotive

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

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

1987–1992

Crisis and revitalisation

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

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

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

1992–2007

Maritime initiatives, stock exchange listing and growth

In 1992, the Group acquired the Norcontrol companies. This signalled the beginning of a maritime focus that culminated in Kongsberg Maritime being named a separate business area in 1995. In 1996, the Group acquired the Simrad Group, followed by Navia in 2000. The maritime efforts were a prerequisite for stock exchange listing and partial privatisation in 1993. The company changed its name to Kongsberg Gruppen in 1995.

The strategy for the maritime segment is to concentrate on industrial markets. As a result of this, the Group sold the yachting segment in 2005.

In 2006, Kongsberg Defence & Aerospace acquired the Canadian software company Gallium Visual Systems Inc., while Kongsberg Maritime acquired Fantoft Process Technologies AS in 2006 and Sense Intellifield AS in 2007. These acquisitions are compatible with the strategy for focusing more on the oil and gas industry.


CSAV

VISJON, OBJECTIVES AND STRATEGY

Moving into the future
Knowledge and facts constitute our most important platform for facing the unknown.

Container vessels are among the many different types of commercial vessels to which Kongsberg Maritime delivers automation and navigation systems.

VISION

WORLD CLASS – through people, technology and dedication

OBJECTIVES

KONGSBERG is to be an internationally-oriented, technology enterprise headquartered in Norway. Shareholders' assets will be protected and enhanced by using the Group's high level of knowledge to develop attractive solutions for the market, and to make constant operational improvements:

- Improvement measures will be implemented continuously to promote profitability.
- Growth and profitability will be generated through organic growth, acquisitions and structural initiatives.
- The Group will be organised in a manner designed to exploit coherence and possible synergies.
- Operations should be handled in an ethically, environmentally and socially responsible manner, maintaining a clear profile and a good reputation.

STRATEGY

Important initiatives for achieving the objectives include:

Markets

KONGSBERG's markets are characterised by stringent requirements for performance, quality and operational reliability. 71 per cent of the Group's operating revenues were earned outside Norway in 2007. KONGSBERG strives to develop its marketing system to help meet customers' needs in an efficient manner. Customer proximity and cooperation on the development of optimal solutions are crucial. Strategic alliance-building is a prerequisite for success in several of KONGSBERG's product areas.

Concentration on the business areas

The business areas are continuously reviewed to identify activities which do not occupy a natural place there, or which might better be developed under the auspices of other industrial constellations. The Group considers these areas thoroughly in an effort to conserve assets insofar as possible.

Acquisitions

Acquisitions are a key part of the corporate growth strategy in core areas. The goal of acquisitions is to exploit common technologies and achieve market synergies. Other motives include a desire to supplement the range of products, and to gain access to new markets or specialised technology. The desire for constant improvement in the Group's strategic market position plays a key role in its acquisition strategy.

Expertise

Knowledge and expertise are KONGSBERG's most important competitive parameters. Opportunities for human resources development are crucial to positive performance trends, making them a high priority. It is important to offer attractive, challenging jobs. Leadership development programmes are conducted systematically.

Corporate Social Responsibility and ethics

KONGSBERG has a corporate Code of Ethics, an environmental policy and a policy for corporate social responsibility. These are basic elements in the efforts to achieve a corporate culture that supports profitable, sustainable development.

Technology

Product development costs are equivalent to approx. 10 per cent of KONGSBERG's operating revenues each year. A high level of activity in this field is a prerequisite for profitable organic growth. Product development may be funded by customers and/or equity-financed. The needs of the market invariably determine our direction, ambitions and solutions for product development. KONGSBERG's products are largely based on the following core competencies: software development services, engineering cybernetics, systems integration and signal processing.

Financial strategy

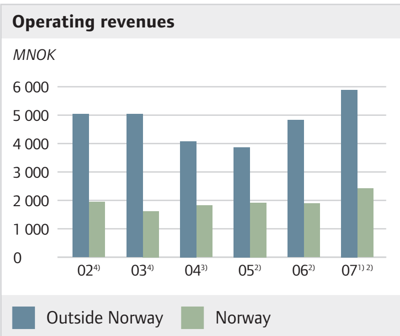
The Group's management attaches importance to having the financial wherewithal needed to ensure its freedom of action. Growth is to be funded mainly by earnings and the freeing up of previously tied-up capital. External funding is always based on a long-term perspective that is commensurate with the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

STRATEGIC DIRECTION

One of KONGSBERG's objectives is to ensure continuous improvement throughout the Group. In 2006, we set a target, i.e. to double consolidated operating revenues in three to five years from the 2005 figure. A distinct improvement in operating revenues and margins in 2007 means we are making good headway towards reaching that target.

1 Improve the Group's international presence

The countries in which KONGSBERG operates.



It is decisive for KONGSBERG to have an international presence, while maintaining a local presence gives us marketing power and better cost efficiency.

The markets in which KONGSBERG operates are largely abroad. Many countries would like to build up their own industry. They would like to build up as much local added value as possible, create local jobs and build up expertise. In other words, it is important that we develop local enterprises to comply with authorities' wishes. In some markets, we work with or set up a joint venture with a local partner. This helps us address cultural differences and allows access to important networks. All our international ventures are set up in compliance with KONGSBERG's principles for corporate social responsibility.

The shipyard industry in Asia is a major market for KONGSBERG. There has been a steep increase in capacity, and the Asian shipyard industry is now the largest in the world. One consequence of this growth is that KONGSBERG has expanded its capacity in terms of employees as well as space in Singapore, South Korea, India and China.

The defence industry is highly protectionistic and is exempt from international free trade agreements. The framework agreement with the US Army for Remote Weapon Stations (RWS) for the CROWS programme has made it necessary for KONGSBERG to expand its presence in the US. One criteria on which we were judged prior to winning the CROWS contract was our local 'footprint'. The vast majority of the delivery to CROWS is being produced in the US using American suppliers.

A stronger international presence also cuts foreign currency exposure, reducing production costs.

Facts

South Korea is the world's largest shipbuilding nation. The shipyards there account for almost 30 per cent of the world's production of ships. The largest have increased their production capacity by an average of 15 per cent annually since 2003. Each of the five largest shipyards launches a large commercial vessel every fifth day. Almost two-thirds of all gas tankers and large container vessels are made in South Korea, as are more than half of all offshore exploration and production vessels.

China currently has approx. 110 shipyards competing on the international market for commercial vessels and offshore supply vessels. The backlog of orders comprises more than 2000 vessels, 850 of which are scheduled for delivery in 2008. The Chinese shipyard industry is expected to grow by about 20 per cent each year. China has already surpassed Japan as the world's second largest shipbuilder in terms of the number of ships and capacity.

Japan has almost 60 shipyards and a capacity of about 450 vessels a year. Several Japanese and South Korean shipyards are now in the process of setting up production facilities in China, the Philippines and Vietnam.

Singapore is No. 1 when it comes to offshore platforms and supply ships. India is currently carving out a position in this market with certain types of vessels.

2 Develop attractive products directly for oil and gas companies

Systems for the simulation of processes and decision-support systems
KONGSBERG has two state-of-the-art computer tools for building dynamic simulators of processing facilities: ASSETT and D-SPICE. The tools can be used as stand-alone systems or attached to the actual facility to mirror the entire process in real time – all the time. Hence the operator can run reconstructions of what has happened, or what could happen in the facility. Dynamic process simulators are an important element of integrated operations. The growing prevalence of marginal field development projects means that oil companies have to find new products and technologies to optimise field production and recovery rates. Simulators are absolutely decisive here, both for designing processing facilities, testing control systems and training operators, and as a real-time system for use as a decision-support tool to support operators' routine operations.

Generally speaking, a supplier wants to be as close to end-users as possible in order to understand the market and customer needs, and to price products and systems based on their value for end-users. One of KONGSBERG's strategic objectives is to be a more important contractor for oil and gas companies.

The Group's products are often described as the 'intelligence' in the overall products or systems ordered by customers. All the same, our deliveries only account for a small part of a customer's total costs for a finished product. Accordingly, another strategic objective for KONGSBERG is to increase the value of our deliveries.

As a technology enterprise, KONGSBERG focuses on knowledge-based products and systems for applications of great value to customers. We have therefore given priority to developing systems for the simulation of processes and decision-support systems (integrated operations) for oil companies and operators on the oil and gas market, as well as for the positioning and control of streamers for seismic companies. We will also undertake acquisitions and investments in established companies that have products for direct delivery to oil and gas companies. Thus we will strengthen the company's position and customer relations.

3 Develop new opportunities through offset agreements

The defence market is a political and protectionistic market. The market is excepted from the EEA's competition rules. This means that most countries choose national suppliers and pose offset requirements in connection with international procurements. Offset agreements entail that the seller country must undertake an obligation to purchase defence materiel from the buyer country equal to a value corresponding to the original purchase price. KONGSBERG/Norway faces similar requirements when we sell defence materiel abroad.

Offset agreements are important for maintaining and further developing a viable national defence industry, also in Norway. When large-scale Norwegian defence procurement orders are placed with foreign enterprises, offset agreements are used actively to secure work for Norwegian industry, especially the defence industry.

KONGSBERG is Norway's premier defence enterprise. KONGSBERG has a history of being awarded a large part of the offset agreements signed. Earlier major procurements, e.g. air defence systems and frigates, have led to new alliances and partners for KONGSBERG. Such agreements have often been decisive for gaining market access abroad. These projects also give employees and the organisation an important boost in respect of knowledge and technology.

The Government plans to make a proposition to the Storting in 2008/2009 for the acquisition of new fighter craft. This will be Norway's largest defence materiel procurement ever. The agreement will be profoundly important for the Norwegian defence industry, and strict offsetting requirements have already been posed.

In 2006, the Government shortlisted three candidates for the contract: JAS Gripen, Eurofighter Typhoon and F-35 Joint Strike Fighter (JSF). KONGSBERG is neutral to the choice of fighter craft. For us, it is important to be in position for any of the three alternatives and to find good industrial solutions, regardless of which type of fighter craft Norway chooses.

The candidates have promised significant industrial contracts: JSF directly linked to the fighter craft, and JAS Gripen linked to fighter craft production and offsets. Eurofighter has withdrawn its candidacy for the moment.

KONGSBERG has already signed long-term framework agreements with Lockheed Martin and Northrop Grumman for the production of composite products for the new Joint Strike Fighter. The agreements are conditional upon Norway selecting the JSF. The agreements will extend for eight years and call for the construction of a new composite factory.

Fighter craft
At age 40, the F-16 fighter craft will reach its maximum life expectancy in about 2020. The Government will submit a proposition to the Storting in late 2008 about buying new fighter craft. With a framework of roughly NOK 40 billion, this aircraft procurement will be Norway's largest weapon procurement ever. In December 2006, the Government voted to shortlist three candidates for the contract:

- Eurofighter Typhoon (Europe)
- JAS Gripen (Sweden)
- F-35 Joint Strike Fighter (USA)

Offset agreements
At the same time as the Armed Forces enters into agreements for the procurement of defence materiel with foreign vendors, they sign a contract that obligates the supplier to purchase Norwegian goods and services.

- Offsetting continues to be an important element of international trade.
- Norway operates with the same regime as other European countries. The Government and the Storting will require offset agreements and industrial participation in connection with defence procurements.
- The Armed Forces' future investment plans imply increased imports (e.g. new fighter craft). This opens opportunities for new offset agreements which, in turn, form a basis for entering new geographical markets.
- All Armed Forces' contracts in excess of MNOK 50 with foreign vendors are initially supposed to generate 100 per cent offset agreements.

4

Export proprietary defence products

The Remote Weapon Station (RWS) has been sold to the following countries:

Norway	USA	Canada
Ireland	Australia	Finland
Switzerland	Czech Republic	Portugal
The Netherlands	Luxembourg	

Relatively speaking, KONGSBERG is a small player in the international defence market, but the Group has carved out good market positions in certain niches. We have developed many competitive systems and products in collaboration with the Norwegian Armed Forces, international alliance partners and on our own.

The PROTECTOR Remote Weapon Station (RWS) has been in full-scale production since December 2001. KONGSBERG is currently the world's leading manufacturer and supplier of this type of weapon control systems. Over the past six years, the Group has supplied more than 2 000 systems to defence customers in 11 countries.

In autumn 2007, KONGSBERG signed a framework agreement directly with the US Army for weapon control systems for the CROWS (Common Remotely Operated Weapon Station) programme. The agreement has a framework of approx. NOK 8 billion and a duration of five years.

KONGSBERG's success in the USA has led to the establishment of a new subsidiary in Pennsylvania to manufacture new and overhaul used weapon control systems for the US market. Being a local supplier strengthens the Group's position as by far the leading supplier of remote controlled weapon control systems for armoured personnel carriers, and it virtually eliminates foreign currency risk, since revenues and expenditures are in the same currency.

In 1996, KONGSBERG and the Norwegian Navy concluded a contract for the development of a new Naval Strike Missile (NSM), one of Norway's most technologically advanced development projects.

In 2007, the Group was awarded a contract worth approx. NOK 2.5 billion for serial production of the missile. The contract covers the production of NSMs for the Norwegian Navy's new Nansen Class frigates and Skjold Class missile torpedo boats. Several countries have shown considerable interest in the NSM for use on various platforms (aircraft, helicopters, vehicles, etc.); this may open doors to new markets.

In that connection, KONGSBERG and Lockheed Martin have signed a joint marketing agreement for a new custom-made product for fighter craft, the Joint Strike Missile (JSM). The missile will be deployable on all three of the fighter craft contenders: the Joint Strike Fighter (JSF), the Eurofighter and JAS Gripen.

5 Offer more products and services in existing markets

Dynamic positioning
Dynamic positioning is a method to maintain a vessel in the same position above the seabed using the vessel's own propellers and without using an anchor. The system collects data on wind, waves, currents, direction and current position. Then it uses automatic control to calculate how much motor power should be applied to the propellers and thrusters to keep the vessel in a constant position.

Many of KONGSBERG's departments and divisions operate in niches where our deliveries account for a relatively small part of an end-product's total value. Accordingly, one of the Group's goals is to be able to offer customers a more comprehensive package solution so that we can boost our share of the overall delivery.

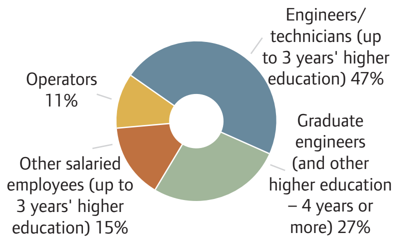
One of the instruments at hand is to coordinate the development of our own products to ensure our complex product packages are of greater value to the customer than if they were to combine products from different suppliers. For example, in addition to the sale of positioning systems to a vessel, a platform or a rig, we also offer our automation and navigation systems.

Another policy instrument is the acquisition of businesses that offer products close to our own products and systems. Only minor acquisitions have been undertaken thus far.

KONGSBERG will continue to expand the number of products, systems and services we deliver to the individual customer. With equipment on more than 17 000 vessels, the potential is vast with a view to the number of customer contacts, training needs, maintenance responsibilities and upgrades. KONGSBERG aspires to improve its service to all customers.

6 Improve competitiveness through knowledge and competence

Employees, by level of education



As a growing corporation, KONGSBERG will be needing more skilled co-workers. Various surveys made by independent organisations indicate that KONGSBERG is an attractive employer for seasoned engineers as well as for students with higher technical educations. Meanwhile, given today's high demand for labour in Norway, it is necessary to work more closely with colleges and universities and to establish more and stronger technology hubs abroad.

To get the expertise we need, we must secure access to more international technology communities. KONGSBERG is doing this by further developing the technology communities we have built up through the establishment of our own business ventures and through acquisitions. The Group currently has highly competent technology hubs in Norway, Great Britain, Poland, the USA, Canada, India, South Korea, China and Singapore.

The Group's intellectual capital is growing and becoming increasingly international. Teamwork based on the right combination of working methods, cultural understanding and expertise is imperative for maintaining our competitive edge. This also calls for skilled managers with appropriate expertise and the ability to recognise and use the cultural strengths of employees, and to foster a working environment with KONGSBERG's attitudes and patterns of behaviour as the common denominator.

DIRECTORS' REPORT AND ACCOUNTS

Good conditions for further growth
Our underlying expertise and professionalism will largely determine our long-term possibilities.

The NASAMS air defence system in camouflage during 'Cold Response', a NATO exercise held in 2006.

DIRECTORS' REPORT

2007 was a year of progress for KONGSBERG. Revenues, excluding non-recurring items, climbed by 24 per cent to NOK 8.3 billion, and the backlog of orders climbed by 95 per cent to NOK 12.6 billion. The EBITA, excluding non-recurring items, increased to MNOK 796 (MNOK 464). Earnings per share came to NOK 32.71 altogether and to NOK 16.17 before non-recurring items (NOK 8.30). The Board of Directors is satisfied with the Group's performance and proposes a dividend of NOK 5.00 per share.

General review of 2007

Both business areas posted higher operating revenues and EBITAs than in 2006. Sales orders were also good for both Kongsberg Maritime and Kongsberg Defence & Aerospace. The Group's backlog of orders was valued at MNOK 12 646 at year end. Kongsberg Maritime accounted for 42 per cent of that amount and Kongsberg Defence & Aerospace for 57 per cent. The results for 2007 include non-recurring items associated with the sale of property and the transition to defined contribution pension plans.

Kongsberg Maritime posted good results and reported a strong influx of new orders. New orders were good in all areas, especially for dynamic positioning and hydroacoustic products where, *inter alia*, KONGSBERG won a contract in India valued at MNOK 350 for hydroacoustic products. Orders were up by more than 131 per cent from 2006 for Kongsberg Defence & Aerospace. The two largest individual contracts were the framework contract with the US Army for weapon control systems for their CROWS programme and the production contract for the new NSM anti-ship missile with the Royal Norwegian Navy.

Comments on the result

Non-recurring items

On 21 December 2007, KONGSBERG sold three properties, two of which were under construction. Kongsberg Maritime AS and FMC Kongsberg Subsea AS have signed long-term leases for the properties. The properties were sold for MNOK 1 375, resulting in a gain of MNOK 253 and a cash settlement of MNOK 571.

As from 1 January 2008, all new employees and employees under the age of 52 will be transferred to defined contribution pension plans. This has led to a net reduction in pension liabilities. A positive one-off effect of MNOK 341 was recognised in connection with settlement of the pension plan in 2007. Employees aged 52 and older will remain in the scheme featuring defined benefit pensions.

Growth in sales
The Group posted operating revenues of MNOK 8 306, excluding non-recurring items, up 23.6 per cent from 2006. Both business areas reported growth. Kongsberg Maritime earned operating revenues, excluding non-recurring items, of MNOK 4 850, up 36.5 per cent. Kongsberg Defence & Aerospace reported operating revenues of MNOK 3 338 in 2007, up 11.4 per cent.

EBITA trend
The EBITA, excluding non-recurring items, ended at MNOK 796 (MNOK 464). Both BAs reported growth. Kongsberg Defence & Aerospace posted a profit that was up MNOK 91, thanks to weapon control systems in particular. Kongsberg Maritime's profits improved by MNOK 177. All divisions within this BA posted better results.

Net financial items
Net financial expenses were MNOK 67, up MNOK 9 from 2006. The financial expenses reflect that fixed rates of interest were agreed at a higher level of net interest-bearing debt than what existed at 31 December 2007. The Group has fixed rate agreements on some of its gross liabilities, which amounted to MNOK 400.

Performance
Earnings before non-recurring items and tax were MNOK 685 (MNOK 390), and the profit before non-recurring items and after tax was MNOK 490 (MNOK 252). Ordinary earnings per share before non-recurring items came to NOK 16.17 (NOK 8.30).

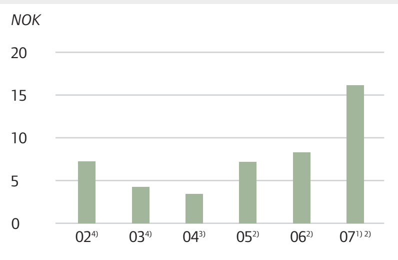
Markets and general operating conditions

Kongsberg Maritime
Orders for new offshore and merchant vessels have reached record levels in recent years. However, 2007 was marked by several shipyard delays as a result of the shipyards' own capacity problems and because of subcontractors that were not able to deliver. KONGSBERG has proven able to accommodate growth and has not been the cause of any delays on construction projects. KONGSBERG has good market positions and good customer proximity. This means we are well prepared to meet ever keener competition from local competitors, especially in Asia. Norway's maritime industry occupies a strong position, and it is important to the export industry. The Board therefore emphasises the need for an industrial policy that will promote growth and development for the maritime industry.

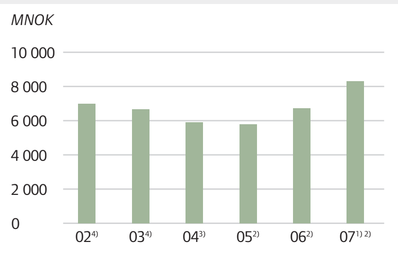
Kongsberg Defence & Aerospace
In collaboration with KONGSBERG, the Norwegian Armed Forces have developed solutions that have proven highly competitive on the international market over time. It is of great importance to the Group that this cooperation continues. The Group has many new contract prospects at the international level, especially for weapon control systems, air defence, military communications and missiles. The prospects are bright for further development of the market for weapon control systems in the USA.

The new fighter craft could potentially represent Norway's largest defence procurement ever. The Norwegian defence industry depends on importance being attached to negotiating favourable offset agreements in connection with defence spending abroad. The Norwegian Armed

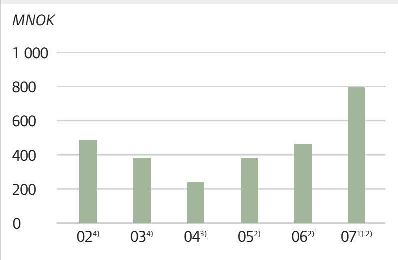
Earnings per share



Operating revenues



EBITA



1) The figures are presented before non-recurring items related to the settlement of the pension plan and gains on the disposal of property.
2) The figures are presented in accordance with IFRS (International Financial Reporting Standard), and jointly controlled undertakings are consolidated using the proportionate consolidation method.
3) The figures are adjusted for effects at the transition to IFRS, and the sale of yachting activities and jointly controlled operations are consolidated using the proportionate method of consolidation.
4) The figures are not adjusted for effects in connection with the transition to IFRS, but are presented according to NGAAP. Jointly controlled operations are reported as associates.

Forces' decisions to make major investments with foreign vendors tie up large parts of Norway's defence budget, limiting investments with national suppliers. Norwegian participation in the fighter craft programme is important to ensure defence deliveries that are well adapted to conditions in Norway and to maintain a competitive Norwegian defence industry. A good offset agreement will facilitate this. The Norwegian Government and the Storting (parliament) have both underlined the importance of offset agreements that are in line with international practice. For KONGSBERG, an offset agreement could also translate into orders for several of the Group's nearly 1 500 subcontractors. The Government will submit a proposition to the Storting in late 2008 regarding the procurement of new fighter craft. KONGSBERG has signed a framework agreement with Lockheed Martin and Northrop Grumman for the production of parts in titanium and composite materials for the US aircraft alternative, the Joint Strike Fighter. Both the other contenders, JAS Gripen and Eurofighter, guarantee 100 per cent offsetting. Parts of the guarantees involve the production of components in composite. In any event, an offset agreement in connection with the procurement of fighter craft will translate into more added value and activity in the years ahead.

As part of its positioning prior to the awarding of the fighter craft contract, KONGSBERG has started building a new composite plant. Covering nearly 30 000 m^2, the facility will be completed in 2008. The composite plant is being built to prepare for offset agreements related to the purchase of new fighter craft. The Norwegian Government has furnished a guarantee which will be triggered if the Norwegian authorities opt not to purchase new fighter craft. The plant will accommodate 350 employees when it is in full operation in about seven years.

Predictability in the export regulations for defence materiel and in the way in which the authorities practice them is an important parameter for KONGSBERG.

Technology and R&D

A substantial percentage of KONGSBERG's added value consists in the development of high-technology solutions for national and international markets. Comprehensive expertise and knowledge sharing are crucial for competitiveness. KONGSBERG's extensive knowledge of dynamic positioning is based on expertise developed in connection with guidance systems for submarines and missiles. The Group's systems and products generally revolve around four core competencies: signal processing, systems integration, engineering cybernetics and software development. KONGSBERG focuses on product development continuously. KONGSBERG's product development accounts for approx. 10 per cent of operating revenues over time. This level is considered necessary for achieving a sufficiently modern, cost-effective product portfolio. In 2007, the Group invested heavily, *inter alia,* in Offshore & Marine and Subsea in Kongsberg Maritime, and in weapon control systems in Kongsberg Defence & Aerospace.

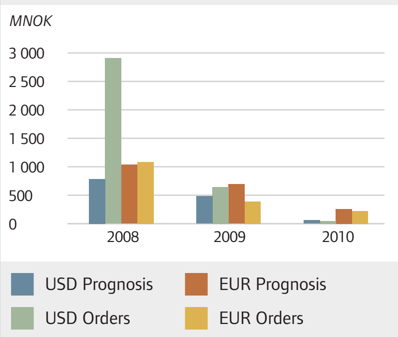
Financial situation and capital structure

Cash flow

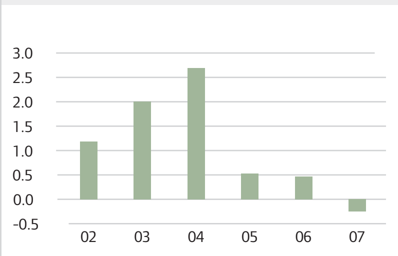
The cash flow from operating activities for the year came to MNOK 1 015 (MNOK 623) and consists of an EBITDA, excluding non-recurring items, of MNOK 966 and a decrease in tied-up capital for operations-related balance sheet items of MNOK 49. A large part of KONGSBERG's operations consists of delivery contracts featuring milestone payments, meaning that the net cash flow from operating activities will vary from year to year.

Property sales in December 2007 generated proceeds of MNOK 571. In 2007, MNOK 281 was paid for the acquisition of subsidiaries, including MNOK 266 for Sense Intellifield. The Group invested MNOK 432 in tangible fixed assets in 2007. Investments in new buildings and the rehabilitation of existing buildings totalled MNOK 246. The investments in the new composite plant and new engi-

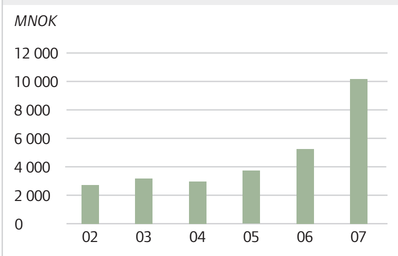
Currency hedge portfolio at 31 Dec. 2007



Net interest-bearing debt / EBITDA



Market capitalisation



neering workshop accounted for the largest part of the investments in new buildings. In 2007, KONGSBERG bought minor stakes in companies that operate in areas of strategic interest for KONGSBERG. Such investments came to MNOK 134 in 2007. Total net payments related to investing activities were MNOK 338 (MNOK 520).

In 2007, MNOK 300 was repaid on loans and MNOK 75 was paid in dividends. The total cash flow from financing activities was a net disbursement of funds of MNOK 441 (MNOK 128).

Consolidated cash reserves increased by MNOK 236 in 2007 (negative MNOK 25), ending at MNOK 947 (MNOK 711).

Currency

The Group's goal is to limit currency risk by having an explicit foreign exchange (F/X) policy, where a percentage of the Group's orders expected for up to three years in advance is hedged using forward F/X contracts. At year-end 2007, the portfolio of forward F/X contracts and currency options linked to the hedging of project contracts amounted to NOK 3.6 billion, measured at agreed exchange rates. At year-end 2006, these forward F/X contracts had an added value of MNOK 202. All contractual currency flows are hedged upon entry into the contracts. At year end, the portfolio of forward F/X contracts to hedge signed contracts amounted to NOK 5.3 billion, measured in agreed exchange rates. At year-end 2006, these forward F/X contracts had an added value of MNOK 248.

Capital structure

Consolidated equity increased by MNOK 1 074, ending at MNOK 2 758. This results in an equity ratio of 29.9 per cent, an improvement from 2006. The increase is primarily due to the net profit for the year of MNOK 986, which includes one-off effects related to the settlement of the pension plan and the sale of property. At the end of 2007, KONGSBERG had net cash reserves of MNOK 242 (net interest-bearing debt of MNOK 294 at 31 Dec. 2006).

In the light of the Group's long-term perspective, it is natural that the corporation seeks to have satisfactory credit-worthiness. Consolidated gross interest-bearing liabilities mainly consist of two bond loans totalling MNOK 700 which are listed on the Oslo Stock Exchange. The Group has a syndicated credit facility of NOK 1 billion that will run until 2013, and which was undrawn at year end.

Pensions

The Group has a service pension plan that covers all the Group's employees in Norway. The plan entitles employees to 65 per cent of their salary upon retirement, including benefits from the National Insurance Scheme until the age of 77, at which time the service pension will be reduced by 50 per cent. The minimum contribution period is 30 years. The pension scheme also includes salary levels beyond 12G, but with a cap of 15G.

As from 1 Jan. 2008, all employees in Norway under age 52 will be transferred to defined contribution pension plans. The effect of settling the benefit-based pension plan for these people came to MNOK 341.

The Group's companies abroad generally have defined contribution plans.

At 31 Dec. 2007, net pension liabilities came to MNOK 336 (MNOK 747). The decline is ascribable to the settlement of pension plans for employees under age 52. MNOK 19 in actuarial gains/losses after tax associated with pensions were credited to equity in 2007.

Acquisitions

KONGSBERG has made several minor acquisitions in recent years. The acquisitions of 100 per cent of the shares in Norwegian Sense Intellifield, now Kongsberg Intellifield, and 51.2 per cent of the shares in the Polish Shipmedics Ltd., were concluded in 2007. In addition, in December 2007, the Group signed a contract to purchase the assets and operations of Hydroid LLC. This acquisition depends on the authorities' approval. Kongsberg Maritime signed a contract for the acquisition of the simulator company GlobalSim Inc. of the US in February 2008.

Kongsberg Intellifield supplies products and services related to integrated operations to the oil and gas market. The business is engaged in the development, marketing and sale of highly sophisticated systems for real-time remote operation of drilling and production operations for the petroleum industry. Among other products, the company has developed software to retrieve, transport, store and display data from well and drilling services on rigs. The acquisition of Sense Intellifield AS gives KONGSBERG a broader portfolio of products in the rapidly growing market for integrated operations.

The acquisition of 51.2 per cent of the shares in Shipmedics Ltd. gives KONGSBERG access to strong expertise in existing fields, and will also be an important recruitment platform for new employees. KONGSBERG has cooperated with Shipmedics since the company was founded in 2004.

BA operations and markets

KONGSBERG's two business areas, Kongsberg Maritime and Kongsberg Defence & Aerospace had ordinary operating revenues of MNOK 4 850 and MNOK 3 338, respectively.

Kongsberg Maritime

The business area increased operating revenues by 36.5 per cent since last year. The EBITA was MNOK 506 (MNOK 329), with an EBITA margin of 10.4 per cent (9.3 per cent).

The BA had smooth operations, with improved performance in all divisions compared with 2006. The high backlog of orders provides a sound platform for continued improvement in 2008. The BA experienced improved profitability due to positive market conditions and emphasis on efficient performance. Moreover, profitability was improved by moving some value-added activities closer to customers.

New orders aggregated MNOK 7 218 in 2007, up 63.7 per cent from 2006. At year-end 2007, the backlog aggregated MNOK 5 333 (MNOK 3 054) for delivery from 2008 to 2010, increasing predictability for the segment. Part of the reason why orders are backed up is that shipyard capacity is currently limited. KONGSBERG's systems are installed relatively late in the construction phase and most of the world's shipyards are currently operating with delivery times of several years for new vessels. Kongsberg Maritime's order books reflect this. The BA's backlog of orders has expanded every year since 2002.

The high level of activity within the BA has called for many new employees. In 2007, Kongsberg Maritime hired more than 500 new employees. The company plans to continue hiring in 2008. Some of the hiring will take place outside Norway.

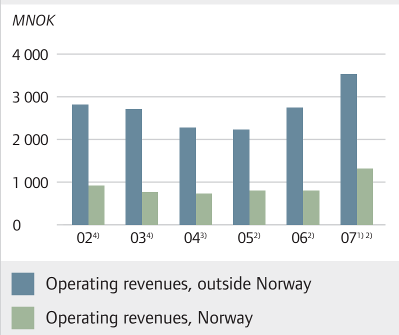
KONGSBERG has fortified its position as a contractor to the oil and gas market. The Group's focus on supplying products and systems for optimising drilling and production processes has yielded good results. The acquisition of Sense Intellifield, now Kongsberg Intellifield, also has helped give KONGSBERG a more distinct profile in integrated operations. The efforts to address the oil and gas market will continue in 2008.

The offshore market is still booming. More than 60 per cent of the BA's new orders came from this market in 2007. As regards floating production, KONGSBERG concluded contracts for the delivery of process automation systems for use on the Skarv and Gjøa oil and gas fields on the Norwegian Continental Shelf.

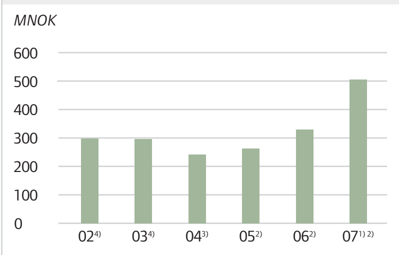
The Merchant Marine market, including gas carriers (LNG), is maintaining a stable high level. To maintain its strong position in this market, KONGSBERG continues its efforts in Asia. South Korea is currently the world's largest shipbuilding nation, and most of the ships being built there today are commercial vessels. KONGSBERG made further headway in building up operations in South Korea, China and Singapore in 2007. Investments have been made in modern new premises in South Korea and Singapore, increasing its floor space by three-fold.

In 2007, the BA set up operations in India, where it had nearly 50 employees at year end. The new venture will serve a growing local offshore market, and be a resource centre for software programming in the rest of the company.

Operating revenues Kongsberg Maritime



EBITA Kongsberg Maritime



1) The figures are presented before non-recurring items related to the settlement of the pension plan and gains on the disposal of property.
2) The figures are presented in accordance with IFRS (International Financial Reporting Standard), and jointly controlled undertakings are consolidated using the proportionate consolidation method.
3) The figures are adjusted for effects at the transition to IFRS, and the sale of yachting activities and jointly controlled operations are consolidated using the proportionate method of consolidation.
4) The figures are not adjusted for effects in connection with the transition to IFRS, but are presented according to NGAAP. Jointly controlled operations are reported as associates.

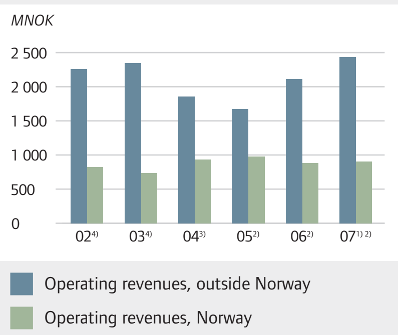
Kongsberg Defence & Aerospace
Ordinary operating revenues climbed by 11.4 per cent relative to 2006. The EBITA, excluding non-recurring items, came to MNOK 273 (MNOK 182), with an EBITA margin of 8.2 per cent (6.1 per cent). The greatest contributor to the improvement in performance was weapon control systems, which improved profitability as a result of a good market and higher volumes.

The BA booked new orders worth MNOK 7 085 (MNOK 3 071). The two largest individual orders were the NSM production contract with the Norwegian Armed Forces, worth NOK 2.5 billion, and the framework contract for deliveries to the US Army's CROWS II programme, where NOK 1.7 billion in new orders have been placed from a total framework of NOK 8 billion. The Board of Directors also wishes to acknowledge the importance of the contract with the Finnish Navy for the delivery of hydrographic equipment and systems integration. This is an important reference contract for KONGSBERG when it comes to sea mine detection equipment. At year end, Kongsberg Defence & Aerospace's backlog of orders amounted to MNOK 7 232 (MNOK 3 253).

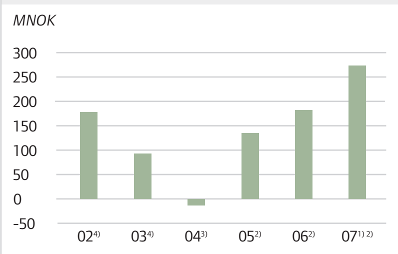
In summer 2007, KONGSBERG and the Norwegian Armed Forces signed a contract for serial production of the NSM missile. The missile is attractive on the market, as evidenced by the joint marketing agreement for a new product custom-made for figher craft, the Joint Strike Missile (JSM). The missile will be deployable on all three of the fighter craft contenders: the Joint Strike Fighter (JSF), the Eurofighter and JAS Gripen. In recent years, the Missile Division has been characterised by the development of the new anti-ship missile, which has been a comprehensive, resource-intensive project. The NSM contract marked a turning point and the outlook for the division is good.

The framework agreement with the US Army for CROWS II makes KONGSBERG by far the pre-dominant and clearly largest supplier of weapon control systems to the USA and the rest of the world. This market also features many other exciting international programmes which will be

Operating revenues
Kongsberg Defence & Aerospace



EBITA
Kongsberg Defence & Aerospace



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making procurement decisions in 2008 and in subsequent years. At present, KONGSBERG enjoys a generous share of this market but the competition is becoming keener. As the Norwegian market's largest, most seasoned contractor, KONGSBERG's chances should nevertheless be good for winning contracts with several of the upcoming programmes. Eleven countries have chosen to procure the system thus far. To meet the growing demand for the system, the company is expanding its production capacity in the USA. Staffing will also be increased. Deliveries to the US will largely be manufactured at the facilities in Johnstown, Pennsylvania, using US subcontractors. This will considerably reduce the currency risk inherent in the projects.

Risk factors and risk management

The Group is exposed to different types of risk, and the Board monitors trends in the various risk areas closely. The Board has established an Audit Committee to help the Board deal with accounting and relevant discretionary items, and to follow up internal control and risk management. At the minimum, the Audit Committee meets in connection with the presentation of the annual and interim accounts.

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

Financial risk

KONGSBERG has centralised management of financial risk. The Board has adopted guidelines for the Group's financial risk management, as embodied in the corporate Financial Policy. KONGSBERG aspires to limit financial risk and increase predictability while exploiting financing as a competitive factor. KONGSBERG is vulnerable to financial risk attached to credit risk, liquidity and refinancing risk, currency risk, interest rate risk and market risk attached to financial investments.

Credit risk is the risk of loss if a customer or another counterpart does not manage to fulfil its contractual obligations. The customer base is well diversified and consists mainly of public institutions and large private sector companies. Historically speaking, the Group has few losses due to bad debts, and the Group's credit risk is considered low.

Liquidity and refinancing risk refers to the risk that KONGSBERG will not be able to fulfil its financial obligations as they fall due. KONGSBERG's goal is to have an average term to maturity on its long-term credit facilities of more than two years. At 31 Dec. 2007, the Group had undrawn overdraft facilities of NOK 1 billion that will run until 2013, in addition to bond loans of MNOK 300 and MNOK 400, respectively, with terms to maturity of 30 March 2012 and 10 June 2009. On 31 Dec. 2007, KONGSBERG had net cash reserves of MNOK 242.

KONGSBERG has considerable foreign currency exposure. The Group's most important trading currencies outside Norway are USD and EUR. KONGSBERG's policy is to limit currency risk while actively assessing various currencies' importance as competitive parameters. The Group hedges all contractual currency flows, as well as parts of the Group's anticipated new orders.

For a more detailed description of the Group's financial risk, see Note 5 "Financial risk management" in the consolidated accounts.

Operational risk

The Group's added value mainly consists of systems of great technological complexity. The deliveries are organised as projects. Project management is an important success factor for reducing operational risk. KONGSBERG has established a project management process based on 'best practices' internally and externally. All project managers undergo an in-house training programme on the project management process.

Projects' earnings are contractualised, so any uncertainty is attached to assessments of remaining costs and the accrual of projects' earnings. The Group has established principles for categorising projects on the basis of their technological complexity and development content. This paves the way for valuations of 'profit at risk' and taking to account the profits from the projects. The profit at risk refers to the profit retained in the projects until the uncertainty has been clarified.

The Naval Strike Missile (NSM) is the largest development project ever undertaken by the Group. The development project is now in the final phase, further mitigating project risk.

Business risk

Business risk is related to market conditions, competitors and other general business conditions prevailing in the markets in which we operate. The shipbuilding market fluctuates over time, impacting KONGSBERG's deliveries of ships' systems. The market is currently expansive, especially in Asia. The competition is growing keener and the shipyards in Asia are increasingly trying to provide a larger share of the value added. The Group is monitoring trends closely and taking strategic initiatives to protect its market position.

The level of investment in the petroleum industry is another important parameter for KONGSBERG. This market is booming. KONGSBERG has maintained its market shares, but the competition is getting sharper.

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

Shares and shareholders

KONGSBERG's share price climbed from NOK 175 at year-end 2006 to NOK 339 at year-end 2007. This translated into market capitalisation of MNOK 10 170 at the end of 2007. Including the dividend of NOK 2.50 per share, the return on investments came to 95.1 per cent in 2007. During the same period, the Oslo All-Share Index rose by 11.5 per cent. At 31 December 2007, KONGSBERG had 5 370 shareholders, an increase of 840 from the year before. KONGSBERG had 341 foreign shareholders who collectively held 3.78 per cent of the shares (3.98 per cent). The State, as represented by the Ministry of Trade and Industry, is still the largest owner with 50.001 per cent of the shares. The 10 largest shareholders owned 83.18 (84.05) of the shares collectively.

In 2007, approx. 4.2 million (about 3 million) KONGSBERG shares were traded, divided among 5 158 (1 980) trades. The share's liquidity had a positive trend in 2007, but continues to be at a low level. The company is working actively to promote interest in the share by devoting more attention to investor relations.

In summer 2007, the Group's annual employee share programme was conducted for the 11th time. A total of 144 112 (83 987) shares were sold at a price of NOK 168 (20 per cent discount on the market price). A total of 875 (378) employees took advantage of the offer. In addition, another 270 shares were sold to three employees in November. See Note 26 "Share capital and share premium" for a more detailed description of the share programme.

At 31 December 2007, more than 1 000 (750) employees owned a total of about 650 000 (550 000) shares in KONGSBERG. This corresponds to roughly 2.2 (1.8) per cent of the shares.

Health, safety and the environment (HSE)

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

The Board follows up HSE work closely, reviewing the HSE reports every quarter. In 2007, the Group continued to devote special attention to HSE training for line supervisors and safety representatives, as well as to continuous improvement of HSE policy and processes in the BAs. The reporting routines of the foreign subsidiaries are now good, allowing us to include figures from the international offices on absence due to illness and work-related accidents in the HSE report.

In 2007, there were a total of 28 (24) work-related accidents in the Group. Of that number, 22 (7) were minor accidents that required no treatment or follow up. Six of the accidents required medical treatment (12 in 2006). In 2007, there were 11 near-accidents that required follow up, compared with three reported in 2006. One accident (2 in 2006) was classified as a high-risk incident that led to changes in routines. No occupational diseases or work-related fatalities were recorded in 2007. Total work-related accidents entailed 42.8 lost working days that required medical certificates. Total absence due to illness was reduced from 2.7 per cent in 2006 to 2.4 per cent in 2007.

HSE work is done in the individual BAs. During 2006, the Group entered into collaboration with Help 24. As from 1 January 2007, Help 24 is the designated supplier of company health services for all our business operations in Norway, where Help 24 offers services of satisfactory scope and quality. All employees in Norway have access to company health services. This varies in accordance with local practices and legislation for the foreign business activities.

KONGSBERG has 802 employees outside Norway. KONGSBERG's growing international presence requires more attention to and insight into HSE issues in the countries in which we operate.

Personnel and organisation

Continuous efforts are made to adapt the organisation to KONGSBERG's markets. At 31 December 2007, the Group had 4 205 employees, 802 of whom worked outside Norway. Kongsberg Maritime and Kongsberg Defence & Aerospace had 2 510 and 1 595 employees, respectively, at year-end. The parent company, Kongsberg

Gruppen ASA, had 39 employees. Competition is keen for good engineer resources in Norway, but despite this, the Group had satisfactory access to expertise in 2007. The Group is taking this into account in connection with the establishment of new ventures outside Norway. Hiring locally is cost effective at the same time as it helps us fit into the local community. One of the Group's goals is for the foreign companies to be staffed by local employees insofar as possible.

One important prerequisite for long-term success is that KONGSBERG manages employees' expertise in a satisfactory manner. To enhance the Group's ability to revitalise and improve decision-making processes, the goal is to cultivate diversity so that people of different backgrounds, cultures, educations and ways of thinking are represented. Active efforts are made to exchange expertise and employees between the BAs. Offering good development opportunities is an important policy instrument for recruiting and retaining employees.

KONGSBERG works continuously with human resource development. The Kongsberg School facilitates and coordinates courses and training programmes.

In August 2006, we initiated the project 'Leadership at KONGSBERG'. The mandate was to further develop KONGSBERG's leadership principles and practices. A joint resource group is working to develop qualified leadership talent. The resource group offers a portfolio of leadership programmes through the Kongsberg School.

At year end, there were 821 women (19.5 per cent) employed by the Group (19.2 per cent in 2006). Of the total number of managerial positions in the Group, 86 (13 per cent) were occupied by women (12 per cent in 2006). The percentage of women recruited to the Group is on a par with the percentage of women educated in the areas of technology that are most common at KONGSBERG. Generally speaking, there are still too few women in senior managerial positions so KONGSBERG will continue to strive to increase the percentage of female leaders and to promote the recruitment of women to technical positions. As for the Board of Directors, two of the five shareholder-elected directors are women.

Cooperation is good with the trade unions through the established cooperation and co-determination schemes, making invaluable contributions to the development of the individual companies and the Group as a whole. The Board would like to thank all employees for their dedicated efforts and contributions to strong progress for the company in 2007.

Corporate social responsibility and the environment

The Board of Directors emphasises that KONGSBERG is to operate in an ethical, environment-friendly and socially responsible manner. KONGSBERG aspires to achieve sustainable development, i.e. to strike a good balance between financial results and corporate social and environmental responsibility. The Board focuses on compliance with the Group's Policy for Corporate Social Responsibility, its Environmental Policy and the corporate Code of Ethics. In 2007, a new strategy was drawn up for the Group's work with social responsibility. The Policy for Corporate Social Responsibility and the Environment were evaluated and revised in early 2008. This was motivated by the Group's growing international expansion and the increased attention being devoted to issues related to corporate social responsibility.

KONGSBERG's activities mainly consist of the development of software and systems integration. The Group is only marginally affected by environmental regulations. Notwithstanding, it is important to the Board that the Group concentrates on pro-active environmental initiatives. These have largely involved energy conservation associated with the Group's premises, as well as source separation.

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

Corporate Governance

Good corporate governance and leadership will ensure optimal value creation, at the same time as the Group's resources will be used in an efficient, sustainable manner. The value added should benefit shareholders, employees and the community. The Board attaches importance to reviewing the Group's corporate governance documents annually and updating them to comply with the "Norwegian Code of Practice for Corporate Governance" insofar as possible. The description on pages 104–114 is based on the latest revised (4 Dec. 2007) version of the Norwegian Code of Practice for Corporate Governance.

For a discussion of remuneration to the directors and the CEO, see Note 32 to the consolidated accounts.

Prospects for 2008

KONGSBERG's maritime markets remain buoyant. The efforts aimed at the offshore market will continue in 2008. As regards the market for commercial vessels, shipyards are generally running at capacity and delivery times for new vessels are therefore long. KONGSBERG expects a somewhat slower pace of contracting new vessels at the shipyards in 2008, combined with an increase in after sales and customer support.

Kongsberg Defence & Aerospace expects a strong influx of new orders once again in 2008. The good order situation in the market for weapon control systems is expected to continue. Besides possibilities in new countries, there are also good opportunities in countries that have already signed contracts for the system.

A persistently low USD exchange rate may present a challenge in the long term. Initiatives have been put into place to reduce the Group's currency exposure. Besides hedging all signed contracts, we have hedged parts of anticipated new orders (MNOK 769 in USD at 31 Dec. 2007 for new orders expected in 2008).

Operating revenues and the profit before non-recurring items are expected to be better in 2008 than in 2007. A strong influx of new orders, combined with the large backlog of orders, is expected to offer a good platform for continued growth.

New CEO

Jan Erik Korssjøen, who has been CEO of KONGSBERG since 1999, opted to retire on 1 March 2008. The Board of Directors would like to take this opportunity to thank Mr Korssjøen for the excellent work he has done during nearly nine years at the helm of the company. The Board has named Walter Qvam as Mr Korssjøen's successor. Mr Qvam has extensive experience of the management of Norwegian and international companies in several industries. He took over as CEO on 1 March 2008. The Board of Directors welcomes Walter Qvam to KONGSBERG.

Net profit and allocations

The parent company Kongsberg Gruppen ASA posted a net profit of MNOK 173 in 2007. The Board of Directors proposes the following allocations for Kongsberg Gruppen ASA:

Dividends	MNOK 150
Transferred to other equity	MNOK 23
Total allocations	MNOK 173

The proposed dividends are equivalent to some 30 per cent of this year's profit before non-recurring items.

At 31 December 2007, distributable reserves totalled MNOK 395.

Kongsberg, 11 March 2008

Finn Jebsen
Chair

Benedicte Berg Schilbred
Deputy chair

Erik Must
Director

Siri Hatlen
Director

John Giverholt
Director

Roar Marthiniussen
Director

Audun Solås
Director

Kai Johansen
Director

Jan Erik Korssjøen
CEO until 1 March 2008

Walter Qvam
CEO from 1 March 2008

ACCOUNTS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007 KONGSBERG GRUPPEN (THE GROUP)

Amounts in MNOK	*Notes*	*2007*	*2006*	*2005*
Revenues	7	8 306	6 720	5 791
Gain on disposal of property	7, 8	253	-	-
Total revenues		**8 559**	**6 720**	**5 791**
Cost of sales	9	(3 378)	(2 802)	(2 330)
Personnel expenses	10, 11	(2 822)	(2 326)	(2 043)
Non-recurring effect of settlement of the pension scheme	11	341	-	-
Other operating expenses	12	(1 140)	(965)	(882)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**1 560**	**627**	**536**
Depreciation	13	(170)	(163)	(158)
Earnings before interest, taxes and amortisation (EBITA)		**1 390**	**464**	**378**
Amortisation	14	(44)	(16)	(7)
Earnings before interest and tax (EBIT)		**1 346**	**448**	**371**
Financial income	17	5	6	9
Financial expenses	17	(72)	(64)	(66)
Profit from continuing operations before taxes		**1 279**	**390**	**314**
Income tax expense	18	(293)	(138)	(99)
Profit from continuing operations, net after taxes		**986**	**252**	**215**
Profit from discontinued operations	6	-	-	47
Profit for the year		**986**	**252**	**262**
Profit attributable to				
Equity holders of the company		981	249	260
Minority interests		5	3	2
Earnings per share (NOK)				
– profit for the year, net	19	32.71	8.30	8.70
– profit for the year, diluted	19	32.71	8.30	8.69
– profit before non-recurring items	19	16.17	8.30	7.19
– from continuing operations, net	19	32.71	8.30	7.19
– from continuing operations, diluted	19	32.71	8.30	7.19

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007

KONGSBERG GRUPPEN (THE GROUP)

Amounts in MNOK	*Notes*	*31 Dec. 07*	*31 Dec. 06*
Assets			
Non-current assets			
Property, plant and equipment	13	1 206	1 068
Goodwill	14, 15	1 364	1 167
Other intangible assets	14	397	191
Available-for-sale shares	20	356	263
Other non-current assets	21	152	117
		3 475	**2 806**
Current assets			
Inventories	9	1 534	1 113
Receivables	22	1 690	1 482
Projects in progress	23	1 082	1 107
Derivatives	24	486	137
Cash and short-term deposits	25	947	711
		5 739	**4 550**
Total assets		**9 214**	**7 356**
Equity, provisions and liabilities			
Equity			
Share capital		150	150
Share premium		832	832
Treasury shares		-	-
Reserve for change in fair value		320	170
Retained earnings		1 445	522
		2 747	**1 674**
Minority interests		11	10
Total equity	26, 27	**2 758**	**1 684**
Non-current provisions and liabilities			
Long-term interest-bearing loans	24	705	1 005
Pension liabilities	11	336	747
Derivatives	24	6	23
Provisions	28	106	123
Deferred tax liability	18	772	473
Other non-current liabilities	29	217	-
		2 142	**2 371**
Current provisions and liabilities			
Prepayments from customers	23	1 938	1 497
Project accruals	23	575	271
Derivatives	24	34	52
Provisions	28	357	288
Other current liabilities	29	1 410	1 193
		4 314	**3 301**
Total provisions and liabilities		**6 456**	**5 672**
Total equity, provisions and liabilities		**9 214**	**7 356**

Kongsberg, 11 March 2008

Finn Jebsen *Chair*

Benedicte Berg Schilbred *Deputy chair*

Erik Must *Director*

Siri Hatlen *Director*

John Giverholt *Director*

Roar Marthiniussen *Director*

Audun Solås *Director*

Kai Johansen *Director*

Jan Erik Korssjøen *CEO until 1 March 2008*

Walter Qvam *CEO from 1 March 2008*

STATEMENT OF CASH FLOWS KONGSBERG GRUPPEN (THE GROUP)

Amounts in MNOK	*Notes*	*2007*	*2006*
Profit for the year		**986**	**252**
Depreciation on property, plant and equipment		170	163
Amortisation on intangible assets		44	16
Net finance expense		67	58
Gain on disposal of property		(253)	-
Gain on changes in pension plan		(341)	-
Income tax expense		293	138
Earnings before tax prior to depreciation, amortisation and non-recurring items		**966**	**627**
Adjusted for			
Change in prepayments from customers		441	(120)
Change in project accruals		304	264
Change in other current liabilities		348	208
Change in inventories		(421)	(266)
Change in receivables		(186)	(292)
Changes in projects in progress		(230)	146
Change in other accrual items		(181)	72
Income tax paid		(26)	(16)
Net cash flow from operating activities		**1 015**	**623**
Net cash flow from investing activities			
Proceeds from sale of property shares	8	571	-
Proceeds from sale of property, plant and equipment	13	10	7
Acquisition of property, plant and equipment	13	(432)	(221)
Capitalised proprietary intangible assets (R&D)	14	(72)	(17)
Acquisition of subsidiaries and minority	6	(281)	(225)
Payment of loans and acquisition of shares	6, 14, 20	(134)	(64)
Net cash flow from investing activities		**(338)**	**(520)**
Net cash flow from financing activities			
Repayment of loans		(300)	(13)
Interest received		5	4
Interest paid		(59)	(51)
Net payments for the purchase/sale of treasury shares		(12)	(3)
Dividends paid to equity holders of the parent		(75)	(65)
Net cash flows used in financing activities		**(441)**	**(128)**
Net change in cash and short-term deposits		**236**	**(25)**
Cash and short-term deposits at 1 Jan.		**711**	**736**
Cash and short-term deposits at 31 Dec.		**947**	**711**

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2007 KONGSBERG GRUPPEN (THE GROUP)

Amounts in MNOK	*Notes*	*2007*	*2006*	*2005*
Change in the fair value of shares and hedging instruments and deferred income in connection with cash flow hedges				
– Change, cash flow hedges	17, 24	270	(11)	(168)
– Change, interest swap agreements	17, 24	14	29	25
– Change, available-for-sale shares	20	(25)	87	7
Recognised actuarial gains/losses on pension expenses	11	26	(118)	(315)
Translation differences, currency		(29)	(20)	(5)
Implementation effect IAS 39				
– Excess value, cash flow hedges		-	-	254
– Negative value, interest swap agreements		-	-	(68)
– Excess value, available-for-sale shares		-	-	29
Tax on items taken directly to equity		(87)	28	68
Income and expenses recognised directly in equity		**169**	**(5)**	**(173)**
Profit for the year		**986**	**252**	**262**
Total recognised income and expenses	27	**1 155**	**247**	**89**
Profit attributable to				
Equity holders		1 150	244	89
Minority interests		5	3	0

NOTES KONGSBERG GRUPPEN (THE GROUP)

1 General information

The Board of Directors approved KONGSBERG's consolidated financial statements for the year ended at 31 December 2007 at its meeting on 11 March 2008. 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.

2 Basis for the preparation of the consolidated accounts

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 are presented in accordance the EU-approved International Financial Reporting Standards (IFRS) and the appurtenant interpretations, as applied at 31 December 2007.

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

- Financial derivatives measured at fair value
- Financial instruments which do not qualify for hedging and which are measured at fair value, and the change in fair value is recognised through profit or loss related to the sale and lease back of properties described in more detail in Note 24 "Financial instruments – Interest risk related to loans"
- Financial available-for-sale assets, measured at fair value
- The liability related to the cash-based option scheme for employees, measured at fair value. The principles for determining the fair value are described in more detail in Note 4 "Fair value"

Uncertainty associated with estimates and the evaluation of the accounting policy

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 that alter the estimates and assumptions, and which will in turn affect the company's assets, liabilities, revenues and expenses. Modified estimates are recognised in the period in which the estimates are changed and in future periods where relevant.

For more detailed information about uncertainty associated with estimates which could have a significant impact on amounts recognised in the next financial year, please see the following notes:

- Business combinations, allocation of acquisition costs, cf. Note 6 "Changes in Group structure"
- 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 23 "Projects in progress"
- Estimate of the financial advantages ensuing from equity-financed research and development, cf. Note 3 f) "Summary of significant accounting policies – Intangible assets" and Note 14 "Intangible assets"
- Impairment test of goodwill, calculation of recoverable amounts from cash flow-generating units, cf. Note 15 "Impairment test of goodwill"
- Estimates related to pension liabilities, cf. Note 11 "Pensions and other non-current employee benefits"
- Estimates related to future guarantee commitments, cf. Note 28 "Provisions"

For more details about significant areas requiring discretionary judgement relating to the application of accounting policy 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"
- The application of the principles for capitalising expenses related to research and development, cf. Note 3 f) "Summary of significant accounting policies – 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 24 "Financial instruments"
- Sale and leaseback attached to property, assessment of operational versus financial leases, cf. Note 3 h) "Summary of significant accounting policies – Leases, Sale and leaseback" and Note 31 "Sale and leaseback"

3 Summary of significant accounting policies

With the exception of the statement of cash flows, which is presented according to the indirect method as from 2007, the Group has applied the policies consistently compared with previous years. Comparative figures have been reclassified to comply with this year's presentation.

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, owns more than 50 per cent of the shares in the entity, or when the Group is able to exert control over the entity through agreements or statutes. In assessing control, account is taken of potential votes that can immediately be exercised or are convertible.

New subsidiaries are recognised at their fair value on the date of acquisition. Fair value is allocated to identified assets and liabilities. Excess value that cannot be allocated to specific assets is classified as goodwill. See Note 4 "Fair value" for the calculation of fair value, as well as Note 6 "Changes in the Group's structure". New subsidiaries are included in the consolidated accounts from the date of acquisition. The date of acquisition is the date on which Kongsberg obtains control of the acquired company. Ordinarily, control will be achieved when all the terms of the agreement are satisfied. A lack of satisfaction will result in cancellation of the agreement. Examples 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. Excess value in the form of goodwill is calculated on each individual acquisition. Entities that constitute the Group are listed in Note 33 "List of Group entities". Subsidiaries disposed of during the year are included in the consolidated financial statement until the date on which the control ceases. Ordinarily, control will cease when all terms in the agreement are satisfied. A lack of satisfaction will result in the cancellation of the agreement. Operations disposed of during the period and which constitute independent business segments are presented as discontinued operations on a separate line on the income statement for the entire financial year and in the comparative figures.

Associates

Associates are entities in which the Group has significant influence, but not control (presumably a stake from 20 to 50 per cent) over financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the invested company, but where Kongsberg does not have control or joint control over those policies. Where the stake is less than 20 per cent, it must be clearly demonstrated that significant influence exists, for example, through shareholder agreements. The consolidated financial statements include the Group's percentage of the profit/(loss) from associates using the equity method of accounting from the date on which significant influence is achieved and until such influence ceases. When the Group's percentage of a loss exceeds the value of the investment, the carrying amount of the investment is reduced to zero and no further losses are recognised. The exceptions are cases in which the Group has an obligation to cover the losses.

Jointly controlled entities

Joint control is the contractually agreed sharing of control over an economic activity, and it exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties having control (participants). Investments in jointly controlled entities used to be presented using the equity method, i.e. the percentage of the result was presented on the line for profit/(loss) from associates/jointly controlled entities and on the balance sheet as an investment in associates/jointly controlled entities. Following closer consideration about what gives the most accurate presentation of the activities in jointly controlled entities, in 2006, Kongsberg chose to switch to proportional consolidation. Proportional consolidation means that the assets, liabilities, revenues and expenses of jointly controlled entities are merged line item by line item with similar line items in the consolidated financial statements.

Elimination of transactions

Intra-Group balances and unrealised gains and losses that arise between Group entities are eliminated upon consolidation. Unrealised gains from transactions with associates are eliminated proportionally against the investment. Unrealised losses are eliminated correspondingly, unless they are related to impairment. All intra-Group transactions are eliminated in the consolidation process.

Minority interests

Minority interests are included in consolidated equity as a separate line item. The minority share of the profit/(loss) is included in the net profit for the year. Minority interests include the minority's share of the carrying amount of subsidiaries, including a percentage of identified excess value on the date of acquisition.

Losses in a consolidated subsidiary that can be attributed to a minority interest cannot exceed the minority's share of equity in the consolidated subsidiary. Excess losses are recognised directly in the equity holders of the parent in the subsidiary to the extent that the minority is not obligated and can cover its share of the loss. If the subsidiary starts making a profit, the equity holders of the parent's share of the subsidiary's equity will be adjusted until the minority's share of past losses is covered.

b) Foreign currency
Trade receivables, other receivables, trade payables and other financial liabilities are translated at the exchange rates that apply on the date of balance sheet recognition. Gains and losses related to foreign exchange items in the normal operating cycle are classified as operating revenues and expenses. Other gains and losses related to items in foreign currency are classified as financial income or expenses.

Translation – foreign subsidiaries
Assets and liabilities in foreign business activities, including goodwill and adjustments to fair value in connection with acquisitions, are translated to NOK using the exchange rate on the date of balance sheet recognition. Revenues and expenses in foreign currencies are translated to NOK using the exchange rate at the time of the transaction. Since Kongsberg has no seasonal variations or large individual transactions in foreign currencies, revenues and expenses in foreign currencies are translated at average rates for the whole year. Translation differences are taken directly to the Group's equity (translation reserve). Upon the disposal of all or part of a foreign entity, the accumulated translation difference related to the entity is reversed and recognised during the same period as a gain or loss on the sale.

c) Revenue recognition
In connection with revenue recognition, Kongsberg distinguishes between construction contracts, 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 laid down 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 contracts cannot be sold separately.

The value of the work in progress is recognised as operating revenue. Uninvoiced work in progress is reported on the balance sheet under "Projects in progress". Work in progress is stipulated as incurred production costs plus a proportional share of the estimated contract profit. Production costs include direct wages, direct materials and a proportional share of the individual business areas' indirect costs, distributable by projects, while general development costs, sales costs and common administrative costs are not included in production costs.

Accrued contract profit includes the interest income on prepayments from customers that exceeds the capital tied up in the individual projects. The estimated accrued contract profit shall not exceed a proportional share of the estimated total contract profit. The proportional share of the contract profit is based on the degree of completion of the individual project, which is largely determined by the costs incurred as a ratio of the expected overall costs at the time of measurement. If the profit on a contract cannot be estimated with a reasonable degree of certainty, the project will be recognised without a profit until the uncertainty is manageable. All projects are followed up on an ongoing basis with project costings. Where a costing anticipates a loss on the remainder of a project, the loss will be expensed immediately in its entirety.

The Group changed the classification of projects in progress and prepayments from customers in 2005. Projects in progress are now presented as a separate line item on the balance sheet. Prepayments from customers used to be presented on two lines, deferred income and prepayments from customers. Deferred income was defined as accumulated invoicing in excess of accumulated operating revenues, and was presented under "Other current liabilities". Prepayments from customers involved only the invoicing of prepayments, which were subsequently settled by invoice. Deferred income and prepayments from customers are now presented as prepayments from customers on one line, as this gives a better idea of the Group's obligations when it comes to long-term construction contracts. In addition, as from 2007, project accruals are shown as a separate line item and the comparative figures for 2006 as classified in the same way. Project accruals are defined as net variable costs incurred proportionate to the degree of project completion less accumulated direct costs recognised for the project. They were previously included as part of prepayments from customers. The classification of projects on the balance sheet is done on a project-by-project basis, or sometimes even customer-by-customer.

Change orders are defined as additions to existing delivery contracts. Change orders are recognised when the probability of customer acceptance of the change order can be ascertained with a high degree of certainty. Additional contractual services and estimated additional costs are included in the original project costings and recognised as revenue to the stage of completion of the overall project.

Series deliveries are considered a series of similar deliveries covered by a single contract, or several contracts with the same buyer at the same time, and where the individual deliveries could not have been negotiated separately on the same terms. Series deliveries are recognised as income with a shared profit on the contract and the same degree of completion.

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

Goods/services
The ordinary sale of goods and standard production not covered by a construction contract are usually recognised upon delivery. Delivery is considered complete when the customer takes over significant risks and benefits for a delivered product. If the sale is conditional upon customer acceptance, the date of acceptance should be the date of revenue recognition for the sale.

In addition to assuming the risk and the advantages, the following criteria must be satisfied for recognition:
– It is probable that the remuneration can be collected.
– The income can be measured reliably.

The amount recognised is measured as the fair value of the consideration or receivable.

Services delivered which 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.

Licence revenues
The Group also sells licences for the use of software systems. Licence revenues are normally recognised as revenue in their entirety when the system is delivered. For a definition of when a product is considered to have been delivered, see the description under "Goods/services" above. In cases that involve adaptations or additional work, the total contract amount including consideration for the licences is recognised as revenue to 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 shall be applied separately for each transaction. Where there are combined deliveries with different recognition criteria, the various elements must be identified and recognised as income separately. As regards the sale of goods accompanied by maintenance services, the goods are recognised as income upon delivery, while the maintenance services are considered deferred income and recognised as income over the period in which the service is performed.

When the prices of the various elements for delivery are stipulated in a contract, the income will be based on these prices and the stipulated price of the licence 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 covered by a single fixed price contract, KONGSBERG has the following principles for the recognition and measurement of income:

- Identification of the various elements for delivery, e.g. licence, 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, e.g. service, maintenance and consultancy services. The method and the assumption for estimation are consistent from one period to the next.
- The estimated cost plus the profit margin will be deferred income and recognised on a straight-line basis throughout the period in which the services are performed.
- The remainder of the contract amount, less estimated income from the abovementioned elements, is estimated as licence income and recognised upon delivery.

d) Income tax expense

Income tax expenses on the financial statements include tax payable and the change in deferred tax for the period. The change in deferred tax reflects the future tax payable resulting from the current year's activities. Deferred tax is based on accumulated profit, but which will be payable in subsequent accounting periods. Deferred tax is calculated on net tax-increasing differences between the balance sheet items used for accounting purposes and those used for taxation purposes, adjusted for deductible temporary tax differences and tax losses carried forward according to the liability method. Income from long-term construction contracts with responsibility for performance is not recognised for tax purposes until the risk and responsibility has been transferred to the customer. Owing to KONGSBERG's volume of large, long-term contracts, there are therefore considerable taxable temporary differences.

Deferred tax assets are only capitalised to the extent that it is probable that there will be future taxable income available for reducing the difference. Deferred tax assets are assessed for each period and will be reversed if it is no longer probable that the deferred tax asset can be used.

e) Financial income and financial expenses

Financial income consists of interest income, dividends, foreign currency gains, changes in the value of assets to fair value through the profit and loss, and gains on the disposal of available-for-sale assets where the changes in value are recognised directly to equity. 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 adopts the dividends.

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

f) Intangible assets

Goodwill

Goodwill arises in connection with the acquisition of a business activity (business combination) where the consideration exceeds the value of identifiable assets and liabilities. Goodwill is recognised on the balance sheet at cost less any accumulated impairment loss. Goodwill is allocated to cash-generating units that are expected to gain financial benefits from the synergies that arise from the business combination. A cash-generating unit is the smallest identifiable group that generates a cash inflow that is largely independent from other assets or groups. Goodwill is non-depreciable, but tested for impairment annually in Q4, and whenever there are indications of impairment on the balance sheet date. Impairment is calculated by estimating the value of the individual cash-generating unit, based on the calculation of expected future cash flows. Goodwill is described in Note 15 "Impairment test of goodwill". See also description 3 i) "Summary of significant accounting policies - Impairment of non-financial assets".

Research

Expenses for research activities, including development projects in the research phase, are recognised as they are incurred. Research refers to original, planned investigations performed to gain new scientific or technical knowledge and understanding. Examples include the search for new knowledge, or the search for alternative materials, devices, products, processes, systems or services.

Development

Expenses related to development activities, including development projects in the development phase, are capitalised if the development activities or the development project meet the defined criteria for capitalisation. Development involves plans or designs for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. In determining whether an activity is the development of a new system, new functionality or module, it is necessary to determine whether the object of the development can be operated independently of existing systems/ products for sale. KONGSBERG has considered the criteria for significant improvements to be an increase of more than 20 per cent of the value from before to after the development or replacement cost of the system. Examples of development are the design, construction and testing of prototypes or models prior to production or use, and the design, construction and testing of a particular alternative for new of significantly improved materials, devices, products, processes, systems or services.

The capitalisation of development costs requires that those costs can be measured reliably, the product or process is technically and commercially feasible, future financial benefits are probable and 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 capitalisation are satisfied, expenses recognised on the balance sheet will include the cost of materials, direct payroll expenses and a percentage of directly attributable administrative expenses. Capitalised development costs are recognised on the balance sheet at acquisition cost less accumulated depreciation and impairment loss. Amortisations are stipulated on the basis of the expected useful life based on the total number of production units or the number of years. The remaining expected useful life and expected residual value are reviewed annually. Calculation of the economic benefits is performed on the basis of the same principles and methods as impairment testing, and rests on long-term budgets approved by the Board. For more details about estimation, see Note 14 "Intangible assets".

Assessments of the fulfilment of the criteria for capitalising development costs take place at a pace commensurate with the progress of the ongoing development projects. Based on technical success and market assessments, a decision is made during the development phase about whether to complete development and begin capitalisation.

Maintenance

Maintenance is the work that must be performed on products or systems to ensure their expected useful life. Where a significant improvement is performed on a product or system which entailed, for instance, an extension of the life cycle, or that the customer is willing to pay more for the improvement, this is to be considered development. Expenses related to maintenance are expensed as they are incurred.

Other intangible assets

Other intangible assets that are acquired and have a finite useful life are measured at cost less accumulated amortisation, as well as accumulated earlier impairment loss. Amortisation is based on expected useful life based on total production units or number of years. Estimated useful life and the stipulation of the amortisation rate are reviewed during each period.

g) Property, plant and equipment

Property, plant and equipment are recognised at cost less accumulated depreciation and impairment loss. 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. Remaining estimated useful life and estimated residual value are reviewed annually.

Expenses incurred after production equipment is in use, such as ongoing maintenance, are recognised, but other expenses which are expected to offer future financial advantages 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. In connection with first-time recognition, the asset is measured at fair value or at the net present value of the agreed minimum rent, whichever is lower. After first-time recognition, the same accounting policies are used as are used for the corresponding asset. Others leases are operational leasing agreements and are not recognised 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 a loss-making contract according to IAS37, the present value is added into the expected loss.

i) Impairment of non-financial assets

All non-financial assets, with the exception of inventories and deferred tax assets, are reviewed for each reporting period to determine whether there are indications of impairment. Where indications of impairment exist, recoverable amounts are calculated. For goodwill, recoverable amounts are estimated for each reporting period by each cash-generating unit. Impairment tests are described in Note 15 "Impairment test of goodwill".

The recoverable amount of an asset or cash-generating unit is its value in use or fair value less costs to sell, whichever is higher. In estimating value in use, expected future cash flows are discounted to net present value using a discount rate before tax that reflects today's market assessments of the time value and the specific risk attached to the asset. The recoverable amount is calculated using the estimated future cash flow based on the Group's five-year budgets, as well as the estimated nominal growth rate beyond the budgeted five-year period. The budget has been approved by KONGSBERG's management and Board of Directors.

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.

Impairment of goodwill cannot be reversed. Other 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. Reversals of earlier impairments are made only to the extent of the carrying amount the assets might 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, trade receivables and other receivables, cash and short-term deposits, loans, trade payables 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 change in fair value are recognised through the profit or loss that expense directly attributable costs. An ordinary purchase or sale of financial assets is recognised 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 without retaining control, or transfers practically all risk and rewards associated with the asset. Financial liabilities are derecognised when the Group's obligation as specified by contract has been satisfied, discharged or cancelled.

Classification

The Group classifies financial assets and liabilities in the following categories:

i) fair value with changes in the value through the profit or loss (held for trading);
ii) financial assets and liabilities held to maturity;
iii) available-for-sale financial assets, and
iiii) other financial liabilities.

Receivables and liabilities related to operations are measured at their amortised cost, which in practice implies their nominal value with any impairment for expected losses. The Group's borrowings are considered financial liabilities held to maturity. These are recognised at their amortised cost using the effective interest rate method.

All shares except for shares in subsidiaries or jointly controlled entities on the balance sheet at 31 December 2007 are defined as financial instruments available for sale. Available-for-sale financial assets are measured at fair value on the balance sheet date. Changes in the value of available-for-sale financial assets are recognised directly in equity, except for impairment loss that is recognised through profit or loss. See Note 4 "Fair value" for a more detailed description of how fair value is measured for financial assets and liabilities.

Impairment of financial assets

Where there is objective evidence that a financial asset's value is lower than its cost, the asset will be impaired through profit or loss. Impairment in the value of assets measured at amortised cost is calculated by taking the difference between the carrying amount and the net present value of the estimated future cash flow discounted by the original effective interest rate. As regards available-for-sale assets, an asset is impaired when its present fair value is lower than its cost and the impairment is regarded as significant or to be a prolonged decline. 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.

Accumulated losses recognised directly in equity will also be transferred through profit or loss on the impaired assets. Impairment can be reversed if the reversal can be 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 or loss. Upon the reversal of financial assets that are investments in equity instruments, the change in value will be recognised directly in equity.

Derivatives

For KONGSBERG, derivatives encompass 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 as they are incurred. Changes in the fair value of derivatives are recognised through the profit and loss, unless they qualify for hedge accounting.

Hedging

Before a hedge transaction is conducted, the Group's financial affairs department 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;
ii) hedge a future cash flow from a recognised asset or liability, an identified highly probable future transaction or, in the case of currency risk, a bon-recognised firm commitment; or
iii) hedge a net investment in a foreign operation. Foreign currency risk is hedged on the basis of the hedge instrument's forward price.

KONGSBERG's criteria for classifying a derivative or other financial instrument as a hedge instrument are as follows:

(1) the hedge is expected to be highly effective for counteracting changes in fair value or cash flows to an identified object – the hedging effectiveness must be expected to be very high;
(2) the effectiveness of the hedge can be measured reliably;
(3) satisfactory documentation has been presented upon establishing the hedge to show among other things that the hedge is effective;

(4) for cash flow hedges, that the forthcoming transaction must be highly probable; and
(5) that the hedge has been evaluated on an ongoing basis and has proven effective, usually within the interval of 80 to 125 per cent.

(i) The hedging of fair value (project hedges)
KONGSBERG has a policy of hedging all contractual currency flows. Derivatives identified as hedge instruments are valued at fair value and changes in fair value are taken gross to the balance, with a corresponding adjustment of the hedged item. The hedge designation will be discontinued if:
(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.

(ii) Cash flow hedges (hedges of forecasted sale and interest hedges)
KONGSBERG's policy is to limit foreign currency risk while actively assessing various currencies' importance as competitive parameters. Parts of future predicted currency flows are hedged in accordance with an established strategy (hedges of forecasted sale). KONGSBERG hedges its loans *inter alia* using interest swap agreements (interest hedges). The effective share of the changes in the fair value of a hedging instrument is recognised directly in equity. The ineffective share of the hedge instrument that is outside the interval from 80 to 125 per cent is recognised on an ongoing basis.

When a hedged transaction takes place, the accumulated change in value of the hedge instrument is recognised out of equity and through the profit or loss.

If hedging an expected transaction subsequently leads to the recognition of a financial asset or liability, the resultant gain or loss to equity will be reclassified on the income statement during the same period(s) as the asset or liability influences the result. For example, that the gain/loss upon redemption/rollover of the currency futures is capitalised as long as the hedge applies. The gain/loss is recognised in equity at a pace commensurate with the project's progress. The term "rollover" refers to the situation when existing currency futures are redeemed and new currency futures are signed.

If a hedge instrument expires without being rolled over or if the hedge relationship is discontinued, the accumulated gains and losses recognised directly in equity up to that date will remain in equity and be recognised in the income statement according to above-mentioned guidelines when the transaction occurs.

If the hedged transaction is no longer expected to take place, the accumulated unrealised gains or losses on the hedge instrument recognised directly in equity will be taken to equity immediately.

(iii) Hedging a net investment in a foreign operation (equity hedges)
Hedging a net investment in a foreign operation is recognised in the same way as a cash flow hedge. The gains or losses on the hedge instrument related to the effective part of the hedge that has been taken directly to equity as part of the translation differences will be recognised on the income statement upon disposing of the foreign operation.

Follow up of hedging effectiveness
Forward foreign exchange contracts are expected to be effective throughout the entire period. KONGSBERG uses rollovers of forward foreign exchange contracts from prognoses for project hedging upon the formation of contracts. Moreover, currency futures (project hedges) are rolled over in cases in which payments/disbursements take place later than originally anticipated. KONGSBERG also uses bank accounts in foreign currency if payments occur prior to the due date, so that the exchange of foreign currency from the foreign currency account falls within the same period as any due date of the forward contract. Hedging effectiveness will therefore be high throughout the period.

k) Classification
Assets related to normal operating cycles 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 or that fall due within 12 months are classified as current liabilities. Other liabilities are classified as non-current.

l) Inventories
Inventories are valued at the lowest of cost or net realisable value. The net realisable value of raw materials and work in progress is calculated as the sales value of the finished products less remaining production and sales costs. For finished goods, the net realisable value is calculated as the sales value less selling costs. For work in progress and finished products, the acquisition cost is calculated as direct and indirect costs. Inventories are assessed using the average acquisition cost.

m) Receivables
Accounts receivable and other receivables are recognised at their nominal values less any impairment. Accounts receivable in foreign currencies are recognised at the exchange rates on the balance sheet date.

n) Cash and short-term deposits
Cash includes cash-in-hand, bank deposits and short-term liquid investments that can be immediately converted to a given sum of money, with a maximal maturity of three months.

o) Equity
(i) Treasury shares
When buying back treasury shares, the acquisition price, including directly identifiable expenses, is recognised as a change in equity. Treasury shares are presented as a reduction in equity. Losses or gains on transactions involving treasury shares are not recognised on the income statement.

(ii) Costs related to equity transactions
Transaction costs directly linked to an equity transaction and to the cash effect on the equity transaction are recognised directly in equity less tax.

(iii) Reserve for change in fair value
The fund for valuation changes includes aggregate net changes in the fair value of financial instruments classified as cash flow hedges (hedge reserve) and financial instruments classified as available-for-sale (shares, fair value), until the investment is disposed of or it is ascertained that the investment has no value.

(iv) Translation differences
Translation differences are recognised directly to equity (translation reserve). When a foreign business is disposed of in whole or in part, the relevant translation reserve is recognised through profit or loss. 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 past events, 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. Generally speaking, provisions are based on historical data and a weighting of possible outcomes against the probability they will occur. If the time value is significant, the provision will be the net present value of the amount expected to be required to meet the obligation.

Guarantees
Provisions for guarantee costs are recognised when the underlying products or services are sold. Guarantee provisions are based on historical data on guarantees and a weighting of possible outcomes against the probability they will occur. Guarantee costs are expensed on an ongoing basis based on the degree of completion of the projects, and reclassified as provisions for guarantees upon delivery.

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

Onerous (loss-making) contracts
Provisions for onerous contracts are recognised when KONGSBERG's expected benefits from a contract are lower than the unavoidable expenses of meetings its obligations under the contract.

KONGSBERG has signed sale and leaseback agreements on several pieces of real estate. The Group carries no risk and enjoys no benefits related to the ownership of the buildings sold. The leasing situation is therefore considered to refer to operational leases. Rent is expensed on a straight-line basis over the term of the lease. In connection with the sale and leaseback, subleases were signed at a lower rent than indicated on the agreement. In addition, the Group has undertaken operational and maintenance responsibilities for subleased buildings. This net loss is considered an onerous contract under IAS 37, and the net current value of future losses is provided for in the accounts. The remaining provision is subject to annual review.

q) Employee benefits

Defined benefit pension plans
The Group's Norwegian companies have collective service pension schemes that entitle employees to certain future pension benefits in accordance with defined benefit plans. Pension benefits depend on the individual employee's number of years of service and salary level upon 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. In the income statement, the year's net pension expenses, after a deduction for the expected return on pension plan assets, have been recorded as "Personnel expenses". The balance sheet shows net pension liabilities incl. social security contributions. Changes in actuarial gains/losses on pension expenses for obligations and pension plan assets are recognised directly in equity. The financial and actuarial assumptions are subject to annual review. The discount rate is based on the long-term government bond interest rate, plus a supplement that reflects the duration of the pension liability.

Actuarial gains or losses attached to changes in the basis data, estimates and changes in assumptions are recognised directly in equity.

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

Defined contribution pension plans
In addition to the defined benefit plan described above, the Group's companies outside Norway and a few companies in Norway contribute to local pension plans. The premiums are expensed as they accrue.

Transition from a defined benefit plan to a defined contribution plan
In connection with the transition from a defined benefit plan to a defined contribution plan, a gain/loss was calculated on the share of the pension liability that was discontinued in connection with the settlement. The settlement was implemented on 31 Dec. 2007. Net pension liabilities related to the individuals who have switched to a defined contribution plan are estimated as their present value for each individual employee, based on the calculation assumptions at 31 Dec. 2007.

Share transactions with employees
For a number of years, the Group has been conducting a share programme for all employees, i.e. offering shares at a discount and with options attached to the shares if the employee owns them for more than two years. Discounts on the sale of shares, as well as on the value of the options, are calculated on the date of balance sheet recognition and expensed as personnel expenses. These options are for cash settlement, and the value of the options is measured at fair value. The fair value of the options is distributed over the period until the options are exercised, and recognised as a liability on the balance sheet. Liability is assessed for each period until the options are exercised, and recognised through profit or loss as personnel expenses.

r) Discontinued operations and non-current assets held for sale
A discontinued operation is a component of a Group business that represents a major part of the Group's business or a geographical area which has been disposed of or made available for sale. Classification as a discontinued operation occurs upon disposal or at an earlier point in time if the operation satisfies the criteria for being classified as being held for sale. When an operation is classified as a discontinued operation, the comparable figures are adjusted as though the operation had been discontinued/sold at the beginning of the period in question. The Group has chosen to present information about discontinued operations in Note 5 "Changes in Group structure".

s) Segments

Business segments
The Group is organised into two business areas: Kongsberg Defence & Aerospace and Kongsberg Maritime.

The business areas constitute the basis for primary reporting by segment. Transactions between segments are based on market terms. In segmental reports, transactions within the individual segments are eliminated. Further, intra-Group profits on sales between the various segments are eliminated.

Shareholder costs and certain overheads are not allocated to the segments. The same applies to taxes, cash and short-term deposits, interest-bearing debt and properties occupied by parties other than the Group's own units.

Geographical segments
The presentations of geographical segments break down segmental revenues based on the customers' geographical location.

Financial information on the business segments and the geographical segments is presented in Note 7 "Information by segment".

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

u) IFRS and IFRIC have been adopted by the EU/EEA but not yet implemented
IFRS and interpretations approved by EU/EEA up until 11 March 2008 and which were not mandatory at 31 December 2007, have not been applied by KONGSBERG. This applies to IFRS 8, revised IAS 23, new IAS 1, IFRIC 11, 12, 13 and 14. Based on the assessments made thus far, it is assumed that these standards and interpretation statements would have no material effect on the reported figures.

v) New IFRS and IFRIC adopted for use in the 2007 accounts
KONGSBERG has adopted IFRS 7, revised IAS 1, IFRIC 7, 8, 9 and 10 without material effect on the reported figures. However, the standards in IFRS 7 and revised IAS 1 have entailed a number of new disclosures in the notes.

4 Fair value

KONGSBERG's consolidated accounting principles and disclosures require the calculation of fair value on financial and non-financial assets and liabilities. For both measurement and disclosure purposes, fair value has been estimated as described below in the disclosures. 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
In a business combination, intangible assets are recognised at fair value. The fair value of intangible assets, such as technology, software and customer relations, which have been acquired by business combination, is based on the discounted future cash flow from the asset. Brand names acquired through a business combination are based on calculating an envisaged royalty fee for using the brand name. The fair value of customer relations is based on the discounted net excess earnings on the asset. See Note 6 "Changes in Group structure" for more details.

Property, plant and equipment
In a business combination, property, plant and equipment are recognised at fair value. The fair value of property, plant and equipment is 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 a willing seller in an arm's length transaction. The market value of plant and equipment is calculated by obtaining an assessment from an independent assessor. For smaller equipment and plant, an assumption is made in a business combination that the carrying amount is an estimate of market value. See Note 6 "Changes in Group structure" for more details.

Inventories
The fair value of inventories acquired through business combinations is estimated based on the expected selling price for ordinary operations less selling costs and a reasonable profit for the sales efforts. See Note 6 "Changes in Group structure" for more information.

Investments in equity instruments
The fair value of financial assets, i.e. fair value through profit or loss and available-for-sale assets, is measured using the final price listed on the date of balance sheet recognition. Listed shares consist of those listed on the Oslo Stock Exchange and on the Norwegian Securities Dealers Association's OTC list. Where there has been no trading in shares for a longer period of time, the most recent share price will be used to estimate 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 used. For investments not of significant value, acquisition cost is used to estimate fair value.

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

Derivatives
The fair value of forward foreign exchange contracts is based on listed market value, if available. KONGSBERG uses Reuters' prices for the different foreign exchange forwards. Reuters is 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 have been obtained from banks that are contracting parties

Share-based payment
The fair value of employees' options is estimated using the Black-Scholes model. The model requires the following input data: share price on the date of balance sheet recognition, strike price, expected volatility, expected dividends and the no-risk interest rate based on government bonds.

5 Financial risk management

In general
KONGSBERG has centralised management of financial risk. The Board has adopted guidelines for the Group's financial risk management, which are embodied in the corporate Financial Policy. KONGSBERG seeks to limit financial risk and increase predictability while exploiting finance as a competitive factor.
KONGSBERG is exposed to the following type of financial risk:
- Credit risk
- Liquidity and refinancing risk
- Currency risk
- Interest rate risk
- Market risk related to financial investments

The different types of risk are described below. Further quantitative information related to the Group's financial exposure is included in the following notes: Note 17 "Financial income and financial expenses", Note 20 "Available-for-sale shares", Note 22 "Receivables and credit risk", and Note 24 "Financial instruments".

Credit risk
Credit risk is the risk of loss if a customer or another counterpart is unable to fulfil their contractual obligations. KONGSBERG has about NOK 1 billion in accounts receivable and other receivables at any given time. These receivables carry varying degrees of risk, depending on the customer, term to maturity and whether any payment guarantees or the like have been furnished. The customer base is diversified and consists mainly of public undertakings and large companies. Historically, the Group has incurred relatively modest losses on bad debts. Credit insurance is used insofar as deemed necessary. The Group has an active debt collection system for those business units which sell on credit. Credit derivatives are not used in connection with credit risk.

Liquidity and refinancing risk
Liquidity and refinancing risk refers to the risk that KONGSBERG will not be able to fulfil its financial obligations as they fall due. KONGSBERG's goal is to have an average term to maturity on its long-term credit facilities of more than two years. Kongsberg also strives to ensure that short-term loans in the money market never exceed available long-term credit limits. There are also target figures for how much of the aggregate loan and credit facilities should fall due in one and the same year. KONGSBERG is to have predictable funding, with a moderate gearing ratio. The gearing ratio, calculated as net interest-bearing debt as a percentage of EBITDA, should ordinarily be less than three. If the gearing ratio were to exceed this, the goal would be to return to less than three. For further information about loans and loan covenants, see Note 24 d) "Financial instruments – Interest risk related to loans".

The Group is subject to requirements for liquidity reserves. Liquidity management shall ensure there is enough available liquidity to honour KONGSBERG's commitments when they fall due.

Currency risk

KONGSBERG has considerable foreign currency exposure since it earns 70 per cent of its revenues abroad. KONGSBERG also buys a substantial share of its procurements abroad and runs businesses outside Norway. This mitigates the Group's net foreign currency exposure by 30 to 40 per cent. The Group's most important trading currencies outside Norway are USD and EUR. KONGSBERG's policy is to limit currency risk while actively assessing various currencies' importance as competitive parameters. All contractual currency flows are hedged (project hedges), and hedges are also made for parts of the Group's anticipated new orders (prognosis hedges). At 31 Dec. 2007, the Group had forward contracts of MUSD 208 and MEUR 243 related to anticipated new orders. In addition, loans provided by Kongsberg Gruppen ASA to foreign subsidiaries are hedged. Since the Group has hedged budgeted currency flows and signed contracts in foreign currencies, consolidated operating revenues and profits are not expected to be influenced to any great extent by fluctuations in foreign exchange rates over the next one to three years.

Hedging is mainly based on forward foreign exchange contracts. Currency accounts in banks are used to hedge small amounts and for short terms to maturity. Options are also used under special circumstances. See Note 24 "Financial instruments – currency risk and hedging foreign currency" for a more detailed explanation.

The CEO stipulates the parameters for the extent to which each individual division or business area can engage in prognosis hedging. The hedged portion of estimated new orders will vary in the light of the exchange rates between NOK and the Group's trading currencies. The hedging ratio is reduced annually for up to three years in advance.

Projects are fully hedged upon signing an agreement. Minor contracts and ongoing sales can be hedged using prognosis hedges.

At 31 December 2007, KONGSBERG had no significant foreign currency loans.

Interest rate risk

KONGSBERG hedges parts of the interest on its loans through interest rate swaps. Consequently, KONGSBERG should emphasise predictability at times when changes in the interest level have a significant influence on the consolidated profit.

Market risk attached to financial investments

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 requires regular reports on trends in the value of financial assets.

6 Changes in Group structure

2007

On 27 December 2006, KONGSBERG concluded an agreement to purchase 100 per cent of the technology enterprise Sense Intellifield for a cash consideration of MNOK 266. The acquisition was closed on 23 January 2007 at a consideration estimated at MNOK 324. The consideration consists of cash, acquisition costs and estimated additional remuneration related to earn-outs. Sense Intellifield delivers products in the field of integrated operations for the oil and gas market. Integrated operations are having a growing impact on the oil and gas industry in terms of exploration as well as production. The date of acquisition was 23 January 2007. For the period 1 Jan. 2007 to 31 Dec. 2007, the company contributed MNOK 161 in operating revenues and, at -MNOK 5, its EBITA was negative.

Sense Intellifield AS

Amounts in MNOK	*Recognised values at acquisition*	*Adjust-ments of fair value*	*Carrying value prior to acquisition*
Property, plant and equipment	2	-	2
Other intangible assets and technology	173	142	31
Trade receivables and other receivables	40	-	40
Deferred tax liability	(32)	(40)	8
Contractor and other current liabilities	(43)	-	(43)
Net identifiable assets and liabilities	**140**	**102**	**38**
Goodwill upon acquisition	184		
Cash payment incl. acquisition costs and additional remuneration	**324**		
Cash money acquired	-		
Net closing cash flow	**324**		

The fair value of technology is calculated based on earnings and hinges on future licence revenues. The value on technology constitutes MNOK 152 and consists of four different applications/systems. Licence revenues are expected to increase in the next two years, and then to decline as future development is not reflected in the estimated licence revenues. The technology has a projected useful life of seven to 10 years. The fair value of customer relations is based on an excess earnings-based method and has a value of MNOK 21. Anticipated operating revenues for advanced conference rooms, consultancy services and service are considered part of customer relations. The projected useful life of customer relations is six years.

Goodwill is residual, and is mainly related to employee expertise, anticipated synergies and future earnings attached to the future development of technology. Future cash flows are discounted by a project-specific discount rate. The estimates are based on past experience, expectations of future licensing agreements, technical assessments of the technology and external market trends. The estimates are contingent on the fulfillment of assumptions. Changes in the assumptions may have a significant impact on future results.

2006

With effect on the accounts as from 1 June 2006, KONGSBERG acquired Gallium Software Inc. of Canada for MNOK 136 (CAN 25) and Fantoft Process Technologies AS for MNOK 67. In addition, transaction costs came to MNOK 4 for Gallium and MNOK 1 for Fantoft. Both acquisitions were settled in cash. In 2006, Gallium contributed MNOK 37 in revenues and MNOK 1 to the profit. Fantoft contributed MNOK 38 in revenues and a negative result of - MNOK 8. Improvement measures, including integration processes, have been initiated in both companies and are expected to have a favourable effect in 2007. Had the acquisitions taken place on 1 January 2006, the consolidated operating revenues would have been MNOK 6 752 higher for Gallium and the profit for the year MNOK 236.

Gallium and Fantoft

Amounts in MNOK	*Recognised values at aquisition*	*Adjust-ments of fair value*	*Carrying value prior to aquisition*
Property, plant and equipment	5	-	5
Other intangible assets and technology	144	143	1
Trade receivables and other receivables	25	-	25
Cash and short-term deposits	2	-	2
Deferred tax liability	(5)	(5)	-
Pension commitments	(4)	(4)	-
Other non-current liabilities	(4)	-	(4)
Contractor and other current liabilities	(25)	-	(25)
Net identifiable assets and liabilities	**138**	**134**	**4**
Goodwill upon acquisition	69		
Cash payment incl. acquisition costs	**207**		
Cash money acquired	2		
Net closing cash flow	**205**		

The value of the technology/software is based on the net current value of future licence revenues, i.e. our estimate of fair value on the date of acquisition. The estimates on licence revenues and the useful life are based on historic experience, technical valuations, and the estimated discount rate. The estimates are contingent on the fulfillment of assumptions. Changes in the assumptions may have a significant impact on future results. The useful life of Gallium's technology is 15 years for the core technology and 6 years for the remaining part of the technology.

The core technology accounts for 80 per cent of the total value of the technology. The balance sheet values are MNOK 98 and MNOK 25, respectively. The reason for distinguishing between core technology and support technology is that parts of the system experience a more rapid turnover of technology than the core technology. Licence revenues are expected to increase in the years ahead, and then to dwindle since future upgrading and development are not reflected in the estimates. Future cash flows are discounted by a project-specific discount rate. The value of customer relations is virtually zero, and has been estimated on the basis of an added value model. Maintenance and service revenues are assumed to be associated with customer relations. The useful life is expected to be two to four years.

The useful life of the technology at Fantoft is seven years. Future cash flows are discounted by a project-specific discount rate. A useful life of seven years is based on uncertainty about how much of the acquired system or KONGSBERG's original system is to be further developed and maintained in future. Customers are assigned a value of approx. zero, for the same reason as mentioned above in connection with Gallium.

Goodwill, i.e. the residual amount after the allocation of excess value in connection with acquisitions, is mainly related to employee expertise in the acquired companies and expected synergies related to market access, research and development, sales and administration.

KONGSBERG has used independent advisers to help the Group identify and estimate the fair value of the intangible assets.

Disposal of operations

On 26 September 2005, it was announced that KONGSBERG had signed an agreement with the Nordic investment fund Altor for the sale of the parts of Simrad that develop, manufacture and sell maritime electronics for use on yachts and commercial vessels. The business is being carried on under the name Simrad Yachting. Kongsberg retained ownership of the rest of Simrad, which focuses on fishery activities. The sale took place on a debt-free basis for MNOK 586. The price was based on the accounts at 31 December 2004 plus the regulation mechanisms linked to the closing of the accounts on the date of the sale.

The following figures are included on the income statement under "Profit from discontinued operations":

Amounts in MNOK	*2007*	*2006*	*2005*
Sales revenues	-	-	451
Operating expenses	-	-	(429)
Earnings before tax	**-**	**-**	**22**
Net financial income	-	-	(7)
Earnings before tax (EBT)	**-**	**-**	**15**
Gain on sale of operations before tax	-	-	47
Tax	-	-	(15)
Profit from discontinued operations, net after tax	**-**	**-**	**47**

7 Segmental information

The business areas constitute the Group's primary reporting format, and geography is the Group's secondary reporting format

Business segment data

The Group's activities are divided into two strategic business areas (BAs), Kongsberg Maritime and Kongsberg Defence & Aerospace, which are organised and managed separately. The BAs sell different products, focus on different markets and feature different risk and return profiles. A more detailed description of the BA's operations may be found under the chapter "Business area activities".

The company disposed of its yachting activities in October 2005. Those activities constituted the bulk of the former segment Yachting & Fishery. Fishery activities now report as part of the Kongsberg Maritime segment. For more details, see Note 6 "Changes in Group structure".

Shareholder costs and certain overheads are not allocated to the segments. The same applies to taxes, financial instruments and properties occupied by parties other than the Group's own units.

Transactions between the BAs are based on market terms. Segmental income, expenses and profits include transactions between segments. The same applies to receivables and liabilities related to commodity flows.

Transactions within the various segments have been eliminated.

Geographical segment

The Group's activities are generally divided into Norway, Rest of Europe, America and Asia.

Business segment data

Results	Kongsberg Maritime			Kongsberg Defence & Aerospace			Not allocated/ Other activities			Eliminations			Total, continuing operations		
Amounts in MNOK	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*
Revenue from external customers	4 830	3 528	3 009	3 285	2 985	2 646	191	207	136	-	-	-	8 306	6 720	5 791
Gains on disposal of property	212	-	-	-	-	-	41	-	-	-	-	-	253	-	-
Intra-Group transactions	20	25	25	53	12	4		-	-	(73)	(37)	(29)	-	-	-
Total revenues	**5 062**	**3 553**	**3 034**	**3 338**	**2 997**	**2 650**	**232**	**207**	**136**	**(73)**	**(37)**	**(29)**	**8 559**	**6 720**	**5 791**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)[1]	**965**	**412**	**338**	**517**	**254**	**211**	**78**	**(39)**	**(13)**	**-**	**-**	**-**	**1 560**	**627**	**536**
Depreciation	81	83	76	79	72	76	10	8	6	-	-	-	170	163	158
Earnings before interest, tax and amortisation (EBITA)[1]	**884**	**329**	**262**	**438**	**182**	**135**	**68**	**(47)**	**(19)**	**-**	**-**	**-**	**1 390**	**464**	**378**
Amortisation	(23)	(2)	-	(21)	(14)	(7)	-	-	-	-	-	-	(44)	(16)	(7)
Segment results (EBIT)[1]	**861**	**327**	**262**	**417**	**168**	**128**	**68**	**(47)**	**(19)**	**-**	**-**	**-**	**1 346**	**448**	**371**
Net financial expenses													(67)	(58)	(57)
Income tax expense													(293)	(138)	(99)
Profit from discontinued operations													-	-	-
Profit for the year													**986**	**252**	**215**
1) Incl. non-recurring effects related to settlement of pension plan	166	-	-	165	-	-	10	-	-	-	-	-	341	-	-

cont. income statement	Total, continuing operations			Discontinued operations			Consolidated		
Amounts in MNOK	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*
Revenue from external customers	8 306	6 720	5 791	-	-	451	8 306	6 720	6 242
Gains on disposal of property	253	-	-	-	-	-	253	-	-
Intra-Group transactions	-	-	-	-	-	-	-	-	-
Total revenues	**8 559**	**6 720**	**5 791**	**-**	**-**	**451**	**8 559**	**6 720**	**6 242**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)[1]	**1 560**	**627**	**536**	**-**	**-**	**22**	**1 560**	**627**	**558**
Depreciation	170	163	158	-	-	-	170	163	158
Earnings before interest, tax and amortisation (EBITA)[1]	**1 390**	**464**	**378**	**-**	**-**	**22**	**1 390**	**464**	**400**
Amortisation	(44)	(16)	(7)	-	-	-	(44)	(16)	(7)
Segment results (EBIT)[1]	**1 346**	**448**	**371**	**-**	**-**	**22**	**1 346**	**448**	**393**
Net financial expenses	(67)	(58)	(57)	-	-	(7)	(67)	(58)	(64)
Income tax expense	(293)	(138)	(99)	-	-	(5)	(293)	(138)	(104)
Profit from discontinued operations	-	-	-	-	-	37	-	-	37
Profit for the year	**986**	**252**	**215**	**-**	**-**	**47**	**986**	**252**	**262**
1) Incl. non-recurring effects related to settlement of pension plan	341	-	-	-	-	-	341	-	-

Assets and liabilities	Kongsberg Maritime		Kongsberg Defence & Aerospace		Other activities		Total, continuing operations	
Amounts in MNOK	*31 Dec 07*	*31 Dec 06*	*31 Dec 07*	*31 Dec 06*	*31 Dec 07*	*31 Dec 06*	*31 Dec 07*	*31 Dec 06*
Segment assets	5 251	4 069	2 448	2 341	-	-	7 699	6 410
Non-allocated assets	-	-	-	-	-	-	1 515	946
Total assets	**5 251**	**4 069**	**2 448**	**2 341**	**-**	**-**	**9 214**	**7 356**
Segment, non-interest-bearing liabilities	2 747	2 203	2 620	2 291	-	-	5 367	4 494
Non-allocated liabilities	-	-	-	-	-	-	1 088	1 178
Total liabilities	**2 747**	**2 203**	**2 620**	**2 291**	**-**	**-**	**6 455**	**5 672**
Investments in property, plant and equipment	146	103	278	110	8	8	432	221
Investments in intangible assets	386	69	58	173	-	-	444	242
Cash flow	(206)	221	409	(105)	33	(141)	236	(25)

Geographical segment (continuing operations)

	Norway			Rest of Europe			America			Asia			Other			Total		
Amounts in MNOK	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*
Revenue from external customers	2 417	1 892	1 920	1 981	1 764	1 402	2 038	1 512	1 180	1 762	1 415	1 181	108	137	108	8 306	6 720	5 791
Revenue as % of total	29%	28%	33%	24%	26%	24%	25%	23%	20%	21%	21%	20%	1%	2%	2%	-	-	-
Gains on disposal of property	253	-	-	-	-	-	-	-	-	-	-	-	-	-	-	253	-	-
Total revenues	**2 670**	**1 892**	**1 920**	**1 981**	**1 764**	**1 402**	**2 038**	**1 512**	**1 180**	**1 762**	**1 415**	**1 181**	**108**	**137**	**108**	**8 559**	**6 720**	**5 791**
Segment assets	7 644	6 066	5 703	454	380	286	644	555	320	472	355	277	-	-	-	9 214	7 356	6 586
Investments	792	266	157	10	11	2	14	178	5	60	8	4	-	-	-	876	463	168

8 Sale of property

On 21 December, Kongsberg sold three properties, two of which are under construction.

The properties were disposed of for a total of MNOK 1 375, entailing a gain of MNOK 253. The properties were disposed of as part of the limited companies Kongsberg Næringsbygg 1 AS and Kongsberg Næringsbygg 4 AS, and the transaction was tax-exempt based on the tax exemption model. The transaction involved a net cash settlement on MNOK 571. Kongsberg has guaranteed the construction costs and the date of completion, and has capitalised MNOK 115 in liabilities related to the completion of the buildings. In addition, MNOK 87 has been set aside as substitute rent for the buyer during the construction period. Of these amounts, MNOK 160 has been recognised under other long-term liabilities.

Kongsberg Maritime AS and FMC Kongsberg Subsea AS have signed a long-term lease for the properties. The properties used by Kongsberg Maritime AS, in relation to which Kongsberg has future obligations under the lease, appear in Note 31 "Sale and leaseback".

9 Inventories

The Group's total inventories break down as follows:

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Raw materials	877	758
Work in progress	387	119[1]
Finished goods	270	236
Total	**1 534**	**1 113**
Impairment on inventories during the period	51	35

Of the total inventories of MNOK 1 534, MNOK 266 (MNOK 156) has been written down to its fair value excluding sales costs.

1) As regards "Work in progress", the comparable figure for 2006 has been increased by MNOK 101 from MNOK 18 to MNOK 119.

10 Personnel expenses

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

Amounts in MNOK	*2007*	*2006*	*2005*
Salaries	2 131	1 767	1 610
Social security tax	279	252	248
Pension expenses, defined benefit plans (Note 11)	151	128	101
Pension expenses, defined contribution plans (Note 11)	10	8	5
Bonus-related costs, including social security tax	100	68	-
Other benefits	151	103	79
Total personnel expenses	**2 822**	**2 326**	**2 043**

For a more detailed description of the bonus scheme for executive management, see Note 32 "Close associates".

Other benefits include employee share/option programmes for MNOK 17 in 2007 and MNOK 7 and 6 in 2006 and 2005, respectively.

Average full-time equivalents (FTEs)/employees

	2007	*2006*	*2005*
Norway	3 264	2 907	2 888
Europe	200	188	195
America	198	173	119
Asia	319	207	191
Other	5	10	6
Total	**3 986**	**3 485**	**3 399**

The figures represent the average no. of FTEs in 2007 and 2006, and the number of employees in 2005. The number of employees in 2005 has been adjusted for the sale of yachting activities.

Options for employees

For a number of years, the Group has conducted a share programme for all employees, offering shares at a discount and with options to buy more shares at the same price if the employee owns them for more than two years. Discounts on the sale of shares to employees are classified as personnel expenses. The fair value of the options is estimated on the balance sheet date and expensed as personnel expenses over the vested period. The option scheme is cash-based, since employees can choose between shares or cash. No new options were issued in 2007, as the option segment of the share programme was discontinued as from 2007.

The share programme for 2005 offered shares for up to NOK 30 000 per employee, including a 20 per cent discount. The options have a strike price of NOK 106. The share programme for 2006 corresponded to the one for 2005, with the exception of the strike price, which was NOK 168.

	2007	*2006*	*2005*
Number of options outstanding at 1 Jan.	113 217	142 215	144 629
Number of options granted	-	41 999	71 497
Number of options exercised	(54 031)	(42 008)	-
Number of options expired	(17 187)	(28 989)	(73 911)
Options outstanding at 31 Dec.	41 999	113 217	142 215

MNOK 10, including social security, was recognised as an expense for options for employees in 2007. The comparable amounts were MNOK 4 and NOK 3 in 2006 and 2005, respectively.

Outstanding options carry the following terms and conditions

Expiration date	*Strike price in NOK*	*Number*	*Value per option in NOK at 31 Dec 07*	*Liabilities in MNOK at 31 Dec 07*
2008	168	41 999	172	6

The fair value of the options is estimated using Black-Scholes' option pricing model. The option value is calculated as the fair value on 31 Dec. 2007, as the options are cash-settled. The market value of the share was NOK 339 (NOK 175) at 31 Dec. 2007. The market value of the share on the date of exercise was NOK 242.50 (NOK 148.50) in 2007.

A volatility of 17 per cent is still assumed, based on the KONGSBERG share's historical volatility back to 1993. It is assumed that past volatility is an indication of future volatility. The volatility of the share has been relatively similar from year to year. The calculation is based on a risk-free interest rate of 4.4 per cent and an estimated dividend share of 1.3 per cent. The estimated dividend yield is the average for the past two years. This is an estimate of the expected future dividend share.

It is assumed that all employees will exercise their options on their maturity date. The options' expected term to maturity is two years from the date on which the options were granted. The remaining terms to maturity is five months.

11 Pensions and other long-term employee benefits

KONGSBERG has a service pension plan which covers all Group employees in Norway. At 31 December 2007, 3 199 employees were covered by the scheme, prior to the settlement of the pension plan for employees under age 52. The pension plan is insured through Vital - DnB NOR. Parts of pensions are covered by payments from the National Insurance Scheme. Such payments are calculated using the National Insurance Scheme's basic amount (G), stipulated annually by the Norwegian parliament. Pension benefits depend on the individual employee's number of years of service and salary level upon retirement. Pension costs are distributed over the employee's vested period. The scheme provides 65 per cent of salary, including National Insurance benefits, until the age of 77, when the service pension level is reduced by 50 per cent.

Members of corporate management have an early retirement agreement from the age of 60. The benefits give them 90 per cent of their salary upon retirement at age 60, diminishing by 10 per cent per year to 60 per cent of their salary from age 63 to 67. As from 2006, new rules apply to severance pay for new employees in such positions. The new rules rescind the obligation to work after the age of 62, that the period of accrual is increased from 10 to 15 years, and that the benefit is reduced to 65 per cent.

As from 1 January 2008, it has been decided that all new employees and employees under the age of 52 will have defined contribution pension plans. This has led to a net reduction in pension liabilities. The one-off effect is recognised at the settlement of the pension scheme in 2007. Employees aged 52 and older will remain in the defined benefit scheme. The calculation of future pensions is based on the following assumptions:

	31 Dec 07	*31 Dec 06*	*31 Dec 05*
Financial assumptions			
Discount rate	5.0%	4.5%	4.0%
Expected return on plan assets	6.0%	5.5%	5.0%
Future salary increases	4.5%	4.0%	3.0%
Future base level increases	4.5%	4.0%	3.0%
Future pension increases	2.0%	1.5%	3.0%

	31 Dec 07	*31 Dec 06*
Demographic assumptions		
Mortality	K 2005	K 2005
Disability	IR 73	IR 73
Turnover	4.5% for all ages	4% for all ages
Early retirement	40% at age 62	20% at age 62

The mortality and disability assumption is based on official tables and observations regarding disability 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 (%)		Projected life expectancy	
Age	*Man*	*Woman*	*Man*	*Woman*	*Man*	*Woman*
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 annual premium has been reimbursed through an international pool.

The year's pension costs were calculated as follows:

Amounts in MNOK	2007	2006	2005
Service cost	110	95	75
Interest cost on pension liabilities	75	63	63
Expected return on pension plan assets	(53)	(47)	(50)
Amortisation of past service cost		1	1
Accrued social security expenses	19	16	12
	151	**128**	**101**
Settlement of the pension plan, including social security tax	(341)		
Total net pension expenses	**(190)**	**128**	**101**
Expenses related to defined contribution pension plans	10	8	5

Change in net pension liabilities recognised on the balance sheet		2007			2006	
Amounts in MNOK	*Funded*	*Unfunded*	*Total*	*Funded*	*Unfunded*	*Total*
Changes in gross pension liabilities						
Gross pension liabilities at 1 Jan.	1 624	175	1 799	1 514	160	1 674
Net change in social security expenses	(45)	(5)	(50)	10	1	11
Acquisition/disposal of activities	-	-	-	11	-	11
Buy-out upon termination	-	-	-	(92)	-	(92)
Net current value of accruals for the year	99	11	110	87	8	95
Interest expenses on pension liabilities	68	7	75	58	5	63
Premium payments, plan changes	(299)	-	(299)	-	(14)	(14)
Actuarial losses/gains	(17)	25	8	54	22	76
Transition to proportionate consolidation method	(10)	-	(10)	-	-	-
Payments pensions/paid-up policies	(334)	(10)	(344)	(18)	(7)	(25)
Gross pension liabilities at 31 Dec.	**1 086**	**203**	**1 289**	**1 624**	**175**	**1 799**
Changes, gross pension fund assets						
Fair value, pension plan assets at 1 Jan.	1 049	-	1 049	1 005	-	1 005
Acquisition/disposal of activities	-	-	-	8	-	8
Buy-out upon termination	-	-	-	(92)	-	(92)
Expected rate of return on pension funds	53	-	53	47	-	47
Actuarial losses/gains	31	-	31	(30)	-	(30)
Transition to proportionate consolidation method	(9)	-	(9)	-	-	-
Premium payments	160	-	160	129	-	129
Payments of pensions/paid-up policies	(334)	-	(334)	(18)	-	(18)
Fair value, pension plan assets at 31 Dec.	**950**	**-**	**950**	**1 049**	**-**	**1 049**
Net pension liabilities	**(136)**	**(203)**	**(339)**	**(575)**	**(175)**	**(750)**
Unrecognised plan changes	-	3	3	-	3	3
Net capitalised pension liabilities at 31 Dec.	**(136)**	**(200)**	**(336)**	**(575)**	**(172)**	**(747)**

The percentage distribution of pension plan assets by investment categories at 31 Dec. 2007 and earlier was:

	2007	2006	2005
Long-term bonds	28%	30%	27%
Money market	7%	5%	17%
Bonds	21%	20%	18%
Shares	25%	30%	23%
Property	16%	13%	12%
Other items	3%	2%	3%
Actual investment performance, pension plan assets	11.8%	7.5%	7.3%

Amounts in MNOK	2007	2006	2005
Net obligation 1 Jan.	(747)	(665)	(456)
Net change in social security expenses	50	(11)	(26)
Recognised pension expenses	(132)	(112)	(87)
Settlement of pension scheme, excl. social security expenses	299	-	-
Premium payments	160	129	150
Premium payments, plan changes	-	14	-
Disbursements, early retirement	10	7	7
Downsizing process	-	-	3
Purchases/sales	-	(3)	16
Transition to proportionate consolidation method	1	-	(9)
Actuarial gain/loss on pension expenses	23	(106)	(263)
Net capitalised pension liabilities at 31 Dec.	**(336)**	**(747)**	**(665)**

Actuarial losses/gains are taken directly to equity.

Historical information

Amounts in MNOK	*2007*	*2006*	*2005*	*2004*
Gross pension liabilities 31 Dec.	1 289	1 799	1 674	1 328
Fair value, pension plan assets 31 Dec.	950	1 049	1 005	868
Net pension liabilities 31 Dec.	(339)	(750)	(669)	(460)
Actuarial gains/losses on pension liabilities at 31 Dec.	8	76	234	77
Actuarial gains/losses on pension plan assets 31 Dec.	31	(30)	(29)	4

The age limit for taking an early retirement pension (AFP) is 62. The Group's extended pension liabilities are included in the accounts in accordance with actuarial standards based on a lower ordinary retirement age, 40 per cent signing propensity, 25 per cent employer financing and otherwise the same assumptions as apply to ordinary pensions. Changes in actual signing propensity as well as final funding can lead to changes in the final pension liabilities.

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

Pension premium payments for the defined benefit scheme in 2008 are expected to total MNOK 40.

Most of the Group's Norwegian companies have collective service pension schemes that entitle employees to certain future pension benefits in accordance with net benefit plans.

Pension benefits depend on the individual employee's number of years of service and salary level upon reaching retirement age. The defined benefit plan requires 30 years' of accrual to qualify for a full pension. Shorter service time will result in *pro rata* reduction in the pension.

Net pension liabilities are stipulated on the basis of actuarial estimatespredicated on assumptions related to the discount rate, future wage growth, pension adjustments, expected return on pension fund assets, and voluntary resignation. These assumptions are updated annually. The discounting rate is stipulated on the basis of the long-term government bond interest rate with a mark-up of 30 basis points that reflect the time frame for paying out on the pension liability.

The balance sheet shows net pension liabilities including social security.

Sensitivity analysis on pension calculations

The following estimates are based on facts and circumstances that applied at 31 Dec. 2007, provided all other parameters are constant. The actual results may deviate significantly from these estimates.

	Dscount rate		Annual wage growth/ basic amount (G)		Annual adjustment of pensions		Retirement rate	
Changes in % are percentage points	*1%*	*-1%*	*1%*	*-1%*	*1%*	*-1%*	*1%*	*-1%*
Changes in pension								
Projected benefit obligation (PBO)	20–22%	20–22%	10–12%	10–12%	15–17%	15–17%	2–3%	2–3%
Net pension expenses during the period	22–24%	22–24%	18–20%	18–20%	10–12%	10–12%	2–3%	2–3%

Defined contribution pension plans

KONGSBERG's companies abroad generally have defined contribution plans. At 31 Dec. 2007, there were also 72 KONGSBERG employees in Norway covered by defined contribution plans. As from 1 January 2008, 2 460 employees in Norway will be covered by defined contribution plans.

12 Remuneration to the auditor

Amounts in NOK 1 000	*Parent company*	*Subsidiaries in Norway*	*Subsidiaries abroad*	*Total 2007*	*Parent company*	*Subsidiaries in Norway*	*Subsidiaries abroad*	*Total 2006*
Corporate auditor Ernst & Young:								
Statutory audits	850	5 520	1 230	7 600	875	5 310	1 089	7 274
Other assurance services	66	376	-	442	-	550	-	550
Tax consultancy	-	673	140	813	-	503	75	578
Services other than auditing	-	910	-	910	-	1 217	-	1 217
Total fees, Ernst & Young	**916**	**7 479**	**1 370**	**9 765**	**875**	**7 580**	**1 164**	**9 619**
Others auditors								
Estimated auditing fees	-	89	-	89	-	110	273	383

13 Property, plant and equipment

Amounts in MNOK	Machinery	Equipment	Land, building and other property	Total
Cost				
1 Jan. 2006	413	810	915	2 138
Additions	58	92	71	221
Disposals	(123)	(9)	-	(132)
Additions through acquisition of businesses	3	9	-	12
Translation differences	3	(1)	(2)	-
31 Dec. 2006	**354**	**901**	**984**	**2 239**
Additions	59	127	246	432
Disposals	(6)	(12)	(153)	(171)
Additions through acquisition of business	-	2	-	2
Translation differences	(6)	(4)	(7)	(17)
31 Dec. 2007	**401**	**1 014**	**1 070**	**2 485**
Accumulated depreciation and impairment loss				
1 Jan. 2006	300	563	274	1 137
Depreciation for the year	27	100	36	163
Disposals	(123)	(7)	-	(130)
Translation differences	2	(1)	-	1
31 Dec. 2006	**206**	**655**	**310**	**1 171**
Depreciation for the year	35	100	35	170
Disposals	(5)	(13)	(35)	(53)
Translation differences	(4)	(3)	(2)	(9)
31 Dec. 2007	**232**	**739**	**308**	**1 279**
Carrying amount at 1 Jan. 2006	113	247	641	1 001
Carrying amount at 31 Dec. 2006	**148**	**246**	**674**	**1 068**
Carrying amount at 31 Dec. 2007	148	246	674	1 068
Carrying amount at 31 Dec. 2007	**169**	**275**	**762**	**1 206**
Useful life	3–10 years	3–10 years	10–30 years	
Annual rent from off-balance sheet property, plant and equipment	6	14	139	159

14 Intangible assets

Amounts in MNOK	Goodwill	Patents and licences	Technology	Equity-financed R&D	Other intangible assets	Total
Cost						
1 Jan. 2006	1 515	47	-	-	10	1 572
Translation differences	-	-	(3)	-	-	(3)
Additions	-	-	-	17	-	17
Acquisition of business/minority interests	72	2	144	8	-	226
31 Dec. 2006	**1 587**	**49**	**141**	**25**	**10**	**1 812**
1 Jan. 2007	1 587	49	141	25	10	1 812
Translation differences	-	-	2	-	-	2
Additions	-	-	-	72	1	73
Acquisition of business/minority interests	197	1	152	-	21	371
31 Dec. 2007	**1 784**	**50**	**295**	**97**	**32**	**2 258**

Amounts in MNOK	Goodwill	Patents and licences	Technology	Equity-financed R&D	Other intangible assets	Total
Accumulated amortisation and impairment						
1 Jan. 2009	420	15	-	-	2	437
Amortisation and impairment	-	7	8	-	1	16
31 Dec. 2006	**420**	**22**	**8**	**-**	**3**	**453**
1 Jan. 2007	420	22	8	-	3	453
Amortisation and impairment	-	9	29	2	4	44
31 Dec. 2007	**420**	**31**	**37**	**2**	**7**	**497**
Carrying amount						
1 Jan. 2006	1 095	32	-	-	8	1 135
31 Dec. 2006	**1 167**	**27**	**133**	**25**	**7**	**1 359**
1 Jan. 2007	1 167	27	133	25	7	1 359
31 Dec. 2007	**1 364**	**19**	**258**	**95**	**25**	**1 761**
Useful life		3–4 years	6–15 years	5–6 years	6–15 years	
Remaining useful life		2 years	4–13 years	4–6 years	5–9 years	

Technology is largely attributable to the acquisition of Sense Intellifield (2007), Gallium and Fantoft, cf. Note 6 "Changes in Group structure". With the exception of goodwill, intangible assets are amortised on a linear basis over their useful life.

Research and development

Expenses related to self-financed research and development:

	2007			2006			2005		
Amounts in MNOK	Product maintenance	Development costs	Total	Product maintenance	Development costs	Total	Product maintenance	Development costs	Total
Kongsberg Maritime	97	244	341	71	219	290	64	200	264
Kongsberg Defence & Aerospace	52	130	182	16	101	117	2	59	61
Total	**149**	**374**	**523**	**87**	**320**	**407**	**66**	**259**	**325**

Recognition of proprietary research and development

Development projects financed by customers are not capitalised, but Kongsberg seeks to obtain ownership rights to the developed product. Assessments of the fulfillment of the criteria for capitalising development costs take place at a pace commensurate with the progress of the ongoing development projects. Based on technical success and market assessments, during the development phase, the decision is taken whether to complete development and begin capitalisation.

At 31 Dec. 2007, MNOK 97 (MNOK 25, of which MNOK 8 through acquisitions) had been capitalised as R&D. Equity-financed R&D is generally related to the development of radio line communications, weapon stations (RWS) and dynamic positioning, and is divided between the business areas Kongsberg Defence & Aerospace and Kongsberg Maritime, respectively. The development projects are scheduled for completion in 2008.

Capitalised development at Kongsberg Defence & Aerospace in 2007 came to a total of MNOK 58 (MNOK 17 in 2006). The assumptions used to extrapolate the financial advantage are based on the same principles as described in Note 15 "Impairment test of goodwill" under Kongsberg Defence & Aerospace. The financial advantage is discounted using a project-specific discount rate.

At Kongsberg Maritime, the capitalised development of dynamic positioning and software totalled MNOK 14 in 2007 (MNOK 0 in 2006). The remaining equity-financed development projects at Kongsberg Maritime generally consist of numerous projects of a limited overall scope. These development projects are not considered to meet the rigorous criteria for capitalising development. Many of the projects also entail considerable uncertainty about whether they are technologically feasible and how the final solution will be. 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. The assumptions used to extrapolate the financial advantage are based on the same principles as described in Note 15 "Impairment test of goodwill" under Kongsberg Maritime. The financial advantage is discounted using a project-specific discount rate.

15 Impairment test of goodwill

Goodwill obtained through business combination is allocated to the business areas.

The cash-generating units for impairment testing of goodwill were changed in 2006. Fishery became more closely integrated into the other activities at Kongsberg Maritime in 2006. Consequently, goodwill was reallocated to Kongsberg Maritime. Kongsberg Defence Communications AS was merged with Kongsberg Defence & Aerospace in 2006, and goodwill was therefore reallocated to this entity. Goodwill worth MNOK 184 from the acquisition of Sense Intellifield was allocated to Kongsberg Maritime, cf. Note 6 "Changes in corporate structure". See also Note 7 "Segmental information" for more detailed information about the business areas.

Carrying amount, goodwill

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Kongsberg Maritime	1 231	1 034
Kongsberg Defence & Aerospace	133	133
Total recognised goodwill	**1 364**	**1 167**

Value in use and the most important assumptions

KONGSBERG uses the latest detailed calculations of recoverable amounts at 31 Dec. 2006 for the various cash-generating units, where goodwill is allocated as the basis for the year's impairment. This is because the assets and liabilities that constitute the cash flow-generating units have not changed significantly since the preceding calculations of recoverable amounts. Impairment testing in 2006 entailed that recoverable amounts exceeded the capitalised value significantly. Based on the view that KONGSBERG has a high backlog of orders and good results, it is unlikely that the recoverable amount estimated in 2006 will be less than the capitalised value of the cash flow-generating units at 31 Dec. 2007.

Impairment testing of goodwill is based on the utility value of the cash flow generating units. Value in use is determined using the present value of the projected cash flow. The projected cash flow is based on the unit's strategic plan document. The plan document is approved by the Board of Directors and corporate management, and covers a five-year period. The cash flow used for impairment testing of goodwill is usually adjusted somewhat lower than in the strategic planning document, as the accounting rules do not allow future improvements to products and new developments to be reflected in future cash flows. After those five years, a terminal value is calculated on the basis of a constant growth rate.

Kongsberg Maritime

Operating revenues are based on expected trends in the overall market in which Kongsberg Maritime operates and the company's expected share of the market. A constant market share is assumed initially, although the individual sub-markets can reflect increases or decreases. The overall market is based on external information, e.g. the number of planned newbuildings of vessels and rigs. The market is expected to grow by approximately 5 per cent per year. Operating revenues will depend on the accuracy of the assumptions, and changes in assumptions will also affect the future value of the unit. The backlog is record high, and a larger percentage of future revenues is covered by the backlog of orders now than before.

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

A discount rate of 10 per cent after tax has been used. The terminal value is estimated using the previous plan-year's cash flow as a normalised cash flow and assuming nominal growth of two per cent. Significant changes in the normalised net cash flow and growth rate will affect the overall value significantly.

Kongsberg Defence & Aerospace

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

A discount rate of 10 per cent after tax has been used. The terminal value is estimated using the previous plan-year's cash flow as a normalised cash flow and assuming nominal growth of one per cent. Significant changes in the normalised net cash flow and growth rate will affect the overall value significantly.

Sensitivitet

Kongsberg Maritime

At 31 December 2007, the value in use of Kongsberg Maritime was significantly higher than the carrying amount. This shows that the calculations are not sensitive to the impairment of goodwill if significant changes are made in the assumptions.

Kongsberg Defence & Aerospace

At 31 December 2007, the value in use of Kongsberg Defence & Aerospace was significantly higher than the carrying amount. This shows that the calculations are not sensitive to impairment loss of goodwill if significant changes are made in the assumptions.

16 Investments in jointly-controlled operations

Kongsberg Satellite Services AS is consolidated using the proportionate method. In 2007, Kongsberg Terotech AS was reclassified from a jointly-controlled activity to available-for-sale shares. This was because the investment is considered insignificant in KONGSBERG's financial statements. The capitalised amount of MNOK 3 was reclassified as available-for-sale shares.

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

Amounts in MNOK	*Current assets*	*Non-current assets*	*Current liabilities*	*Non-current liabilities*	*Equity*	*Revenues*	*Profit for the year*
Kongsberg Satellite Services AS 50% (Tromsø)	24	103	35	19	73	89	14

The table above shows KONGSBERG's share of the items mentioned. The company is not listed, meaning it has no observable market values.

17 Financial income and financial expenses

Recognised in the result

Amounts in MNOK	*Note*	*2007*	*2006*	*2005*
Interest income		5	4	4
Gain of disposal of shares		-	2	5
Financial income		**5**	**6**	**9**
Interest expenses		59	51	57
Impairment on available-for-sale financial assets	20	-	5	-
Other financial expenses		13	8	9
Financial expenses		**72**	**64**	**66**
Net financial items recognised in the result		**(67)**	**(58)**	**(57)**

Recognised directly in equity

Amounts in MNOK	*Notes*	*2007*	*2006*	*2005*
Translation differences related to foreign operations		(29)	(20)	(5)
Effective change in fair value related to prognosis hedges including deferred gain (cash flow hedges)	24	298	17	(96)
Fair value related to prognosis hedges, including deferred gain (cash flow hedges) transferred to the result	24	(28)	(28)	(72)
Effective change in fair value related to interest swap agreements (cash flow hedges)	24	8	7	(3)
Fair value related to interest swap agreements (cash flow hedges) transferred to the result	24	6	22	28
Net changes in the fair value of available-for-sale shares	20	(25)	87	7
Income tax on items recognised directly in equity		(80)	(5)	40
Financial income recognised directly in equity, after income tax		**150**	**80**	**(101)**
Attributed to				
Owners in parent company		150	80	(101)
Minority interests		-	-	-
Financial items recognised directly in equity, after income tax		**150**	**80**	**(101)**
Recognised in				
Shares, fair value		(25)	87	7
Hedge reserve		204	13	(103)
Translation differences for foreign currency		(29)	(20)	(5)
Financial items recognised directly in equity, after income tax		**150**	**80**	**(101)**

18 Income tax

Income tax expense

Amounts in MNOK	*2007*	*2006*	*2005*
Tax payable	101	16	8
Change in deferred tax	192	122	91
Income tax expenses	**293**	**138**	**99**
Effective tax rate	23%	35%	32%

Amounts in MNOK	*2007*	*2006*	*2005*
Profit from continuing operations before taxes	**1 279**	**390**	**314**
Estimated tax based on a tax rate of 28 per cent of the profit before tax	358	109	88
The effect of tax rate differences between Norway and other countries and unbooked tax assets abroad	2	14	3
Tax effect of gains on the sale of shares in property company	(68)	-	-
Other permanent differences	1	15	8
Income tax expenses	**293**	**138**	**99**
Profit from discontinued operations before tax	**-**	**-**	**15**
Income tax on profit from discontinued operations	-	-	5
Income tax on gain upon sale	-	-	10
Income tax expense, discontinued operations	**-**	**-**	**15**
Income tax expense on the income statement	293	138	99
Income tax expense, discontinued operations	-	-	15
Income tax expenses	293	138	114

Deferred tax and deferred tax liabilities

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Deferred tax assets		
Pensions	94	209
Provisions	241	81
Deferred tax asset – gross	**335**	**290**
Deferred tax liabilities		
Goodwill, property, plant and equipment	225	134
Projects in progress	758	612
Net derivatives	124	17
Deferred tax liabilities – gross	**1 107**	**763**
Net recognised deferred tax liabilities	**(772)**	**(473)**

Changes in deferred tax recognised directly in equity are as follows:

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Translation differences	-	(2)
Pensions	7	(34)
Cash flow hedges	80	5
Deferred tax related to acquisitions	32	(1)
Decrease in deferred tax related to sales	(12)	-
Total	**107**	**(32)**

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

No deferred tax has been recognised for latent tax liabilities (withholding tax) related to investments in foreign subsidiaries.

19 Earnings per share

Amounts in MNOK	*2007*	*2006*	*2005*
The net profit for the year attributable to the shareholders			
Profit from continuing operations, net after taxes	986	252	215
Minority share of the profit	5	3	2
Profit/(loss), discontinued operations	-	-	47
Net profit for the year/diluted profit attributable to owners of ordinary shares	**981**	**249**	**260**
Profit/(loss) for the year before non-recurring items/diluted profit/loss before non-recurring items that accrue to the owners of ordinary shares	**485**	**249**	**213**

Average weighted number of shares outstanding at 31 Dec. in millions of shares (Note 26 "Share capital and premium")

Number of shares	*2007*	*2006*	*2005*
Average weighted number of outstanding shares at 1 Jan.	30.00	30.00	30.00
Effect of treasury shares	(0.01)	-	(0.06)
Average weighted number of ordinary shares at 31 Dec.	**29.99**	**30.00**	**29.94**
Effect of employee share-options	-	0.01	0.03
Average weighted number of shares outstanding at 31 Dec. – diluted	**29.99**	**30.01**	**29.97**

Amounts in NOK	*2007*	*2006*	*2005*
Earnings from continuing operations per share	32.71	8.30	7.19
Earnings from continuing operations per share, diluted	32.71	8.30	7.19
Earnings per share for the year	32.71	8.30	8.70
Earnings per share for the year, diluted	32.71	8.30	8.69
Profit/(loss) for the year per share before non-recurring effects[1)]	16.17	8.30	7.19

1) The non-recurring effects are described in Notes 7, 8 and 11.

20 Available-for-sale shares

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Available-for-sale shares		
Listed shares	250	165
Unlisted shares (OTC list)	39	78
Shares valued on the basis of transaction price/issue price	38	5
Other shares	29	15
Available-for-sale shares	**356**	**263**

Available-for-sale shares are recognised at fair value. Listed shares at 31 Dec. 2007 consisted of shares in Kitron ASA (19 per cent), Roxar ASA and Wavefield Inseis ASA. The shares are recognised at market price. In 2007, shares quoted on the OTC list consisted of Remora ASA. As a percentage of total market value, listed and unlisted (OTC) shares accounted for 81 per cent of the available-for-sale shares.

Changes in fair value are recognised directly in equity. The overall excess value for all shares totalled MNOK 90 for 2007 and MNOK 115 for 2006. Other shares have no observable market value, and it is not possible to calculate their fair value reliably. Consequently, these shares are recognised at cost. In 2006, the impairment on available-for-sale shares came to MNOK 5.

As regards the 19 per cent stake in Kitron, Kongsberg has considered whether or not significant influence exists even though its stake is below the 20 per cent limit. The assumption that such influence exists is made with a stake of 20 per cent or more. Where significant influence exists, the investment is to be recognised as an associate based on the equity method. Even though Kongsberg has a seat on the Kitron Board of Directors and Kitron is a supplier to Kongsberg, this is not considered sufficient to demonstrate clearly that significant influence exists.

Fair value of shares
The shares are valuated at fair value on the date of balance sheet recognition. The fair value is calculated as follows:
1) Latest traded price on the stock exchange or final traded price on the OTC list (The Norwegian Securities Dealers Association's Over The Counter List).
2) The price of the final share transactions for the sale/purchase or issue of unlisted shares.
3) Valuation based on the discounted cash flow.
4) Cost of acquisition as an estimate of market value. This refers to investments that are not of significant value.

Sensitivity analysis on investments in shares
A change in the market prices of the listed shares and the OTC-listed shares of 10 per cent will lead to an increase/decrease in the added value of MNOK 29 which was recognised directly in equity at 31 December 2007 (MNOK 24 based on balance sheet values at 31 Dec. 2006).

Shares with a stake of more than 10 per cent that are not consolidated
At year end, Kongsberg owned shares and stakes in the following companies, where the stake was more than 10 per cent, or the investment aggregated more than 50 per cent of recognised equity, and where these were not consolidated or incorporated using the equity method.

Non-current assets		31 Dec 07			31 Dec 06	
Amounts in MNOK	*Stake*	*Carrying amount*	*Market value*	*Stake*	*Carrying amount*	*Market value*
Kitron ASA (available-for-sale shares)	19%	119	119	19%	165	165
Kongsberg Terotech AS (available-for-sale shares)	50%	3	3	50%	3	3

21 Other non-current assets

Amounts in MNOK	*Note*	*31 Dec 07*	*31 Dec 06*
Interest rate swaps assigned as hedging instruments	24	1	-
Loans to employees		21	12
Other non-current assets		130	105
Total other non-current assets		**152**	**117**

Other non-current assets include receivables from companies in which Kongsberg has minor interests, and totalled MNOK 118 in 2007 (MNOK 80).

22 Receivables and credit risk

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Net trade receivables	1 456	1 329
Other receivables	151	123
Prepayments to suppliers	83	30
Total receivables	**1 690**	**1 482**

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Trade receivables	1 496	1 383
Provision for bad debts	(40)	(54)
Total net trade receivables	**1 456**	**1 329**

Exposure to credit risk

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

The carrying amount for financial assets represents the Group's maximum credit exposure. The maximum exposure to credit risk on the balance sheet date was:

Amounts in MNOK	*Note*	*31 Dec 07*	*31 Dec 06*
Receivables	22	1 730	1 538
Other non-current assets	21	152	117
Projects in progress	23	1 082	1 107
Cash and short-term deposits	25	947	711
Forward currency contracts and interest swap agreements used as hedges	24	486	137
Total exposure to credit risk		**4 397**	**3 610**

The maximum exposure to credit risk related to trade receivables on the balance sheet date, by geographical region, was:

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Norway	271	261
Rest of Europe	412	358
America	417	381
Asia	376	374
Other	20	9
Total	**1 496**	**1 383**

The maximum exposure to credit risk related to trade receivables on the balance sheet date, by customer category, was:

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Public institutions	294	401
Private companies	1 202	982
Total	**1 496**	**1 383**

Impairment

Age distribution, trade receivables, at 31 December:

	31 Dec 07		*31 Dec 06*	
Amounts in MNOK	*Gross*	*Impairment*	*Gross*	*Impairment*
Not yet due	580	-	588	-
Due in 1–120 days	699	(10)	626	(7)
Due in more than 120 days	217	(30)	169	(47)
Total	**1 496**	**(40)**	**1 383**	**(54)**

Historically, the Group has incurred a relatively modest percentage of bad debts. Credit insurance it used insofar as deemed necessary. For further information about the Group's credit risk, please see Note 5 "Financial risk management".

Change in the appropriation account for impairment attached to trade receivables:

Amounts in MNOK	*2007*	*2006*
Balance sheet at 1 Jan.	(54)	(48)
Actual losses	13	4
Provisions made	(9)	(10)
Reversed	10	-
Balance sheet at 31 Dec.	**(40)**	**(54)**

23 Projects in progress

The Group's main business activity is to develop and manufacture products and systems based on orders received. The Group reports gross balance sheet values attached to long-term construction contracts. Gross amounts due from customers for contract work (Projects in progress) are classified as an asset, and gross amounts due to customers for contract work (Prepayments from customers) and accrued project costs are classified as a liability.

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

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

Accrued project costs are the net amount of variable costs accrued as a percentage of the project's degree of completion less accumulated direct costs incurred on the project.

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Projects in progress	1 082	1 107
Prepayments from customers	(1 938)	(1 497)
Accrued project costs	(575)	(271)
Net projects in progress	**(1 431)**	**(661)**

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

A summary of important contract data appears below:

Amounts in MNOK	*2007*	*2006*
Total orders	23 916	18 934
Operating revenues for the year	4 607	4 088
Accumulated operating revenues	15 677	13 872
Accumulated variable expenses	12 306	11 016
Remaining operating revenues	8 239	5 063
Prepayments received	1 938	1 497
Remaining variable expenses on loss-making projects	75	26

The presentation in the 2006 accounts showed projects recognised upon delivery in compliance with IAS 18. These have been removed for 2006 and 2007 in the table above.

In 2007, a contract was signed for the delivery of the Naval Strike Missile (NSM) to the Norwegian Armed Forces. The NSM programme is divided into three main phases: development and qualification, the transition from development and qualification to production, and the production of missiles. In December 2004, a contract was signed to cover the cost of the transition phase from development and qualification to production. To optimise preparations for the production of missiles, activities with long lead-times have been initiated prior to the signing of a contract for the production phase. At year-end 2006, there was inventory valued at MNOK 144 related to the delivery contract. The value of this work is included in the contract signed in 2007. The development project is scheduled for completion in 2008.

Uncertainty associated with estimates

Revenue is recognised on the contracts in tandem with the estimated progress. Progress is calculated as accrued production costs as a percentage of total expected production costs. Revenues are agreed by contract. Total expected production costs are estimated based on a combination of historical figures, systematic estimation procedures, the follow up of efficiency targets and best estimates. Ordinarily, the number of remaining hours employees must use to develop or complete the project will constitute a large part of total production costs. The uncertainty of the estimates is influenced by the project's duration and technical complexity. Principles have been established for categorising projects in terms of technological complexity and development content. This forms the basis for risk assessments and taking to account the profits from the projects. The projects are reviewed on a quarterly basis at minimum.

24 Financial instruments

a) Derivatives

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Other non-current assets		
Interest rat swap attached to loan	1	1
Total derivatives, other non-current assets	**1**	**1**
Current assets		
Gross excess value currency, forward cash flow hedges	196	80
Gross excess value currency, option cash flow hedges	14	-
Gross excess value currency, forward fair value hedges	274	54
Excess value loan hedges	2	1
Currency options	-	2
Total derivatives current assets	**486**	**137**
Other long-term liabilities		
Interest swap agreements related to sale and leaseback and loans	6	23
Total derivatives, non-current liabilities	**6**	**23**
Current liabilities		
Gross negative value currency forward, cash flow hedges	8	23
Gross negative value currency forward, fair value hedges	26	29
Total derivatives current liabilities	**34**	**52**

b) Foreign currency risk and hedging foreign currency

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

Exposure to currency risk

Kongsberg's exposure to currency risk was as follows, based on nominal amounts:

	31 Dec 07		*31 Dec 06*	
Amounts in MNOK	*USD*	*EUR*	*USD*	*EUR*
Trade receivables	106	25	111	22
Trade payables	(4)	(4)	(2)	(4)
Gross balance sheet exposure	**102**	**21**	**109**	**18**
Forward currency contracts (fair value hedges)	615	207	248	120

The specified forward currency contracts mentioned above are to hedge all contractual currency flows. This means that in addition to hedging capitalised trade receivables in foreign currency, currency forwards are also to be used to hedge remaining orders

Significant foreign exchange rates applied in the consolidated accounts during the year:

	Average exchange rate		Spot price at 31 Dec.	
	2007	*2006*	*2007*	*2006*
USD	5.90	6.41	5.41	6.26
EUR	8.03	8.05	7.96	8.24

Currency hedging

At 31 Dec. 2007, the Group had the following foreign currency hedges, divided by hedge category:

2007 *Amounts in MNOK*	*Value in NOK at 31 Dec based on agreed exchange rate*	*Net excess (+)/ negative (-) in NOK at at 31 Dec 07*	*Total hedged amount in USD 2007*	*Average hedged exchange rate in USD 31 Dec 07*	*Total hedged in EUR at 31 Dec 07*	*Average hedged rate in EUR 31 Dec 07*
Hedge category						
Prognosis hedge (cash flow hedges)[1]	3 292	188	208	6.30	243	8.14
Currency options[2] (cash flow hedges)[1]	261	14	45	-	-	-
Total cash flow hedges	**3 553**	**202**	**253**	**-**	**243**	**-**
Project hedges (fair value hedges)	5 263	248	615	5.81	207	8.19
Loan hedges (fair value hedges)[3]	123	2	-	-	-	-
Total	**8 939**	**452**	**868**	**-**	**450**	**-**

2006 *Amounts in MNOK*	*Value in NOK at 31 Dec based on agreed exchange rate*	*Net excess (+)/ negative (-) in NOK at at 31 Dec 06*	*Total hedged amount in USD 2006*	*Average hedged exchange rate in USD 31 Dec 06*	*Total hedged in EUR at 31 Dec 06*	*Average hedged rate in EUR 31 Dec 06*
Hedge category						
Prognosis hedge (cash flow hedges)[1]	3 694	57	354	6.40	202	8.24
Currency options[2] (cash flow hedges)[1]	-	-	-	-	-	-
Total cash flow hedges	**3 694**	**57**	**354**		**202**	
Project hedges (fair value hedges)	3 679	24	248	6.30	120	8.19
Loan hedges (fair value hedges)[3]	128	-	-		-	
Total	**7 501**	**81**	**602**		**322**	

1) Excess/negative values related to cash flow hedges (prognosis hedges and options) recognised directly in equity.
2) Currency options are tunnel options ('risk reversal'), involving Kongsberg purchasing a put option in USD at an exchange rate of NOK 5.80 = USD 1, at the same time as it issues a call options in the interval between NOK 6.10 and NOK 6.30. The total value of the options will be positive when the USD exchange rate declines and negative when it rises.
3) Loan hedges are currency hedges related to foreign currency loans.

In addition to the exchange rate on 31 Dec., the fair value of currency futures is affected by future interest points. The future interest percentage points within the various time intervals are received from Reuters which, in turn, retrieves data from different market players. Otherwise, please see Note 4 "Fair value".

Sensitivity analysis

A 10 per cent strengthening of NOK against the following currencies at 3. December would have increased equity by the amounts mentioned below. The analysis assumes that other variables remain constant. Since Kongsberg has a hedging strategy that hedges all contractual currency flows, a change in an exchange rate will not fully affect the result even if the currency changes. Any changes in the value of the currency options have not been taken into account in the table below.

Estimated equity effect (before tax):

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
USD	112	223
EUR	194	167
Total	**306**	**390**

A 10 per cent weakening of NOK against the above-mentioned currencies would have the same effect in terms of amount, but with a minus sign instead of a plus, provided all variables remain constant.

c) Cash flow hedges

The periods in which cash flows related to derivatives that are cash flow hedges are expected to arise:

	31 Dec 07			31 Dec 06		
	Capitalised amount	*2008*	*2009 and later*	*Capitalised amount*	*2007*	*2008 and later*
Interest swap agreements						
Assets	1	-	1	(13)	(7)	(6)
Forward currency contracts						
Assets	196	129	67	80	56	24
Liabilities	(8)	(8)	-	(23)	(15)	(8)
Currency options						
Assets	14	-	14	-	-	-
Total	**203**	**121**	**82**	**44**	**34**	**10**

The periods in which cash flows related to derivatives that are cash flow hedges are expected to affect the result:

	31 Dec 07			31 Dec 06		
	Capitalised amount	*2008*	*2009 and later*	*Capitalised amount*	*2007*	*2008 and later*
Interest swap agreements						
Assets	1	-	1	(13)	(7)	(6)
Forward currency contracts						
Assets	196	63	133	80	27	53
Liabilities	(8)	(4)	(4)	(23)	(8)	(15)
Currency options						
Assets	14	-	14	-	-	-
Total	**203**	**59**	**144**	**44**	**12**	**32**

d) Interest rate risk on loans

Balance sheet values

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Financial instruments with fixed interest		
Certificate loans	-	300
Instruments with variable interest rates		
Bond loans and other loans	705	705
Total	**705**	**1 005**

At 31 Dec., KONGSBERG had the following fixed-interest loans and interest swap agreements (from floating to fixed interest):

	Due date	Time to maturity 31 Dec 07	Interest rate	Amount 2007	Excess(+)/ negative(-) at 31 Dec 07	Amount 2006	Excess(+)/ negative(-) at 31 Dec 06
Fixed interest agreements							
Bond loan ISIN 00101 9701.5	26 Sept 07	0.0	5.2%	-	-	300	(3)
Interest swap agreements							
Agreement 1	19 Dec 07	0.0	6.8%	-	-	300	(7)
Agreement 2	17 June 09	1.5	5.4%	300	1	300	(4)
Agreement 3	17 Dec 08	1.0	5.6%	100	-	100	(2)
Total interest swap agreements				**400**	**1**	**700**	**(13)**
Total				**400**	**1**	**1 000**	**(16)**

Interest swap agreements cover the interest rate risk on the floating parts of the Group's debt portfolio, cf. the specification below on loans.
Interest swap agreement 1 covers certificate loans (MNOK 300 at 31 Dec. 2006) and was redeemed in 2007. Interest rate swaps 2 and 3 cover bond issue with floating interest. The interest hedges are defined as cash flow hedges, and excess/negative values are recognised in consolidated equity. The fixed interest loan is valued at its amortised cost.

Other interest swap agreements

KONGSBERG has signed interest rate swaps from floating to fixed interest for a nominal amount of MNOK 150. The agreements are related to leases for sale and leaseback agreements as mentioned in Note 31 "Sale and leaseback". The value change is expensed on an ongoing basis.

At 31 Dec. 2007, the interest rate swap agreement had the following value:

	Due date	MNOK	Years remainin	Interest rate	Excess(+)/ negative(-) at 31 Dec 07	Excess(+)/ negative(-) at 31 Dec 06
Interest rate swaps	2 Nov 11	150	3.8	6.3%	(6)	(10)

Loan and overdraft facilities

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Long-term liabilities		
Unsecured bond issue	700	700
Certificate loans		300
Others loans	5	5
	705	**1 005**

Loans and credit facilities	At 31 Dec. 2007, the Group had the following loans and credit facilities					At 31 Dec. 2006, the Group had the following loans and credit facilities				
	Due date	Nominal interest rate 2007	Term to maturity 2007	Face value	Carrying amount	Due date	Nominal interest rate 2007	Term to maturity 2007	Face value	Carrying amount
Certificate loan 1						21 Feb 07	3.7%	0.1	100	100
Certificate loan 2						21 March 07	3.9%	0.2	100	100
Certificate loan 3						21 April 07	4.0%	0.3	100	100
Bond loan ISIN 00101 9701.4 (fixed interest)						26 Sept 07	5.2%	0.7	300	300
Bond loan ISIN 00103 6178.5 (floating interest)	30 March 12	6.4%	4.3	300	300					
Bond loan ISIN 00101 2638.4 (floating interest)	10 June 09	6.8%	1.4	400	400	10 June 09	4.6%	2.4	400	400
Others loans				5	5				5	5
Total loans			**2.7**	**705**	**705**				**1 005**	**1 005**
Overdraft facilities (undrawn borrowing limit)	1 July 13		5.5	1 000	0	1 March 09		2.2	800	-

Certificate loans due in 2007 were classified as long-term, since it was assumed they were to be refinanced within the overdraft facility.

The overdraft facility at 31 Dec. 2007 was a syndicated credit facility for a total of MNOK 1 000. The agreement was signed with four banks: DnB NOR, Nordea, SEB and Fokus Bank. The agreement was made through Norsk Tillitsmann (Norwegian Trustee) and will run until 2013.

The certificate loans were issued in NOK and are listed on the Oslo Stock Exchange. The loans are capitalised at amortised cost using the effective interest method. Other loans comprise minor debts incurred directly by individual subsidiaries.

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

a) Earnings before interest and tax (EBIT) plus interest income are to be twice as high as payable interest.

b) Net interest-bearing debt shall not exceed three times the EBITDA, but can be up to 3.5 times the EBITDA for three consecutive quarters at the most.

The covenants in the loan agreements are satisfied.

Sensitivity analysis, fixed interest loan

KONGSBERG recognises financial liabilities with fixed interest at amortised cost. Changes in the interest level on fixed interest loan on the date of balance sheet recognition will therefore not affect the result.

Sensitivity analysis of cash flow for instruments with variable interest rates

A change in interest of 50 basis points (bp) on the date of balance sheet recognition would have increased (reduced) equity and the result by the following amounts. The analysis assumes the other variables in the table remain constant. The analysis was performed on the same basis as for 2006.

Effect of an interest rate increase of 50 bp

	31 Dec 07		*31 Dec 06*	
Amounts in MNOK	*Result*	*Equity*	*Result*	*Equity*
Investments with floating interest	5	-	4	-
Loans with variable interest	(4)	-	(3)	-
Interest swap agreements	2	2	3	5
Cash flow sensitivity (net)	3	2	4	5

e) Liquidity risk

Due dates under the terms of contract for financial liabilities, including interest payments.

	31 Dec 07				*31 Dec 06*			
Amounts in MNOK	*Carrying amount*	*Contractual cash flows*	*2008*	*2009 and later*	*Carrying amount*	*Contractual cash flows*	*2007*	*2008 and later*
Non-derivative financial liabilities								
Certificate loan					300	(303)	(303)	
Unsecured bond issue	700	(822)	(46)	(776)	700	(761)	(334)	(427)
Derivative financial liabilities								
Forward currency contracts identified as hedges (gross negative value)	35	(35)	(30)	(5)	54	(54)	(42)	(12)
Total	**735**	**(857)**	**(76)**	**(781)**	**1 054**	**(1 118)**	**(679)**	**(439)**

f) Summary of financial assets and liabilities

	Carrying amount/ fair value	
Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Financial assets		
Cash and short-term deposits	947	711
Available-for-sale shares	356	263
Forward currency contracts, fair value hedges	274	54
Forward currency contracts, cash flow hedges	196	80
Currency option, cash flow hedges	14	-
Forward currency contracts, loan hedges	2	1
Currency option	-	2
Interest swap agreements to hedge debt	1	-

	Carrying amount/ fair value	
Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Financial liabilities		
Interest-bearing debt	(705)	(1 005)[1)]
Interest swap agreements to hedge debt	-	(13)
Interest swap agreements attached to sale and leaseback	(6)	(10)
Forward foreign exchange contracts, fair value hedges	(26)	(29)
Forward foreign exchange contracts, cash flow hedges	(8)	(23)

1) The fair value for 2006 was MNOK 1 008.

For more details about how fair value is calculated, see Note 4 "Fair value".

Summary of changes in the fair value of financial instruments during the year, where the changes have been taken to equity

Figures before tax in MNOK	*Prognosis hedges and deferred gains*[1]	*Interest swap agreements*	*Available for-sale shares*	*Total*
Excess/(negative) value at 1 Jan.	124	(13)	115	226
Change in excess/(negative) value during the period	298	8	(25)	281
Recognised gain during the period	(28)	6	-	(22)
Excess/(negative) value at 31 Dec.	**394**	**1**	**90**	**485**

1) The deferred gain on cash flow hedges was MNOK 192 (MNOK 67 at 31 Dec. 2006) attributable to projects. The gains arise when the prognosis hedges mature and new hedges are secured for the projects. Any gains/losses that arise are deferred and realised proportional to the progress of the project.

25 Cash and short-term deposits

Nominal amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Short-term investments in the money market	700	50
Bank deposits, operating accounts	247	661
Total	**947**	**711**

All the Group's cash management is centralised with Kongsberg Gruppen ASA and handled by the Group's corporate financial services unit.

26 Share capital and premium

Share capital

At 31 December 2007, the Group's share capital consisted of 30 000 000 shares with a nominal value of NOK 5 each.

Share capital trends *Type of expansion*	*Date*	*Number of shares*	*Nominal value*	*Amount in MNOK*	*Adjustment factor*	*Share capital MNOK*
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

Principal shareholders at 31 Dec. 2007

Name	*Number of shares*	*Percentage share*
Norw. Govt. Repr. by the Ministry of Trade and Industry	15 000 400	50.00%
Norw. National Insurance Fund	2 676 810	8.92%
Arendals Fossekompani ASA	2 388 199	7.96%
MP Pensjon	1 203 200	4.01%
Skagen Vekst	850 000	2.83%
Odin Norge	772 850	2.58%
Orkla ASA	700 200	2.33%
Odin Norden	607 707	2.03%
Ferd AS	500 000	1.67%
Vital Forsikring ASA	254 957	0.85%
Total	**24 954 323**	**83.18%**
Other (stake < 0.85%)	5 045 677	16.82%
Total number of shares	**30 000 000**	**100.00%**

Shareholders, by size of holding

Number of shares	*Number of owners*	*Holding (%)*
1 – 100	2 523	0.47%
101 – 1 000	2 373	2.51%
1 001 – 10 000	390	3.21%
10 001 – 100 000	69	8.16%
100 001 – 1 000 000	11	14.76%
More than 1 000 000	4	70.89%
Total	**5 370**	**100.00%**

Of the 5 370 shareholders at 31 Dec. 2007, 321 foreign shareholders owned a total of 3.79 per cent of the shares.

Treasury shares

At year-end, Kongsberg Gruppen held 18 585 treasury shares for use in employee share programmes. The shares were purchased in accordance with the authorisation issued by the Annual General Meeting, authorising the buy-back of up to 5 per cent of the shares outstanding.

	Number
Holding of treasury shares at 31 Dec. 2006	3 808
Purchase of treasury shares	180 100
Treasury shares conveyed to employees	165 323
Holding of treasury shares at 31 Dec. 2007	**18 585**

Divestments of treasury shares are recognised at market value on the date of the sale, while the employee discount was booked as wages - MNOK 7 in 2007 and MNOK 3 in 2006. A total of 41 999 options have been issued to employees (including corporate management). No new options were issued in 2007. The options have been awarded under the share programme conducted for all employees in the Group. For a more detailed description of the employee share-option programme, please see Note 10 "Personnel expenses" and the chapter on "Shares and shareholders".

Dividends

	2007	*2006*
Dividend paid in MNOK	75	65
Dividend paid in NOK per share	2.50	2.15

The Board of Directors has proposed dividends for 2007 of MNOK 150. This is equivalent to NOK 5.00 per share.

27 Equity

Consolidated reconciliation of equity

	Equity holders of the parent									
Amounts in MNOK	*Share capital*	*Share premium*	*Treasury shares*	*Hedging reserve*	*Shares, fair value*	*Translation differences for foreign currency*	*Retained earnings*	*Total*	*Minority interest*	*Total equity*
Equity at 1 Jan. 2006	**150**	**832**	**-**	**67**	**28**	**(5)**	**423**	**1 495**	**10**	**1 505**
Total recognised income and expenses				**13**	**87**	**(20)**	**164**	**244**	**3**	**247**
Treasury shares	-	-	-			-	-	-	-	-
Dividends	-	-	-			-	(65)	(65)	-	(65)
Change, minority interests	-	-	-			-	-	-	(3)	(3)
Equity at 31 Dec. 2006	**150**	**832**	**-**	**80**	**115**	**(25)**	**522**	**1 674**	**10**	**1 684**
Equity at 1 Jan. 2007	**150**	**832**	**-**	**80**	**115**	**(25)**	**522**	**1 674**	**10**	**1 684**
Total recognised income and expenses				**204**	**(25)**	**(29)**	**1 000**	**1 150**	**5**	**1 155**
Treasury shares	-	-	-			-	(2)	(2)	-	(2)
Dividends	-	-	-			-	(75)	(75)	-	(75)
Change, minority interests	-	-	-			-	-	-	(4)	(4)
Equity at 31 Dec. 2007	**150**	**832**	**-**	**284**	**90**	**(54)**	**1 445**	**2 747**	**11**	**2 758**

28 Provisions

Non-current provisions

Amounts in MNOK	*Sale and leaseback*
1 Jan. 2007	123
Provided	-
Discounting effect	5
Reversed	(10)
Provision used	(12)
31 Dec. 2007	**106**

Current provisions

Amounts in MNOK	*Guarantee*	*Other*	*Total*
1 Jan. 2007	248	40	288
Provided	146	27	173
Reversed	(12)	(2)	(14)
Provision used	(87)	(3)	(90)
31 Dec. 2007	**295**	**62**	**357**

Non-current provisions

In the period from 1999 to 2007, Kongsberg sold properties in the Kongsberg Industrial Park. The properties have subsequently been leased back on long-term contracts that expire between 2014 and 2025. In connection with sale and lease-back, subleases were signed at lower rents than the sum of the rent, maintenance and renovation costs for the subleased buildings. In addition, the Group has undertaken operational and maintenance responsibility for subleased buildings. This net loss is considered a loss contract according to IAS 37 and the net current value of future losses is provided for in the accounts. A provision has also been set aside attached to the cessation of rent. The remaining need for provisions is considered each year. The discounting effect has been recognised as operating costs.

Provisions for guarantees

Provisions for guarantees refer to guarantee liabilities on completed deliveries. Unused provisions for guarantees are dissolved upon expiry of the guarantee period. Provisions for guarantees are estimated on the basis of a combination of historical figures, specific calculations and best estimate. Guarantee periods vary from 1 to 2 years for Kongsberg Maritime. For Kongsberg Defence & Aerospace, they normally extend from one to five years, but can last for 30 years under certain circumstances.

The increase in guarantees is distributed equally between the business areas. The increase within Kongsberg Maritime. has arisen as a result of general growth in deliveries. The increase within Kongsberg Defence & Aerospace has arisen as a result of strong growth in the number of remote weapons systems delivered.

Other provisions

Provisions are recognised when the Group has a commitment 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 amount can be measured reliably. Provisions are made when there is disagreement with contracting parties, agents, or as an estimated settlement related to product liability.

29 Other liabilities

Other non-current liabilities

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Liabilities related to the sale of property (cf. Note 8 - Sale of property)	160	-
Estimated additional remuneration related to earn out in connection with acquisitions (cf. Note 6 - Changes in Group structure)	50	-
Other items	7	-
Total	**217**	**-**

Other current liabilities

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Trade payables	444	456
Public duties payable	176	162
Payable tax	81	14
Provision for holiday pay	184	172
Liabilities related to the sale of property (cf. Note 8 - Sale of property)	43	-
Other items	482	389
Total	**1 410**	**1 193**

"Other items" refers to total provisions of MNOK 129 for bonuses for managers and other employees, incl. accrued social security expenses (MNOK 68 at 31 Dec. 2006).

30 Assets pledged as collateral and guarantees

Information on pledged assets shows which Group assets will be available to pledgees in a bankruptcy or liquidation situation.

Assets pledged as collateral

The Group's loan contracts, i.e. the bond loan agreements and the agreement for syndicated overdraft facilities, are based on negative pledges. The Group has furnished no assets as collateral for loans.

Prepayment and completion guarantees

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

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Prepayments and performance guarantees for customers	960	885

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

31 Sale and leaseback

During the years from 1999 to 2007, KONGSBERG sold properties in Kongsberg Industrial 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 the rent, KONGSBERG is responsible for certain expenses associated with fees on and maintenance of the properties. The leases have durations ranging from three months to 17 years. With the exception of the properties sold in 2007, the properties are mainly rented to external tenants. Provisions related to this are discussed in Note 28 "Provisions".

Amounts in MNOK	*Year of sale*	*Rental 2008*	*Rental 2009–2013*	*Rental beyond 2013*	*Remaining term of lease*	*Rental sublease 2008*	*Weighted average sub-leasing period*
Agreement 1 - A total of 28 800 m² of industrial premises/offices	1999	35	189	41	7 years	34	7 years
Agreement 2 - A total of 38 000 m² of industrial premises/offices	2001	29	153	171	11 years	29	1 years
Agreement 3 - A total of 6 000 m² of industrial premises/offices	2002	6	29	26	10 years	6	3 yearsr
Agreement 4 - A total of 10 000 m² of industrial premises/offices	2006	15	81	147	14 years	17	14 years
Agreement 5 - A total of 34 000 m² of industrial premises/offices	2007	19	202	644	17 years	19	17 years
Total		**104**	**654**	**1 029**		**105**	

For agreements 1, 3 and 4, the Group has the right of first refusal based on market conditions. The Group has the right to extend all leases for five years at a time. Rent is fixed, but has a 2.5 per cent annual adjustment for contract 1, and a 2.25 per cent annual adjustment for contracts 2 and 3. Contracts 4 and 5 will be adjusted by 100 per cent of the change in the consumer price index. The rent for contract 1 is also influenced by the interest level, where 60 per cent is based on fixed interest up to 2011, and 40 per cent on floating interest rates.

The rent is adjusted annually based on the consumer price index.

Agreement 5 was signed in connection with the sale of property in 2007, and is described in more detail in Note 8 "Sale of property". These properties were sold with a property value of MNOK 698.

32 Related parties

Remuneration to corporate management and the Board of Directors

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

The structure of the incentive system for the other members of executive management is determined by the Board, and presented to the AGM for an advisory vote. The terms are proposed by the CEO, and subject to the approval of the Chair of the Board.

Walter Qvam was hired by the Group on 1 Dec. 2007, and took over as CEO on 1 March 2008. The CEO's remuneration consists of a fixed annual salary of NOK 3 250 000 and a performance-based salary as described under "Bonuses for executive management". The CEO has six months' reciprocal notice of resignation/termination. Beyond the notification period, the CEO may be entitled to full wages until he begins in a new position, limited to up to one year after severance. The CEO has a contract for retirement which includes severance pay from the age of 63 of NOK 1 300 000 per year (NOK 1 350 000 upon leaving at age 64; NOK 1 400 000 upon leaving at age 65). At age 67, the CEO is entitled to a pension which, including the National Insurance pension and the Group's ordinary pension plan, will result in benefits of NOK 1 200 000 from age 67 to 77, and NOK 1 000 000 from age 77 and for the rest of his life.

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

Members of executive management had remuneration consisting of a fixed salary and performance-based wages as described under the section on "Bonuses to executive management". Beyond the term of notice, executives may be entitled to full wages until they assume a new position, limited to up to 12 months after severance. Members of executive management are entitled to take early retirement from age 60. The benefits give them 90 per cent of their salary upon retirement at age 60, diminishing by 10 per cent per year to 60 per cent of their salary from age 63 to age 67.

In 2006, the Group introduced new rules for severance pay for newly hired managers. The rules entail freedom from the responsibility to work from age 62, that the accrual period has increased from 10 to 15 years and that the benefit has been reduced to 65 per cent.

Bonuses for executive management

In 2006, KONGSBERG's Board introduced a new bonus system for key management personnel that rewards good results. KONGSBERG's top executives and most important decision-makers have been given direct financial interests in KONGSBERG's progress, and have compensation arrangements that provide incentives for improvement. The long-term bonus schemes are stipulated by the Board, and expensed as personnel expenses.

The bonus system is linked to the trend in profits and capital consumption. The bonus is weighted between a manager's sphere of responsibility and higher levels. In addition, a certain bonus is awarded for the achievement of personal, non-financial goals.

The bonus system rests on three independent components, of which the changes in this year's EBITA are the most important. Thus the accrued bonus will be positive when performance improves and negative in the event of significant setbacks. The year's accrued bonus, positive or negative, is credited to the bonus bank, and then 1/3 of any positive balance in the bonus bank will be paid out once the accounts have received final approval from the Board of Directors. The bonus system distinguishes between accrued bonuses (credited to the bonus bank) and paid bonuses (disbursed from the bonus bank). Individual participants' annual accrual to the bonus bank can account for a maximum of 75 per cent of their regular salary, while the disbursement of funds from the bonus bank can account for a maximum of 50 per cent of their regular salary. The bonus scheme is designed so that managers who perform well over time will earn a bonus of 20–30 per cent of their regular salary. The scheme encompasses 94 managers. In the corporate accounts for 2007, the accrued bonus, including social security, totals MNOK 60 (MNOK 48 in 2006). Bonuses amounting to MNOK 18 (including social security contributions) were paid out to executive management in 2007.

Expensed salaries and other benefits specified for the members of executive management for 2007 and 2006

Amounts in NOK 1 000	*Year*	*Salaries*	*Paid bonuses*[1]	*Other benefits reported in the fiscal year*[2]	*Total paid benefits*	*Option expense*	*Accured bonuses*[3]	*Year's pension service cost*	*Total expensed benefits*
Executive management									
Jan Erik Korssjøen, CEO	2007	2 802	692	176	3 670	13	2 100	783	5 874
	2006	2 644	426	143	3 213	12	1 887	706	5 818
Arne Solberg, CFO	2007	1 554	387	162	2 103	13	1 168	284	3 181
	2006	1 466	207	142	1 815	12	1 056	207	3 090
Stig Trondvold, EVP, Business Development	2007	1 480	471	155	2 106	13	1 112	799	3 559
	2006	1 416	197	137	1 750	12	1 014	770	3 546
Even Aas, EVP, Corporate Communications	2007	1 178	393	177	1 748	10	885	528	2 778
	2006	1 099	175	173	1 447	6	800	440	2 693
Ellen Christine Orvin Raaholt, EVP, Human Resources	2007	1 299	318	164	1 781	13	968	848	3 292
	2006	1 227	197	135	1 559	12	866	843	3 280
Total salaries, bonuses and remuneration to executive managment, parent company	**2007**	**8 313**	**2 261**	**834**	**11 408**	**62**	**6 233**	**3 242**	**18 684**
Total salaries, bonuses and remuneration to executive managment, parent company	**2006**	**7 852**	**1 202**	**730**	**9 784**	**54**	**5 623**	**2 966**	**18 427**
Torfinn Kildal, president, Kongsberg Maritime	2007	2 128	516	175	2 819	13	1 547	442	4 305
	2006	1 958	294	159	2 411	12	1 409	1 038	4 870
Tom Birck Gerhardsen, president, Kongsberg Defence & Aerospace	2007	1 968	491	139	2 598	13	1 470	331	3 921
	2006	1 852	261	129	2 242	12	1 341	335	3 930
Total salaries, bonuses and remuneration to corporate executive managment	**2007**	**12 409**	**3 268**	**1 148**	**16 825**	**88**	**9 250**	**4 015**	**26 910**
Total salaries, bonuses and remuneration to corporate executive managment	**2006**	**11 662**	**1 757**	**1 018**	**14 437**	**78**	**8 373**	**4 339**	**27 227**

1) The bonus paid for 2007 comprises 1/3 of the bonus earned for 2006, which was expensed in 2006. The bonus paid for 2006 was calculated on the basis of the profit from 2005, and expensed in 2006. As from 2006, bonuses have been expensed in the year of accrual. Recognised benefits for 2006 therefore include the bonus accrued in 2006 and the bonus paid out in 2006 based on accrual in 2005.
2) Benefits other than cash refer to expensed discounts on shares in connection with the employee share programme, the taxable portion of accident and industrial injury insurance, the interest rate advantage on car loans, and the advantage of having a free car for those who do not have a car loan.
3) Accrued bonuses are related to the bonus system. Of the accrued bonus amount will 1/3 be paid out in the following year, while the remaining 2/3 is transferred to an individual's bonus bank, and future disbursements will be conditional upon future goal achievement, cf. the description of bonuses for executive management.

	Year	*Number of shares*	*Options granted*	*Options exercised*	*Strike price*	*Options out-standing*	*Terms for current share options*	*Car loans in NOK*	*Debt instru-ments from*	*Re-payment plans*	*Out-standing amount in NOK*	*Interest rate*
Corporate management												
Jan Erik Korssjøen, CEO	2007	6 930	0	198	106	125	see note 10	547 000	31 Dec 04	10 years	382 876	1%
	2006	6 553	125	196	93	323	see note 10	547 000	31 Dec 04	10 years	437 584	1%
Arne Solberg, CFO	2007	7 284	0	198	106	125	see note 10	572 000	20 Jan 06	10 years	457 592	1%
	2006	6 907	125	196	93	323	see note 10	572 000	20 Jan 06	10 years	514 796	1%
Stig Trondvold, EVP, Business Development	2007	3 109	0	198	106	125	see note 10	539 000	20 April 04	10 years	323 384	1%
	2006	2 732	125	196	93	323	see note 10	539 000	20 April 04	10 years	377 288	1%
Even Aas, EVP, Corporate Communications	2007	2 186	0	75	106	100	see note 10					
	2006	1 932	100	150	93	175	see note 10					
Ellen Christine Orvin Raaholt, EVP, Human Resources	2007	1 022	0	198	106	125	see note 10	558 000	20 April 05	10 years	404 550	1%
	2006	645	125	0		323	see note 10	558 000	20 April 05	10 years	460 350	1%

	Year	Number of shares	Options granted	Options exercised	Strike price	Options out-standing	Terms for current share options	Car loans in NOK	Debt instru-ments from	Re-payment plans	Out-standing amount in NOK	Interest rate
Corporate management, cont.												
Torfinn Kildal, president,												
Kongsberg Maritime	2007	8 144	0	198	106	125	see note 10					
	2006	7 767	125	196	93	323	see note 10					
Tom Birck Gerhardsen, president,												
Kongsberg Defence & Aerospace	2007	6 592	0	198	106	125	see note 10					
	2006	6 215	125	196	93	323	see note 10					

Remuneration to the members of the Board of Directors

	Year	Number of shares		Board remuneration
Board of Directors				
Finn Jebsen, Chair	2007	5 000	(through the companyt Fateburet AS)	313 333
	2006	5 000	(through the company Fateburet AS)	300 000
Benedicte Berg Schilbred, Deputy Chair	2007	17 500	(through the company Odd Berg AS)	166 667
	2006	17 500	(through the company Odd Berg AS)	160 000
Erik Must[1], Director	2007	100 000	(through the company Must Invest AS)	146 667
	2006	100 000	(through the company Fondsavanse AS)	136 667
Erik Must[1], Director	2007	31 150		
	2006	31 150		
Siri Beate Hatlen, Director	2007	-		146 667
	2006	-		136 667
Roar Marthiniussen, Director	2007	3 279		146 667
	2006	3 100		136 667
Jan Erik Hagen, Director	2007	506		46 667
	2006	477		136 667
Kai Johansen, Director from 8 May 2007	2007	-		100 000
Audun Solås, Director	2007	1		146 667
	2006	1		136 667
John Giverholt[2], Director	2007	-		146 667
	2006	-		136 667
Total remuneration to the Board	**2007**			**1 360 002**
Total remuneration to the Board	**2006**			**1 280 002**

1) Erik Must is chair of the Board of Arendals Fossekompani ASA, which owns 2 388 199 shares in KONGSBERG.

2) John Giverholt is CFO at Ferd AS, which owns 500 000 shares in KONGSBERG.

Expensed benefits, executive management

Amounts in NOK 1 000	*2007*	*2006*	*2005*
Short-term benefits	16 640	17 228	12 268
Pension benefits	4 015	4 339	3 895
Other non-current benefits	6 167	5 582	-
Share-based payment	88	78	47
	26 910	**27 227**	**16 210**

Other non-current benefits are 2/3 of the accrued bonus.

Transactions between related parties

The Norwegian Government as the largest owner

The State as repr. by the Ministry of Trade and Industry is KONGSBERG's largest owner (50.001 per cent of the shares in Kongsberg Gruppen ASA). The State as repr. 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 Dec. 2007, KONGSBERG has a balance outstanding from State-owned customers of MNOK 60.

33 List of Group companies

The following companies are included in the consolidated accounts:

Company name	Home country	Stake 31 Dec 07	Stake 31 Dec 06
Kongsberg Gruppen ASA	Norway	Parent	Parent
Kongsberg Defence & Aerospace AS	Norway	100	100
Kongsberg Spacetec AS	Norway	100	100
Kongsberg Satellite Services AS	Norway	50	50
Kongsberg Protech AS	Norway	Merged	100
Kongsberg Terotech AS[1]	Norway	50	50
Kongsberg Procurement Center AS	Norway	100	100
Kongsberg Næringspark AS	Norway	100	100
Kongsberg Asset Management AS	Norway	100	100
Kongsberg Næringseiendom AS	Norway	100	100
Kongsberg Næringsparkutvikling AS	Norway	100	100
Kongsberg Næringsbygg 1 AS	Norway	-	100
Kongsberg Næringsbygg 2 AS	Norway	100	100
Kongsberg Næringsbygg 3 AS	Norway	100	100
Kongsberg Næringsbygg 4 AS	Norway	-	100
Kongsberg Næringsbygg 5 AS	Norway	100	-
Kongsberg Næringsbygg 6 AS	Norway	100	-
Kongsberg Næringsbygg 7 AS	Norway	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
Kongsberg Norcontrol IT AS	Norway	100	100
SeaFlex AS	Norway	100	80,4
Applied Radar Physics AS	Norway	53.6	53.6
Simrad Horten AS	Norway	Merged	100
Fantoft Process Technologies AS	Norway	Merged	100
Navtek AS	Norway	Merged	100
Kongsberg Intellifield AS	Norway	100	-
Sense Vision AS	Norway	100	-
Systems in Motion AS	Norway	100	-
Kongsberg Maritime Srl.	Italy	100	100
Kongsberg Maritime Holland BV	The Netherlands	100	100
Kongsberg Shipmedics Sp. zo.o.	Poland	51	-
Simrad Spain SL	Spain	100	100
Kongsberg Maritime Sweden AB	Sweden	100	100
Kongsberg Maritime GmbH	Germany	100	100
Kongsberg Reinsurance Ltd.	Ireland	100	100
Norcontrol IT Ltd.	UK	100	100
Seatex Ltd.	UK	100	100
Kongsberg Maritime Holding Ltd.	UK	100	100
Kongsberg Maritime Ltd.	UK	100	100
Simrad Leasing Ltd.	UK	100	100
Fantoft Process Technologies Ltd.	UK	100	100
Kongsberg Intellifield Ltd	UK	100	-
Gallium Visual Systems Inc	Canada	100	100
Kongsberg Maritime Simulation Ltd.	Canada	100	100
Kongsberg Mesotech Ltd.	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 Defense Corporation Inc.	USA	100	100
Fantoft Process Technologies Inc.	USA	100	100
Kongsberg Intellifield LLC	USA	100	-
Kongsberg Asia Pacific Ltd.	Hong Kong	100	100
Kongsberg Maritime Ship Systems	South Korea	100	100
Kongsberg Maritime Korea Ltd.	South Korea	96.9	96.9
Control IT Pte.	Singapore	100	100
Kongsberg Maritime Pte. Ltd.	Singapore	100	100
Nanjing Norcontrol Electro-Mec. Co.	China	100	100
Kongsberg Maritime China (Shanghai) Ltd.	China	65	65
Control IT (India) Pvt. Ltd.	India	100	100
Fantoft Process Technologies	India	100	100
Norcontrol IT Pty. Ltd.	South Africa	100	100
Kongsberg Hungaria Kft.	Hungary	100	100
Kongsberg Group, Middle East Branch	Abu Dhabi	100	100

1) Kongsberg Terotech AS has been reclassified to an available-for-sale asset.

34 Foreign exchange rates

	Exchange rate 1 Jan 07	Average exchange rate 2007	Exchange rate 31 Dec 07
Danish kroner (DKK)	1.1049	1.0780	1.0675
Swedish kronor (SEK)	0.9112	0.8685	0.8455
British pounds (GBP)	12.2680	11.7732	10.8100
American dollars (USD)	6.2551	5.8983	5.4110
Canadian dollars (CAD)	5.3910	5.4551	5.5300
Singapore dollars (SGD)	4.0778	3.8998	3.7650
Euro (EUR)	8.2380	8.0314	7.9610
Korean won (KRW)	0.6726	0.6346	0.5781
Chinese yuan (CNY)	0.8014	0.7736	0.7407
UAE dihrams (AED)	1.7067	1.5968	1.4751
Hong Kong dollars (HKD)	0.8044	0.7558	0.6937
Indian rupis (INR)	0.1415	0.1418	0.1374
Japanese yen (JPY)	5.2495	4.9878	4.8281
South African rand (ZAR)	0.8942	0.8336	0.7979
Hungarian forints (HUF)	3.2720	3.2001	3.1423
Australian dollars (AUD)	4.9356	4.9137	4.7634
Swiss francs (CHF)	5.1266	4.8934	4.8029
New Zealand dollars (NZD)	4.3995	4.3251	4.2019
Polish zlotychs (PLN)	2.1504	2.1140	2.2160

35 Events subsequent to the balance sheet date

Kongsberg Maritime AS, a wholly-owned a subsidiary of Kongsberg Gruppen ASA, has, through its subsidiary Simrad North America Inc. in Washington (USA), signed an agreement to purchase the assets and operations of the company Hydroid LLC for approx. USD 80 on a debt-free basis. The agreement was signed on 12 December 2007. The purchase price may increase as a result of Hydroid's profit trends in 2008 and 2009. Hydroid manufactures and supplies autonomous underwater vehicles for military and commercial markets the world over. The company was established in 2001 to manufacture, support and further develop the technology for the underwater vehicle REMUS, which was developed and licensed through an exclusive licence with the Woods Hole Oceanographic Institution. As the final contract for the acquisition has not been closed and the agreement hinges on certain conditions, Kongsberg does not have control of the company. Consequently, the acquisition will not affect the income statement or balance sheet at 31 Dec. 2007.

On 27 February 2008, Kongsberg Maritime AS, a wholly-owned a subsidiary of Kongsberg Gruppen ASA, signed an agreement to acquire the simulator company GlobalSim Inc. for approx. MNOK 100 on a debt-free basis. The acquisition will reinforce Kongsberg Maritime's operations aimed at training simulators for maritime and offshore applications, both of which are markets in continuous growth. GlobalSim Inc. has comprehensive experience in the field of simulation. The company's main products are crane simulators to optimise crane operations and for training crane operators. Located in Salt Lake City, Utah (USA), GlobalSim, Inc. has 25 employees. As the final contract for the acquisition has not been closed and the agreement hinges on certain conditions, Kongsberg has not yet acquired control of the company.

INCOME STATEMENT, BALANCE SHEET AND STATEMENT OF CASH FLOW KONGSBERG GRUPPEN ASA

Income statement for the year ending 31 December 2007

Amounts in MNOK	*Notes*	*2007*	*2006*
Operating revenues	**9**	**290**	**72**
Personnel expenses	4, 5	83	71
Depreciation		3	3
Other operating expenses	4	68	55
Total operating expenses		**154**	**129**
Earnings before tax		**136**	**(57)**
Interest from Group companies		88	81
Gain of disposal of shares		-	2
Impairment on shares		(2)	(5)
Currency trading gains/(losses)		1	(9)
Interest to Group companies		(58)	(32)
Other interest expenses		(54)	(66)
Group contribution received		60	78
Net financial items		**35**	**49**
Earnings before tax (EBT)		**171**	**(8)**
Income tax expense	6	2	(11)
Profit for the year		**173**	**(19)**
Distributable reserves and equity transfers			
Proposed dividend		(150)	(75)
Group contribution paid		-	(78)

Statement of cash flows

Amounts in MNOK	*2007*	*2006*
Earnings before tax	171	(8)
Gains on disposal of property shares	(190)	-
Depreciation	3	3
Impairment	-	5
Change in accrual items, etc.	33	(4)
Net cash flows from operating activities	**17**	**(4)**
Cash flow from investing activities		
Acquisition of property, plant and equipment	(3)	(2)
Proceeds from sale of shares	557	-
Disbursements for loans and the acquisition of shares, etc.	(241)	(65)
Net cash flows from investing activities	**313**	**(67)**
Net cash flows from financing activities		
Repayment of loans	(300)	-
Payment of dividends	(75)	(65)
Net disbursement of funds/payment for the purchase/ sale of treasury shares	(12)	(3)
Change, intra-Group accounts	773	(238)
Change, overdraft facilities	(66)	77
Net cash flow from (used on) financi ng activities	**320**	**(229)**
Net increase (decrease) in cash and short-term deposits	**650**	**(300)**
Cash and short-term deposits on 1 January	**50**	**350**
Cash and short-term deposits at 31 December	**700**	**50**

Balance sheet at 31 December 2007

Amounts in MNOK	*Notes*	*2007*	*2006*
Assets			
Deferred tax assets	6	44	38
Tangible fixed assets		9	9
Shares in subsidiaries	3	2 023	2 101
Other shareholdings		231	108
Long-term loans to subsidiaries		1 231	1 817
Other non-current receivables		124	6
Total non-current assets		**3 662**	**4 079**
Receivables from subsidiaries		145	66
Cash and short-term deposits		700	50
Total current assets		**845**	**116**
Total assets		**4 507**	**4 195**
Equity and liabilities			
Share capital		150	150
Treasury shares		-	-
Share premium		832	832
Total paid-in equity		**982**	**982**
Retained earnings		439	422
Total retained earnings		**439**	**422**
Total equity	2	**1 421**	**1 404**
Pension liabilities	5	118	114
Liabilities to credit institutions	7	700	1 000
Long-term debt to subsidiaries		1 583	1 231
Other non-current liabilities		160	
Total non-current liabilities		**2 561**	**2 345**
Provision for dividends		150	75
Other current liabilities		115	45
Overdraft facilities		260	326
Total current liabilities		**525**	**446**
Total equity and liabilities		**4 507**	**4 195**

NOTES KONGSBERG GRUPPEN ASA

1 Accounting principles

The financial statements for Kongsberg Gruppen ASA have been prepared in accordance with the provisions of the Norwegian Accounting Act of 1998 and generally accepted accounting practices in Norway.

Subsidiaries/associates

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

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

Classification and valuation of balance sheet items

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

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

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

Receivables

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

Foreign exchange

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

Short-term investments

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

Pensions

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

As from 2005, actuarial gains/losses have been recognised directly in equity.

Income tax

Tax expenses in the income statement include payable taxes and the change in deferred taxes during the period. Deferred taxes are estimated as 28 per cent of the basis for the temporary differences that arise between balance sheet items used for accounting purposes and those used for tax purposes, as well as the assessment-related deficit to be carried forward at the end of the fiscal year. Temporary differences that increase or decrease taxes and have been reversed or can be reversed during the same period, are assessed. Net deferred tax assets are recognised on the balance sheet to the extent it is likely that they can be applied.

Statement of cash flows

The statement of cash flows has been drawn up using the indirect method. Cash encompasses cash reserves, bank deposits and other short-term liquid assets.

2 Reconciliation of equity

Amounts in MNOK	*Share capital*	*Share premium*	*Treasury shares*	*Retained earnings*	*Total equity*
Equity at 31 Dec. 2005	**150**	**832**	**-**	**537**	**1 519**
Net profit for the year	-	-	-	(19)	(19)
Treasury shares	-	-	-	-	-
Dividends for 2006	-	-	-	(75)	(75)
Actuarial gains/losses on pension expenses	-	-	-	(21)	(21)
Equity at 31 Dec. 2006	**150**	**832**	**-**	**422**	**1 404**
Net profit for the year	-	-	-	173	173
Treasury shares	-	-		(2)	(2)
Dividends for 2007	-	-	-	(150)	(150)
Actuarial gains/losses on pension expenses	-	-	-	(4)	(4)
Equity at 31 Dec. 2007	**150**	**832**	**-**	**439**	**1 421**

Other information about the company's share capital is provided in Note 26 "Share capital and share premium" to the consolidated accounts.

3 Shares in subsidiaries

Amounts in MNOK	Year of acquisition	Main office	Stake/ voting interest %	The balance sheet 31 Dec
Kongsberg Defence & Aerospace AS	1997	Kongsberg	100	506
Kongsberg Næringspark AS	1987	Kongsberg	100	5
Kongsberg Holding AS	1987	Kongsberg	100	0
Kongsberg Basetec AS	1992	Kongsberg	100	106
Kongsberg Maritime AS[1)]	1992	Kongsberg	89	1 101
Kongsberg Forsvar AS	1995	Kongsberg	100	0
Kongsberg NFT AS	1995	Kongsberg	100	0
Kongsberg Asset Management AS	1995	Kongsberg	100	5
Norsk Forsvarsteknologi AS	1987	Kongsberg	100	0
Kongsberg Næringseiendom AS	1997	Kongsberg	100	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	0
Kongsberg Næringsbygg 6 AS	2007	Kongsberg	100	0
Kongsberg Næringsbygg 7 AS	2007	Kongsberg	100	0
Nerion AS	2002	Trondheim	100	0
Kongsberg Hungaria Kft.[2)]	2003	Budapest	10	0
Autronica AS	2003	Trondheim	100	0
Kongsberg Reinsurance Ltd.	2001	Dublin	100	4
Kongsberg Procurement Center AS[3)]	2005	Kongsberg	20	1
Total				**2 023**

1) The remaining 11 per cent of the shares in Kongsberg Maritime AS is owned by Kongsberg Basetec AS.
2) The remaining 90 per cent of the shares in Kongsberg Hungaria Kft. is owned by Kongsberg Defence & Aerospace AS.
3) The remaining shares in the Kongsberg Procurement Center AS are owned by Kongsberg Defence & Aerospace AS and Kongsberg Maritime AS, with 40 per cent each.

4 Personnel expenses and remuneration

As regards salary and remuneration to corporate management and the directors, reference is made to Note 32 to the consolidated accounts "Related parties".

Auditor's fees

Amounts in MNOK	*2007*	*2006*
Corporate auditor Ernst & Young		
Statutory audits	850	875
Other assurance services	66	-
Tax consultancy		-
Services other than auditing		-
Total fees, Ernst & Young	**916**	**875**

Personnel expenses

Amounts in MNOK	*2007*	*2006*
Payroll expenses	44	38
Social security	10	9
Pension expenses	6	11
Other benefits	23	13
Total personnel expenses	**83**	**71**

5 Pensions

The Group has a service pension plan that covers all the Group's employees in Norway. The scheme is insured through Vital - DnB NOR. Parts of pensions are covered by payments from the National Insurance Scheme. Such payments are calculated using the National Insurance Scheme's basic amount (G), stipulated annually by the Norwegian parliament. Pension benefits depend on the individual employee's number of years of service and salary upon retirement. Pension costs are distributed over the employee's vested period. The scheme provides 65 per cent of salary until the age of 77, then the service pension level is reduced to 50 per cent.

Members of corporate management have early retirement agreements from age 60. The benefits give them 90 per cent of their salary upon retirement at age 60, diminishing by 10 per cent per year to 60 per cent of their salary from age 63 to 67. As from 2006, new rules apply to severance pay for new employees in such positions. The new rules imply freedom from the obligation to work from age 62, that the contribution time has increased from 10 to 15 year and that the benefit has been reduced to 65 per cent.

It has been decided that as from 1 January 2008, all new employees and employees under the age of 52 will be transferred to deposit-based pension schemes. This has led to a net reduction in pension liabilities. The one-off effect has been recognised as settlement of the pension plan in 2007. Employees aged 52 and older will remain in the defined benefit plan.

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

	31 Dec 07	*31 Dec 06*
Discount rate	5.0%	4.5%
Expected rate of return	6.0%	5.5%
Wage adjustments	4.5%	4.0%
Pension base level (G) adjustment	4.5%	4.0%
Pension adjustment	2.0%	1.5%
Turnover	4.5%	4.0%

The year's pension costs were calculated as follows:

Amounts in MNOK	*2007*	*2006*
Service cost	6	7
Interest cost on pension liabilities	4	4
Estimated return on pension plan assets	(1)	(2)
Settlement of pension plan	(5)	-
Amortisation, estimated deviation	1	1
Accrued social security expenses	1	1
Total net pension expenses	**6**	**11**

Amounts in MNOK	*2007*	*2006*
Total gross pension liabilities	(122)	(121)
Gross pension plan assets	15	17
Net pension liabilities	**(107)**	**(104)**
Unrecognised plan changes	3	3
Social security	(14)	(13)
Net pension liabilities/assets on the balance sheet	**(118)**	**(114)**

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

6 Tax

Income tax expense

Amounts in MNOK	*2007*	*2006*
Tax payable	3	-
Change in deferred tax	(5)	11
Taxable income/(expense)	**(2)**	**11**

Amounts in MNOK	*2007*	*2006*
Earnings before tax (EBT)	**171**	**(8)**
Estimated tax based on a tax rate of 28 per cent of the profit before tax	48	(2)
Gains on sale of shares in property companies	(53)	-
Other permanent differences	4	13
Taxable income/(expense)	**(2)**	**11**

Basis for deferred tax liabilities and assets, deferred tax

Amounts in MNOK	*2007*	*2006*
Pension	33	32
Other	11	6
Recognised asset, deferred tax	**44**	**38**

7 Long-term liabilities to credit institutions

Amounts in MNOK	*2007*	*Due date*
Bond loan ISIN 00103 6178.5 (floating interest)	300	30 March 12
Bond loan ISIN 00101 2638.4 (floating interest)	400	10 June 09
Total	**700**	
Overdraft facilities (undrawn)	1 000	1 July 13

The certificate loans were issued in NOK and are listed on the Oslo Stock Exchange. The loans are capitalised at their amortised cost.

The overdraft facility is a syndicated credit facility for a total of MNOK 1 000. The agreement was signed with four banks: DnB NOR, Nordea, SEB and Fokus Bank. The agreement was made through Norsk Tillitsmann (Norwegian Trustee) and will mature in July 2013.

The overdraft facility is currently undrawn. The Group has no financial instruments intended to cover refinancing risk.

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

a) Earnings before interest and tax (EBIT) plus interest income are to be twice as high as payable interest.

b) Net interest-bearing debt shall not exceed three times the EBITDA, but can be as much as 3.5 times that level for three consecutive quarters at the most

The covenants in the loan agreements are satisfied.

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

8 Guarantees

In the period from 1999 to 2007, KONGSBERG has sold properties in Kongsberg Industrial Park. The properties have been leased back on long-term leases that will expire between 2014 and 2025. The leaseback agreements are considered operational leasing agreements.

In addition to the rent, KONGSBERG is responsible for certain expenses associated with fees on and maintenance of the properties. The leases have durations ranging from three months to 17 years. With the exception of the properties sold in 2007, the properties are generally leased to external tenants. Provisions attached to this are discussed in Note 28 "Provisions" in the consolidated accounts.

The total rental for which the parent company has guaranteed, attached to the sale and leaseback agreements is MNOK 1 787.

Prepayment and completion guarantees

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

	2007	*2006*
Prepayments and performance guarantees in respect of customers	960	885

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

9 Sale of property

Operating revenues include a gain on the disposal of property shares of MNOK 190.

AUDITOR'S REPORT 2007

ERNST & YOUNG

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Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of
Kongsberg Gruppen ASA

Auditor's report for 2007

We have audited the annual financial statements of Kongsberg Gruppen ASA as of 31 December 2007, showing a profit of NOK 173 million for the Parent Company and a profit of NOK 986 million for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The financial statements of the Group comprise the balance sheet, the income statement, the statement of cash flows, the statement of recognised income and expense and the accompanying notes. The regulations of the Norwegian Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the Parent Company. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the Group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the financial statements of the Parent Company are prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the Company as of 31 December 2007, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the financial statements of the Group are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and bookkeeping practice generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with law and regulations.

Oslo, 11 March 2008
ERNST & YOUNG AS
Knut Aker
State Authorised Public Accountant (Norway)
(sign)
Note: The translation to English has been prepared for information purposes only.

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Oslo Atrium
Christian Frederiks plass 6
0154 Oslo

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


F310

BUSINESS AREA ACTIVITIES

Mastering the challenges
Our high-technology products are subject to the highest reliability standards. Compromise is not an option.

KONGSBERG has made extensive deliveries to the new Norwegian Nansen Class frigates.

KONGSBERG MARITIME

Torfinn Kildal
President,
Kongsberg Maritime

Global contracting activities flourished in 2007, not least for merchant marine vessels and purpose-built vessels and rigs for the offshore oil and gas industry. This resulted in bustling activity at Kongsberg Maritime, which posted operating revenues of MNOK 4 850 and booked new orders valued at MNOK 7 218 (MNOK 4 408). The strong influx of new orders will translate into an even higher activity level in 2008.

Combined with the acquisition of Sense Intellifield, this burgeoning business situation caused Kongsberg Maritime to hire 653 new employees in 2007. The recruitment of new co-workers has augmented the aggregate expertise in Kongsberg Maritime, both in Norway and abroad. The labour markets are characterised by keen competition. We have maintained and further developed our existing competence, and secured access to more comprehensive new expertise. Our point of departure is a good platform for continued positive trends.

The company fortified its position in the oil and gas market in 2007. Our emphasis on supplying products and systems to optimise drilling and production processes has brought positive results. The acquisition of Sense Intellifield has given us a clearer identity profile in the area of integrated operations for the oil and gas industry. We will further develop this image in 2008.

In the field of floating production, we have, for example, signed contracts for process automation systems for production vessels for the Skarv and Gjøa oil and gas fields on the Norwegian Continental Shelf. Our international process simulation and optimisation activities expanded and we won market shares in 2007.

Kongsberg Maritime has built up a presence in important markets in East Asia, where we have expanded operations significantly, including project implementation, customer support and production. One important aspect of our strategy is to develop the Group's activities in close co-operation with our customers. This philosophy has contributed to our strong positions in Asia. Meanwhile, we have also set up operations in India. This site will serve the growing local offshore market and be a resource centre for software programming for some of our other businesses.

We have upheld our strong market positions in manoeuvring and automation systems for purpose-built vessels and rigs. Improvement programmes are proceeding as planned, and have led to efficiency improvements. Despite a strong increase on delivery work, we have maintained our strong emphasis on research and development.

Subsea activities have long traditions in hydroacoustics and strong basic technologies which are applied in different market segments. The demand for acoustic positioning systems and emergency communications systems for 'Blow out Preventers' for drilling operations increased substantially in 2007. This is also true of the demand for advanced subsea systems, e.g. autonomous underwater vehicles and multi-beam echosounders.

HIGHLIGHTS

Burgeoning activity in 2007
Kongsberg Maritime had a strong influx of new orders in 2007. Activities were booming in the market for merchant vessels and the offshore industry. New orders have been strong, especially for offshore supply vessels. Kongsberg Maritime has also strengthened its position in floating production. The backlog of orders was MNOK 5 333 at year end. All divisions showed stronger performance in 2007.

Advanced subsea systems to India
In April, Kongsberg Maritime concluded a contract with the shipyard Alcock Ashdown Ltd. in Gujarat, India, to supply advanced subsea systems worth approx. MNOK 350. The equipment will be installed on six new surveying vessels that India's National Hydrographic Office has ordered from the shipyard. The core of the order is made up by autonomous underwater vehicles (Hugin 1000). The order also includes subsea positioning equipment, multibeam echosounders and underwater cameras.

Acquisition of Sense Intellifield concluded
Kongsberg Maritime has strengthened its focus on the oil and gas market, among other things, through the acquisition of Sense Intellifield AS. Now called Kongsberg Intellifield, the company was acquired for approx. MNOK 266 on a debt-free basis. It delivers systems and solutions for real-time remote operation of drilling operations and production optimisation in the petroleum industry, an important target area in future.

653 new employees in 2007
The high level of activity at Kongsberg Maritime, along with the acquisition of Sense Intellifield, called for the business area to hire a total of 653 new employees in 2007. 192 of that number were hired abroad. This robust recruitment programme has fortified the aggregate competence in Norway and abroad. Besides new, broader expertise, Kongsberg Maritime has maintained and further developed existing competency. There is a good point of departure for a further positive trend.

KONGSBERG MARITIME IN BRIEF

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

Main figures

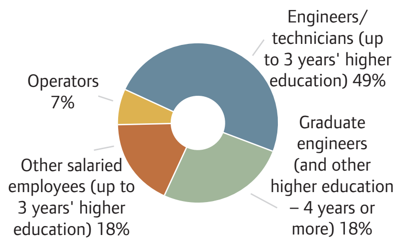
Amounts in MNOK	*2007*[1) 2)]	*2006*[2)]	*2005*[3)]	*2004*[3)]	*2003*[4)]	*2002*[4)]
Operating revenues	4 850	3 553	3 034	3 013	3 470	3 742
Earnings before interest, tax and amortisation (EBITA)	506	329	262	242	297	298
Operating margin prior to amortisation (%)	10.4	9.3	8.6	8.0	8.6	8.0
Backlog of orders	5 333	3 054	2 158	1 673	1 463	1 322
New orders	7 218	4 408	3 566	3 219	3 883	3 556

See the next page for notes 1, 2, 3 and 4.

Kongsberg Maritime AS

- Offshore & Marine
- Oil & Gas
- Subsea

Employees by level of education



Kongsberg Maritime is a market leader in dynamic positioning systems, automation and surveillance systems, process automation, satellite navigation and hydroacoustics. Important markets include countries with significant offshore and shipyard industries.

2007 was a very good year, with improved operating revenues and results, and with an EBITA margin in excess of 10 per cent for the first time. All the divisions have contributed to the healthy growth.

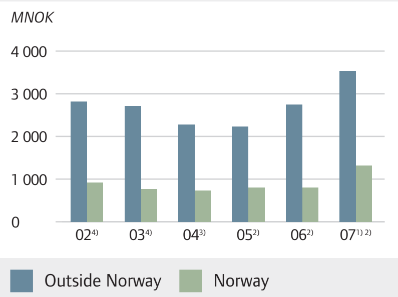
In 2007, Kongsberg Maritime had operating revenues of MNOK 4 850 compared with MNOK 3 553 in 2006, an increase of 37 per cent. The EBITA was MNOK 506 in 2007, compared with MNOK 329 the year before. The backlog of orders continued to rise throughout the year, and was MNOK 5 333 at year end. Revenues outside Norway aggregated MNOK 3 531 (73 per cent). The corresponding figure for 2006 was MNOK 2 736. The business area accounted for 58 per cent of the Group's total operating revenues.

Kongsberg Maritime hired 559 new co-workers in 2007 and had 2 510 employees in 25 countries at year end.

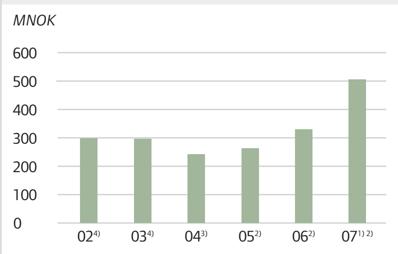
Kongsberg Maritime's operations

Total number of employees	2 510
Number of employees, Norway	1 799
Number of employees, outside Norway	711
New employees, 2007	653
Turnover in %	4.1

Operating revenues



Earnings before interest, tax and amortisation (EBITA)



1) The figures are presented before non-recurring items related to the settlement of the pension plan and gains on the disposal of property.
2) The figures are presented in accordance with IFRS (International Financial Reporting Standard), and jointly controlled undertakings are consolidated using the proportionate consolidation method.
3) The figures are adjusted for effects at the transition to IFRS, and the sale of yachting activities and jointly controlled operations are consolidated using the proportionate method of consolidation.
4) The figures are not adjusted for effects in connection with the transition to IFRS, but are presented according to NGAAP. Jointly controlled operations are reported as associates.

INTERVIEW

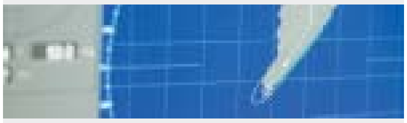
Roger D. Wilson, managing director, Marathon Norge

NEW ROLES WITH KONGSBERG PRODUCTS

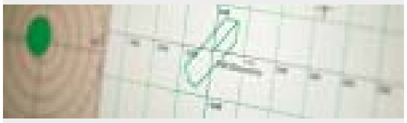
What were the greatest challenges facing the Alvheim project?
The challenge was in recognising the potential of a group of small prospects on the Norwegian Continental Shelf which, if found to have recoverable oil or gas reserves, would collectively support commercial development. The different licenses were brought under the ownership of a single partnership comprised of Marathon Petroleum Company Norway (65 per cent), ConocoPhillipsNorge (20 per cent) and Lundin Norway AS (15 per cent). Exploration wells were drilled and sufficient recoverable reserves were identified to allow the project to be developed. It is a real success story.
How has Kongsberg helped?
Kongsberg has provided the control system for the multipurpose vessel *Odin*, originally designed and purchased for conversion into a drilling ship (FPSO vessel). The challenge was to take the already complex safety and control system and ensure compliance with the requirements for the additional equipment needed to convert the *Odin* to the FPSO Alvheim. The onboard processing facilities are now capable of producing 120 000 barrels per day (bpd) from multiple wells and of exporting gas through a new pipeline tied in to an existing pipeline to the UK. Kongsberg installed, upgraded and commissioned the overall system on the Alvheim while it was at the Aibel shipyard in Haugesund. We have worked well with Kongsberg, which has supported us at all times and been responsive to our needs.
What can Kongsberg do to further improve the Alvheim project?
The challenge is to ensure that the Kongsberg systems operate with the highest levels of reliability, protecting the integrity of the vessel and providing a safe working environment. Kongsberg systems are to ensure optimal operation of the production facilities. We look forward to continuing to cooperate with Kongsberg as their systems deliver the reliability which is so critical for safe and efficient operation of the Alvheim FPSO.

KONGSBERG'S POSITION IN THE OFFSHORE MARKET

Our most important product areas in the offshore market

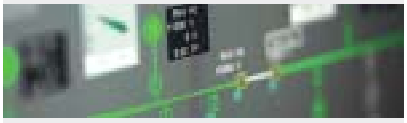


Dynamic positioning systems
- Steering systems that make it possible to keep a vessel/platform in the same position under demanding weather conditions

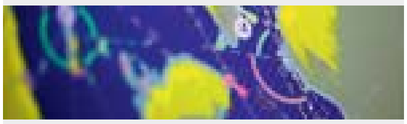


Subsea (underwater activities)
- High-technology hydro acoustic products for seabed surveying, and underwater communication and positioning

Automation and surveillance systems
- Systems for surveillance and the control of ships' engines, cargo, manoeuvring and propulsion
- Simulators and training systems for most system products



Process automation
- Systems for controlling and coordinating operations on an oil platform or a production vessel
- Security systems for warning or shut downs of production due to system malfunctions, when people are in danger, or for fires or gas leaks
- Dynamic process simulators to design and verify process facilities and control systems.
- Integrated operations



Navigation systems
- Equipment for ships' bridges

The offshore market encompasses exploration, development, recovery and transportation in relation to oil and gas. In addition, there are support functions such as supply services and operative support, as well as maintenance and service activities on platforms and vessels. KONGSBERG is a supplier of products and services to all these segments.

The demand for energy is growing steadily, as is the consumption of oil and gas. It currently constitutes the bulk of overall energy consumption. In the light of continued economic growth, especially in Asia, consumption will continue to grow in the years ahead.

High oil prices are an incentive for rising investments in all segments, from exploration to production and transportation. Activity levels are particularly high in the search for new recoverable reserves. Efforts are devoted to increasing recovery rates on existing fields and to finding new deposits.

In 2007, KONGSBERG had an especially good influx of orders for purpose-built offshore vessel and floating production, storage and offloading (FPSO) vessels. An FPSO is a complex vessel, and KONGSBERG is well qualified for landing large FPSO contracts. KONGSBERG has strengthened its market position by winning market shares and gaining growing acceptance for its integrated product philosophy.

All the new offshore vessels and platforms contracted in recent years have claimed a substantial share of existing shipyard capacity. This has resulted in higher prices and long delivery times, a situation that appears to be slowing the pace of contracting new vessels in 2008. It is nevertheless expected that the contracting rate will continue to be relatively high, so KONGSBERG expects a good influx of new orders from this market.

Dynamic positioning is one of KONGSBERG's most important and most widely recognised products. Along with automation and surveillance systems, this has contributed to a continued strong position in the offshore market, and new areas of application gave orders a good boost in 2007.

Integrated operations are an important target area for the Group. This is a relatively new market and KONGSBERG is well positioned to become a substantial player.

MARKET DRIVERS AND TRENDS

Investment activity in the value chain
Given the continued rising demand for oil and gas, activities are expected to increase in:
- Exploration, especially in the deepwater segment
- Development in general and late phase production

Growth in different geographical areas
Investments vary from one geographical area to the next. This is often determined by oil reserves and the level of exploration and production activities.
- Brazil and West Africa are international growth areas;
- In time, the Barents Sea will be a growth area;
- The North Sea basin is stable, and is still an important point of departure for the supply industry's opportunities for international success, e.g. in the Barents Sea;
- Several fields in the North Sea are expected to reach the end of the production phase in the next five years;
- That will stimulate increased investments in technology to increase the efficiency of late phase production;
- Fields in the Middle East are stable, while activities in the Gulf of Mexico are growing slightly.

New technology – new market niches
More demanding oil and gas fields create new market niches. This creates a need for new technological solutions.
- Improved late phase production and focus on producing smaller fields;
- Better utilisation of existing infrastructure;
- Improved production technology and methods – integrated operations.

FUTURE OIL AND GAS NEEDS

Erik Simonsen,
Managing director, Offshore Research AS

According to the International Energy Agency, world demand for oil will reach 116 million barrels in 2030, up 37 per cent from 2006. Top executives in Total and ConocoPhilips have commented that this seems impossible, while ExxonMobil feels that it is possible, provided the companies get access to the major reserves in the Middle East and Russia. British Petroleum maintains the solution is to increase the recovery rate in producing fields substantially from today's global mean of roughly 30 per cent. A higher recovery rate is the only factor the oil companies can influence through the development of ever better technologies.

Today's high oil price of approx. USD 90/barrel is ascribable to the fact that world has almost no available production capacity. Higher investments have entailed a lack of almost all factor inputs in the supplier chain, resulting in significant cost increases. International oil companies are now spending approx. USD 60/barrel when planning the development of new fields, compared with approx. USD 20/barrel three years ago. They see declining oil production at the same time as reserves are being depleted despite significant financial profits.

Trends in offshore oil and gas
One-third of the world's oil production takes place offshore. This is expected to be stable up to 2020, but a growing percentage of offshore production will be from deepwater fields. National oil companies now have the financial wherewithal to develop their own resources onshore and on the continental shelves, leaving the private sector oil companies to concentrate on deepwater fields. Eleven major listed oil companies operate more than 80 per cent of all oil production in deep water and in the North Sea. These companies are the most important customers for suppliers that focus on high-tech products.

At year-end 2005, an estimated 500 bn barrels had been discovered offshore, of which 200 bn barrels have since been produced. Geologists assume that another 400 bn barrels will be found, of which 300 bn at depths of more than 400 metres or in Arctic areas. Since fewer than 10 bn barrels have been produced in deep water, Offshore Research is of the opinion that we are at an early stage of development.

In future, the challenge will be to develop large fields in deep water, as well as smaller fields based on clean subsea solutions, all at great water depths. The distance from subsea fields to processing facilities on existing platforms or onshore facilities is increasingly steadily. Norway is among the countries that obtain the highest recovery rate for oil, and the goal in recent years has been to boost recovery from 40 to 55 per cent. This will call for new technologies, including remote control and the automation of fields in operation to reduce operating expenses and extend economic life.

Market prospects for the supply industry
The supply industry has experienced rising prices on its products and services to the oil companies. They are now running at almost full utilisation of all resources, but the supply industry is in the process of developing considerable new capacity.

Offshore Research believes that more drilling rigs should be ordered to accommodate planned growth in subsea production wells. Floating rig capacity will be a bottleneck for drilling activities up to at least 2012.

The market for subsea vessels has shown continuous growth since 1990. This is because pipelines and increasingly more production equipment are being installed on the seabed. Demand and fleet capacity appear to be growing by 15 per cent per year, so today's good market situation appears to be continuing.

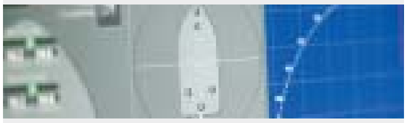
The demand for large supply vessels is expected to increase by five to seven per cent annually in the years ahead, while the existing backlog of orders will entail capacity growth of 15 per cent per year. Hence Offshore Research expects surplus capacity and declining rates in the years ahead.

There is considerable potential value inherent in obtaining a higher success rate when drilling exploration wells and enhancing recovery from producing fields. Seismic is an important contributor and the market prospects appear to be good. Visibility is nevertheless poor as this sector is at the top of the value chain.

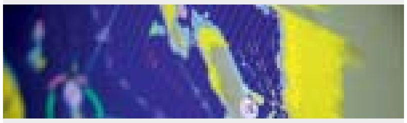
Generally, we expect a growing market for solutions that facilitate automation and remote control of offshore fields, and those which improve safety for personnel and the environment.

KONGSBERG'S POSITION IN THE MERCHANT MARINE MARKET

Our most important product areas for the merchant fleet market

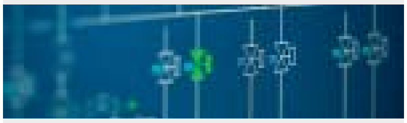


Dynamic positioning systems
- Steering systems that make it possible to keep a vessel/installation in the same position under demanding weather conditions

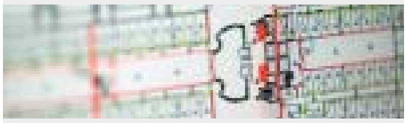


Navigation systems
- Equipment for ships' bridges

Automation and surveillance systems
- Systems for surveillance and the control of ships' engines, cargo, manoeuvring and propulsion



Maritime simulators and training systems
- Systems for merchant marine and to other applications



Process automation
- Systems for the control and coordination of onboard processes for LNG transport

The market for commercial vessels encompasses all types of ships, from simple dry cargo carriers to advanced tankers for the transportation of liquefied natural gas (LNG/LPG). Passenger ships in cruise and ferry traffic are also an important part of the merchant marine. The contracting of newbuildings is closely related to the expected trend in transport needs. Underlying growth in the world economy generates a greater need for sea transport of people, energy, raw materials and finished products. Another, increasingly more important factor that affects orders for new vessels involves the stricter environmental standards facing international shipping. The demand for new commercial vessels has been high in recent years. At the end of 2007, the leading shipbuilders' production capacity was booked solid for the next four years.

In 2007, KONGSBERG saw a substantial increase in new orders for commercial vessels.

KONGSBERG also supplies systems for navigation, dynamic positioning, monitoring and the control of cargo and engines for different types of commercial vessels.

Deliveries increase in scope and value in proportion to how sophisticated a vessel is. The Group is a global market leader in systems integration, automation and surveillance systems for merchant vessels.

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

Market competition is keen. KONGSBERG's systems represent 'the central nervous system' in the operation of modern commercial vessels. By including as many functions as possible, the Group is gaining a competitive edge. A world-wide support network open 24/7 ensures that customers get help whenever and wherever they need it.

MARKET DRIVERS AND TRENDS

Shipbuilding
- Shipyard capacity is increasing, mainly in China and South Korea. Both countries are building new shipyards at the same time as productivity is improving among established shipbuilders. In addition, new shipyards are being built in Vietnam, the Philippines and India.
- The leading shipyards in Asia currently have well-filled order books through 2011, and mid-sized shipyards in South Korea and China have backlogs equivalent to nearly three year's capacity.

Types of ships and geographical breakdown
It is of the utmost importance to be in the vanguard of new trends. New trends tend to outpace general market growth. This applies to most types of vessels and in most geographical areas.

- The emphasis on more environment-friendly energy calls for a shift of power production from coal and oil to natural gas. This will require more LNG tankers. In the short term, new contracts depend on decisions to develop new gas fields and on the completion of terminals. LNG production vessels are a solution which can sometimes reduce the need for terminals.
- The anticipated asymmetry between the production of and the demand for oil is expected to have a positive effect on the tanker market in a longer term perspective.

DIVISION SUBSEA

The Subsea Division operates in the product areas underwater positioning and communication, hydrography and shallow seismic, sonars for the offshore and the defence markets, underwater cameras, fisheries and fisheries research (SIMRAD), as well as autonomous underwater vehicles.

The division achieved good results and had a strong influx of new orders in all product areas in 2007. The division signed an important contract worth approx. MNOK 350 for supplying advanced subsea systems for India's National Hydrographic Office's six new surveying vessels. The division also signed a contract with the Finnish Armed Forces valued at approx. MNOK 180. Both these contracts include autonomous underwater vessels, hydrographic multibeam echosounders, advanced sonars and acoustic positioning and navigation equipment.

The offshore oil and gas sector was a strong market segment in 2007, and this led to good results for underwater cameras and sonar applications associated with remotely operated vehicles (ROVs). The demand for acoustic positioning systems (HiPAP) and emergency communications systems for Blowout Preventers in the field of drilling increased substantially in 2007, leading to a very good influx of new orders. HiPAP equipment furnishes a position reference for dynamic positioning systems, as an important instrument in the survey industry and for positioning in connection with underwater construction work.

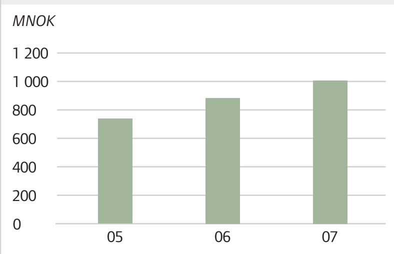
The division has long traditions in hydroacoustics and a sound basic technology which is used in different product areas and adapted to different market segments. It is imperative to engage in continuous research, technology and product development to maintain the division's market position. It is also important to have good knowledge of applications to apply existing technology in new ways. This is done by concentrating on human resources development and proprietary development, in addition to engaging in binding cooperation with researcher training and research institutions such as the Norwegian Defence Research Establishment and the Institute of Marine Research.

A new, highly sophisticated sonar for detailed seabed inspection, the HiSAS 1030, has been developed in cooperation with the Norwegian Defence Research Establishment. A special signal processing concept facilitates a precision and resolution several times better than conventional sonars. The sonar, which is particularly well suited for the detection and classification of objects under water, is being delivered to the Norwegian Navy and is also part of the contract with the Finnish Navy.

Within hydrography, the new versions of multibeam echosounders have been well received by the market. Kongsberg Maritime enjoys a leading position in the delivery of equipment for seabed surveying to research vessels and hydrographic institutions.

Fishery activities (SIMRAD) also developed favourably in 2007, thanks not least to the world's first 3D multibeam sonar which has been specially designed for precision measurement of fish stocks for French Research Institute for Exploitation of the Sea (IFREMER) and the Norwegian Institute of Marine Research. Several contracts have been signed for such sonars.

Operating revenues Subsea Division



DIVISION OFFSHORE & MARINE

Offshore & Marine is the largest division at Kongsberg Maritime, delivering systems for dynamic positioning and navigation, marine automation, cargo management and level sensors, maritime training simulators and position reference systems.

2007 was a very good year for the division. Growth was higher than expected in all areas. In 2007, the division's backlog of orders was very good following on the heels of record-high contracting for offshore and merchant vessels, where the division's products maintained strong market shares.

Dynamic positioning (DP) systems for offshore vessels have been a successful product for many years, and the segment continued to grow in 2007. DP systems are commonly used on supply ships and floating oil installations, but they have also been making headway on cruise ships, supply vessels and lighter construction vessels. Based on activities in the North Sea, the international market has developed, especially in South Korea, China, India, the US and Brazil. KONGSBERG has a leading global position in this market, and the systems are under continuous development. KONGSBERG has a strong position on the rig market in dynamic positioning, navigation (bridge), security systems and automation.

Marine automation (vessel automation) for merchant vessels and offshore vessels encompasses systems for engine, cargo and propulsion control. There is a huge demand for cargo carriage. In 2007, many orders were placed for our systems for merchant vessels, especially in South Korea and China. KONGSBERG's strong local presence and good relations with shipyards in China and South Korea are important factors underlying the strong influx of new orders and the significant backlog. In 2007, the division increased its presence and expanded its delivery system in Asia, with a larger percentage of the division's employees at the sister companies in South Korea, China and Singapore.

The division delivers automation and control systems for gas carriers (LNG – Liquefied Natural Gas) and is now involved in more than 75 LNG vessels on order, under construction or in operation. It is important to take part in developing the new generation of LNG vessels to maintain the company's position on the market. In 2007, systems delivered to the latest generation of LNG carriers could, for example, offer an automated process for cooling methane. These vessels have conventional propulsion systems in which the degassing of the increasingly more valuable cargo can be reliquefied rather than used for heating the boilers and propulsion.

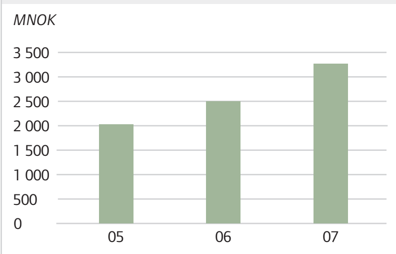
Navigation encompasses bridge equipment for merchant and offshore vessels, and helps complete the division's range of products. KONGSBERG can accommodate multiple customer needs by integrating the various subsystems and converting everything to the same technology platform.

The subsidiary Kongsberg Seatex, which delivers advanced position reference system to maritime vessels and offshore installations, had a good year in 2007. New orders were especially good for motion sensors and reference systems for dynamic positioning.

After sales and proactive customer support also contributed to the strong orders in 2007.

Kongsberg Maritime experienced a breakthrough on the cruise market in 2007, landing contracts for dynamic positioning, automation, navigation and safety equipment for cruise vessels being built for Royal Caribbean International and Norwegian Cruise Lines, among others.

Operating revenues Offshore & Marine Division



DYNAMIC POSITIONING

Dynamic positioning is a method for maintaining a vessel in the same position above the seabed using the vessel's own propellers and without using an anchor. The positioning system collects data on wind, waves, currents, direction and the vessel's current position. Through advanced engineering cybernetics, the system calculates how much motor power should be applied to the various propellers and thrusters to keep the vessel in a constant position and ensure smooth operations.

Kongsberg's system for dynamic positioning (DP) is one of the Group's most important and most renowned products; it had its breakthrough in the mid-1970s. Since then, Kongsberg has sold about 2000 DP systems. In 2007 alone, the Group delivered approx. 250 systems to shipyards and shipowners all over the world. Shipyards are Kongsberg's main customers, and shipowners are the second largest customer group.

DP systems are now used on a wide variety of vessels, from drilling and production vessels to cruise ships. Kongsberg delivers all types of DP systems. The systems are designed to reduce fuel consumption as well as wear and tear on the propulsion system, and to be safe. Supply ships for the oil and gas industry are among the vessels that use dynamic positioning. A collision between a supply vessel and an oil platform could be catastrophic. A DP system ensures that the vessel maintains a safe, correct distance from the platform.

From its origins in the North Sea, the international market has developed, especially in South Korea, China, India, the US and Brazil. 2007 was a record year for dynamic positioning contracts and the outlook for 2008 is also good. The order books are filled, and the backlog is substantial. Kongsberg enjoys a leading, global position, and it expects to maintain this strong position in future.

DIVISION OIL & GAS

The Oil & Gas Division delivers complete computer-based systems for management, control, optimisation and safety in connection with operations on oil platforms, production vessels and drilling vessels. The computer-based systems safeguard against the consequences of faulty equipment, involuntary disruption of production, environmental hazards or personal injuries.

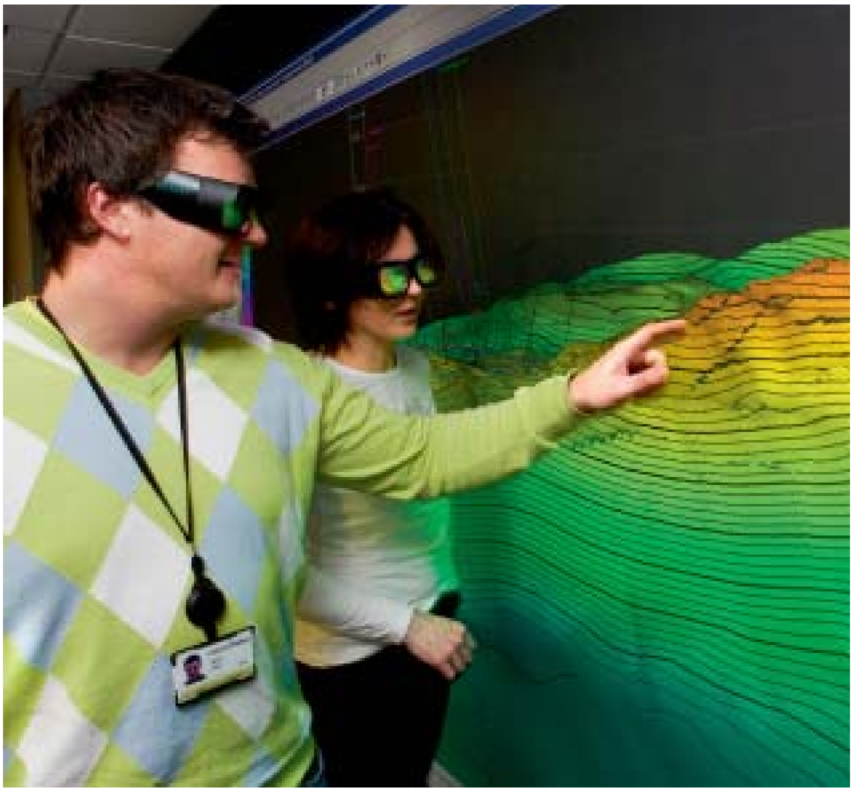
Activity levels were high in 2007. The division booked numerous new orders, hired many new co-workers and continued to build an international reputation.

Sales orders were especially high for floating production equipment and drilling rigs. For example, a contract was signed for integrated control systems for safety and process automation onboard a semi-submersible production platform which will be used on the Gjøa oil and gas field in the North Sea. The division also signed a contract with Aker Floating Production for integrated control systems for safety and automation onboard a floating production vessel.

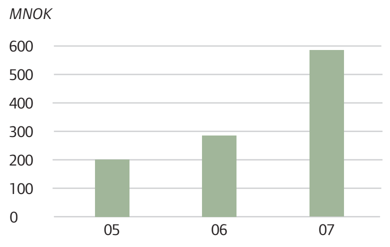
The division occupies a strong position in dynamic simulation in Norway. KONGSBERG has developed invaluable simulation tools used in a variety of engineering tasks, operator training systems and maintenance support systems associated with large-scale development projects, such as Ormen Lange and Snøhvit. Besides maintaining a strong national position, our goal is to strengthen our simulator activities on the international arena. The division has signed an agreement with Reliance Industries Ltd for an operator training simulator and a production monitoring system for the KG-D6 gas field off the coast of India. The division has also signed a contract with Chevron for a production monitoring system for the Frade field in Brazil.

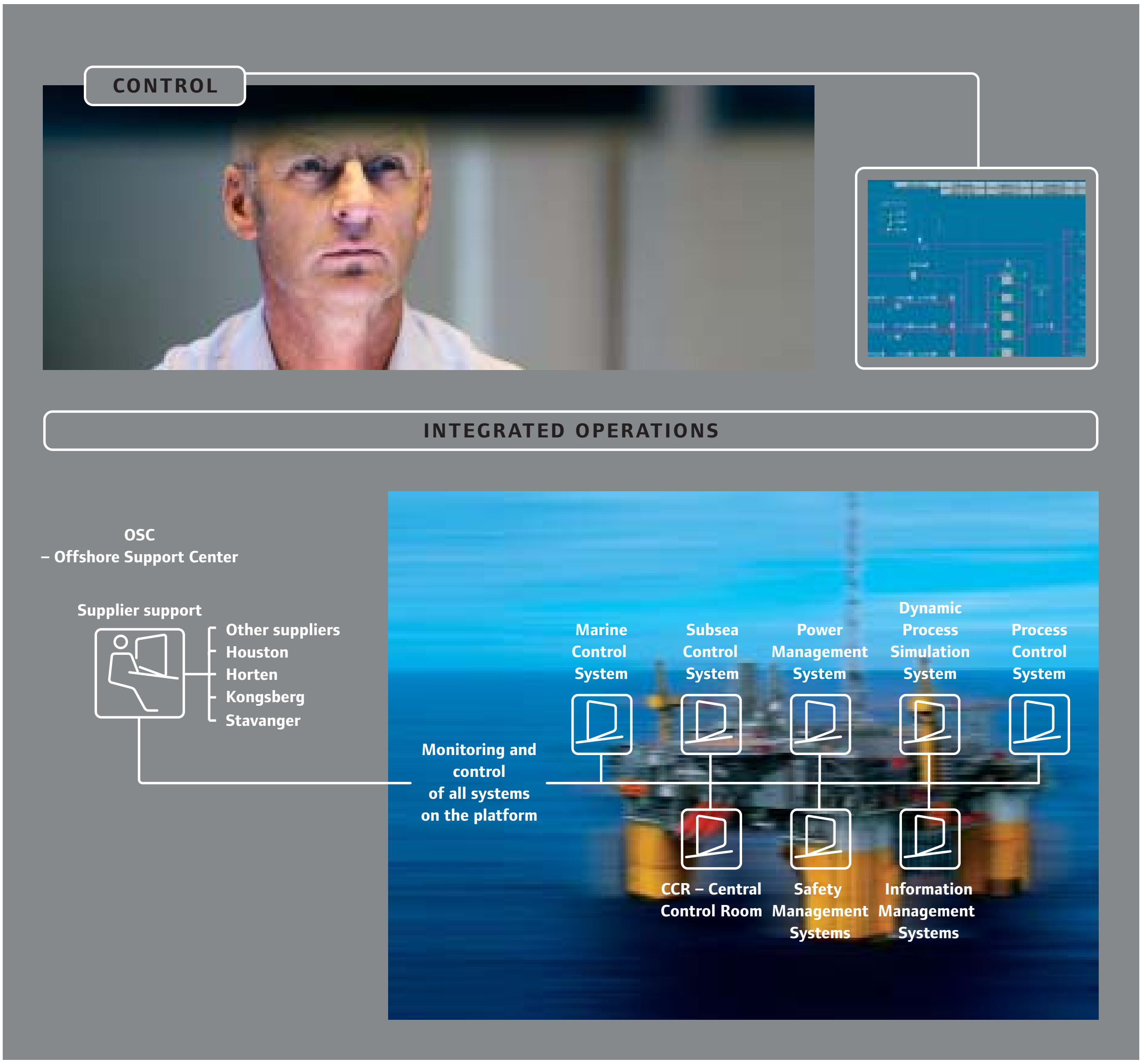
The division gained international momentum in 2007 and has increased its capacity in India, Great Britain and in the USA to better serve these markets.

Integrated operations have been a target area in 2007. The division will continue to focus on being a significant supplier of equipment and services for integrated operations at the national and international levels alike. The acquisition of the technology enterprise Sense Intellifield, now Kongsberg Intellifield, has fortified KONGSBERG's position in this field. The division is a leader in the design and delivery of intelligent systems for cooperation, consultancy on work processes, real-time computing for drilling operations and three-dimensional decision-making support for integrated operations. The division's focus on using IT as a strategic tool to streamline work and decision-making processes in the oil and gas industry will continue.



Operating revenues Oil & Gas Division





INTEGRATED OPERATIONS (IO)

Integrated Operations involve improving the links between skilled personnel, work processes and technology through the active use of audio, video, data and information systems for communication, remote monitoring and, eventually, remote control between field and office. The main objective of IO is to create an environment for better, faster decisions, which will boost drilling and well efficiency as well as oil and gas production. Studies on the Norwegian Continental Shelf indicate that the active use of IO may result in higher production worth tens of billion of NOK.

Integrated Operations entail far-reaching integration of the organisations that work offshore and onshore. Oil and gas fields can be operated and controlled to a greater extent from onshore, and it is possible to envisage entirely new cooperative relationships within the oil companies and between the vendors and the oil companies. This will have far-reaching consequences for how tomorrow's oil and gas fields will be operated.

For the Oil and Gas Division, Integrated Operations has been a target area in 2007, and it will be an important growth area for the division in future. The division is focusing on further development as a leading international supplier of IO technology, products and services for offshore and onshore operations alike. In January 2007, Kongsberg Maritime acquired the technology enterprise Sense Intellifield, now Kongsberg Intellifield. Kongsberg Intellifield already had most of its customers in the international arena, with activities in the US, Mexico, Brazil, Brunei, Malaysia, Saudi Arabia and Qatar, among others. Kongsberg Intellifield has developed and delivers more leading commercial IO products, e.g. SiteCom, Discovery Portal, and ICE, strengthening KONGSBERG's position within this growth area. The Oil & Gas Division is also a leader in consultancy and the design of intelligent IO systems, and the development of advanced three-dimensional applications for decision-support through the subsidiary Kongsberg SIM. IO is expected to be a strategically important growth area in oil and gas globally in future, with focus on operator companies and large-scale service companies in upstream operations such as drilling and production. The company places substantial emphasis on IO as a tool in all the most important oil and gas regions.

KONGSBERG DEFENCE & AEROSPACE

The prospects are good for Kongsberg Defence & Aerospace (KDA) in 2008. Two of the main reasons for this are the contract for serial production of the new Naval Strike Missile (NSM), valued at approx. NOK 2.5 billion, and the 5-year, NOK 8 billion framework agreement with the US Army for the PROTECTOR weapon control system destined for the CROWS-II programme.

Tom Gerhardsen
President,
Kongsberg Defence & Aerospace

The development of the new anti-ship missile is the largest project in Kongsberg Defence & Aerospace's history. The final successful test firing of the missile demonstrated that it is the most advanced missile of its class in the world today. That makes it attractive on the market. A joint marketing agreement has been signed for a new custom-made product for fighter craft, the Joint Strike Missile (JSM). It is being developed for possible deployment on the US Joint Strike Fighter (JSF), the Eurofighter and the JAS Gripen.

The framework agreement with the US Army makes Kongsberg Defence & Aerospace by far the main and clearly the largest supplier of weapon control systems to the US and the rest of the world. The framework agreement will open new opportunities in the US and other countries. Consequently, Kongsberg Defence & Aerospace is expanding its production capacity and upsizing in the US.

The new composite plant in Kongsberg is scheduled for completion in 2008. Although it will take five or six years before the plant is in full production, hopes run high for composite production. Besides producing the hull of the NSM missile, Kongsberg Defence & Aerospace has signed long-term framework agreements with Lockheed Martin and Northrop Grumman for the production of composite products for the new JSF fighter craft. The agreements are conditional on Norway selecting the JSF. This fighter craft is one of three alternatives being considered to succeed the F-16 aircraft. The company is also co-operating with Saab to define potential composite assignments if the JAS Gripen is chosen to be Norway's new fighter craft. It is not clear whether the Eurofighter is still in the running, but such a choice would also entail opportunities for the composite plant. The commissioning of the composite plant means Kongsberg Defence & Aerospace will have to hire a number of new skilled workers in 2008.

The plant will also be equipped with advanced production facilities for titanium parts, and it will complete and strengthen our Aerostructures business.

We also expect good performance from the Naval Systems & Surveillance Division in 2008. Completion of Norway's frigate and MTB programmes is on schedule for Kongsberg Defence & Aerospace's part. Surface traffic surveillance is increasingly being supplemented by underwater surveillance off coasts and in harbours. Kongsberg Defence & Aerospace has contracts for civilian and military harbours alike. Although there are many competitors on the market, we expect to see satisfactory progress.

The same applies for the Integrated Defence Systems Division. The market prospects are good and we continue to cooperate with Raytheon on medium-range air defence systems. In communications, we expect the introduction of an updated radio line product to result in new orders.

Kongsberg Defence & Aerospace is still Norway's largest aerospace enterprise. The public sector aerospace market is growing slowly, but the European Space Agency (ESA) market is not growing beyond the level of the dues Norway pays to ESA for participation in ESA's jointly financed development programmes for new products for the private sector aerospace market. Aerospace activities are important to Kongsberg Defence & Aerospace because they complement the military technology areas and facilitate synergies across the divisions.

HIGHLIGHTS

Contract for serial production of the new Naval Strike Missile
A contract for serial production of the new naval strike missile (NSM) was signed with the Armed Forces' Logistics Organisation in June. The NSM will be the main weapon on the Nansen Class frigates and the Skjold Class missile torpedo boats, and production will extend up to 2014. The contract entailed new orders worth approx. NOK 2.5 billion, and it is an important reference with a view to export opportunities. Several countries have indicated interest in the NSM.

NOK 8 billion framework agreement with the US Army
Against keen international competition, in August, KONGSBERG was awarded a framework agreement for weapon control systems for the US Army's CROWS (Common Remotely Operated Weapon Stations) programme. CROWS is a joint procurement programme for weapon control systems for the US Army's personnel carrier programmes. The agreement has a framework of approx. NOK 8 billion and a duration of five years, and it reaffirms our position as the world's leading supplier of this type of weapon control systems.

Strong influx of new orders for weapon control systems
New orders for KONGSBERG's weapon control system designed for armoured personnel carriers added up to no less than NOK 2.9 billion in 2007. The system has been sold to 11 countries: USA, Canada, Australia, Finland, Norway, Ireland, Switzerland, Czech Republic, Portugal, the Netherlands and Luxembourg, making KONGSBERG the world leader in this market. Altogether, contracts worth NOK 5.2 billion have been signed since the first delivery in 2000.

Investing in new industrial buildings
KONGSBERG is investing approx. MNOK 900 in facilities in Kongsberg covering approx. 30 000 m^2 for composite and advanced engineering production. The plant is being built to prepare for offset agreements related to the purchase of new Norwegian fighter craft. The Norwegian Government has furnished a State guarantee that will be triggered in the event the Norwegian authorities choose not to purchase new fighter craft. Once the plant is in full operation in about seven years, it will accommodate 350 employees.

Contract with the Finnish Navy
In Q1, Kongsberg Maritime and Kongsberg Defence & Aerospace concluded a contract with the Finnish Navy worth roughly MNOK 200. The contract is for hydrographic equipment and systems integration. Among other things, the equipment is designed to detect and destroy sea mines, and it will be deployed on the Finnish Navy's new mine clearance vessels. This is an important reference contract for KONGSBERG in the field of sea mine detection equipment.

KONGSBERG DEFENCE & AEROSPACE IN BRIEF

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

Main figures

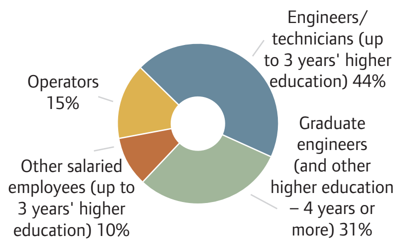
Amounts in MNOK	*2007*[1,2]	*2006*[2]	*2005*[3]	*2004*[3]	*2003*[4]	*2002*[4]
Operating revenues	3 338	2 997	2 650	2 791	3 084	3 084
Earnings before interest, tax and amortisation (EBITA)	273	182	135	(13)	93	178
Operating margin prior to amortisation (%)	8.2	6.1	5.1	(0.5)	3.0	5.8
Backlog of orders	7 232	3 253	3 124	3 648	4 352	3 729
New orders	7 085	3 071	1 980	2 000	3 706	1 961

See the next page for notes 1, 2, 3 and 4.

Kongsberg Defence & Aerospace AS

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

Employees by level of education



The business area (BA) has long traditions of developing and manufacturing sophisticated systems in close collaboration with the Norwegian Armed Forces.

Kongsberg's anti-ship missiles, command and weapon control systems and communications solutions have proven competitive in the export market, even though Kongsberg is a small player by international standards. Alliances with major foreign defence enterprises are a key part of the BA's international marketing strategy.

The two most important events in 2007 were the production contract for the new Naval Strike Missile (NSM) with the Armed Forces' Logistics Organisation and the framework agreement with the US Army for weapon control systems for the CROWS programme.

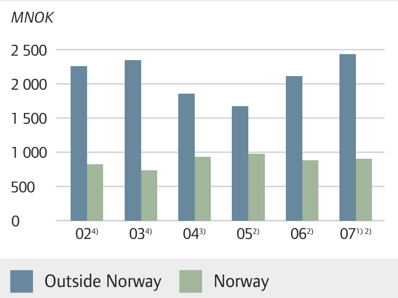
In 2007, the BA earned MNOK 3 338 in operating revenues, compared with

MNOK 2 997 in 2006, an increase of 11 per cent. The year's operating profit (EBITA) was MNOK 273, compared with MNOK 182 in 2006. The backlog climbed by 122 per cent, and totalled MNOK 7 232 at year-end 2007, compared with MNOK 3 253 in 2006. Roughly 60 per cent of the orders booked in 2007 were for the export market. Kongsberg Defence & Aerospace hired 218 new co-workers in 2007 and had 1 595 employees at year end.

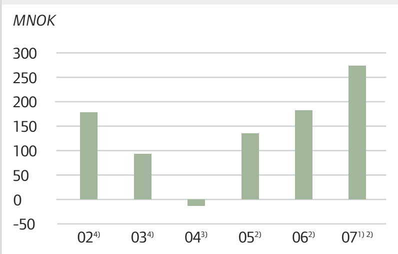
Kongsberg Defence & Aerospace's operations

Total number of employees	1 595
Number of employees, Norway	1 508
Number of employees, outside Norway	87
New employees, 2007	218
Turnover in %	3.2

Operating revenues



Earnings before interest, tax and amortisation (EBITA)



1) The figures are presented before non-recurring items related to the settlement of the pension plan and gains on the disposal of property.
2) The figures are presented in accordance with IFRS (International Financial Reporting Standard), and jointly controlled undertakings are consolidated using the proportionate consolidation method.
3) The figures are adjusted for effects at the transition to IFRS, and the sale of yachting activities and jointly controlled operations are consolidated using the proportionate method of consolidation.
4) The figures are not adjusted for effects in connection with the transition to IFRS, but are presented according to NGAAP. Jointly controlled operations are reported as associates.

INTERVIEW

Torbjørn Svensgård, president
Norwegian Defence and Security Industries Association (FSi)/NHO

THE ARMED FORCES AND INDUSTRY – STRATEGIC PARTNERS

For the 100 or so members of FSi, it is important to have good cooperation to ensure industry good insight into what the Armed Forces plans to procure. For the Armed Forces, it is important to utilise industry's expertise to procure the right materiel. Smooth cooperation is contingent upon a good dialogue. This will engender predictability, a prerequisite for investing in a market known for the fact that it takes many years from the time a project is implemented until a product is on the market. To maintain a viable defence industry, we need stable, long-term framework conditions which ensure strategic cooperation between the Armed Forces and industry.

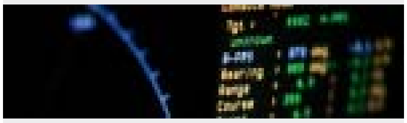
How important will the purchase of Norwegian fighter craft be to the Norwegian defence and security industry?

This project will be the largest procurement ever made on Mainland Norway, so it is profoundly important. The procurement represents an enormous investment. It also offers a unique opportunity for continued growth and development in the defence industry. The fighter craft project is also a formidable challenge for the industry. The Armed Forces will be spending most of its investment funds on fighter craft for many years. Other procurements will be reduced correspondingly. This means a smaller domestic market that must be compensated by the industry taking part in the fighter craft project and related projects, e.g. through offset agreements. Should this fail, the situation could be very grave for the defence industry. Secondly, fighter craft technology is in the vanguard of development. The companies participating in the project will get a technological boost, improving their competitiveness. Thirdly, the fighter craft market is a rather exclusive one.

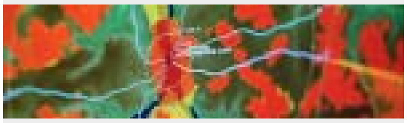
If you gain access to a 'fighter craft cluster' and become an integral part of the global supply chain, you have a unique strategic platform for growth and further development of strategic alliances. Such a unique strategic position and link to the major global players could give the companies invaluable support in terms of other markets and niches.

KONGSBERG'S POSITION IN THE DEFENCE MARKET

Our most important product areas in the defence market



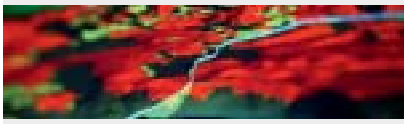
Command and weapon control systems
- Different types of command and control systems for land-based, air-based and sea-based defence



Surveillance systems
- Maritime and ground-based surveillance systems for civilian, military and other public installations

Dynamic systems
- Weapon control systems for personnel vehicles developed to protect operators in armoured personnel carriers

Communications solutions
- Different types of tactical radio and communications systems mainly developed for and delivered to land-based defence



Anti-ship missiles
- The division develops and manufactures the Penguin and the Naval Strike Missile (NSM)

The defence market requires products and systems for ground-based, air-based and sea-based defence. The market is excepted from international free trade agreements. Consequently, most countries choose national suppliers or require offset agreements if suppliers are chosen from countries other than their own. The US market is the world's largest defence market, accounting for nearly 50 per cent of overall global defence spending. The market is nevertheless extremely difficult for foreign suppliers to penetrate.

KONGSBERG has carved out a position in the US market through direct deliveries of proprietary systems and through cooperation with US alliance partners. The framework agreement for the US CROWS programme is valued at NOK 8 billion and was won against keen international competition. This proves once again that defence systems developed in Norway can succeed on the international market. A total of about 40 per cent of the BA's revenues are derived from the US market.

Today's defence procurements are increasingly aimed at multinational and peacekeeping operations. There is strong emphasis on the protection of personnel and on maintaining a high degree of safety. Kongsberg is well positioned for this through its PROTECTOR, among other products. Moreover, growing emphasis is being placed on the monitoring of natural resources, as well as on protecting one's own country against terrorist acts and environmental offences.

KONGSBERG is Norway's premier defence enterprise when it comes to advanced technological defence systems. We usually win a high proportion of the offset agreements generated by the Norwegian Armed Forces' procurements from foreign vendors. This makes the upcoming replacement of the Norwegian fighter craft a profoundly important project for KONGSBERG. The Group is working with the three short-listed suppliers to devise acceptable industrial packages.

KONGSBERG is a small supplier by international standards. This means we must largely concentrate on niche products to succeed. We have developed many systems and products that have proven competitive on international markets, both in collaboration with international alliance partners and on our own.

MARKET DRIVERS AND TRENDS

The Norwegian Armed Forces' level of investment
- The Norwegian Armed Forces are undergoing comprehensive reorganisation. Among other things, it is expected that the process will improve the efficiency of non-operative activities. The savings are expected to be used to give more priority to operations and investments in materiel.
  This means investment funding is largely tied-up in existing programmes for the next few years.

Norwegian Armed Forces' investment contracts to Norwegian suppliers
- Approx. 45 per cent of the Armed Forces' investment contracts go to Norwegian suppliers.
- Any Armed Forces' decision to buy fighter craft will call for a large part of the overall investment funding available. In such case, however, the offset share is expected to increase considerably.

Market protectionism
- Due to strict security requirements and the protection of different countries' domestic defence industries, it is often difficult for a defence supplier to win defence contracts outside its own borders.
  There is considerable protectionism in both the USA and Europe. Nonetheless, opportunities arise through long-term relationships and niche products.

DEFENCE EQUIPMENT: REQUIREMENTS AND OPPORTUNITIES FOR KONGSBERG

Rick Scott, Consultant, Jane's Information Group

While the free societies of the West see little prospect of becoming embroiled in any major state-on-state conflict, it is a salutary fact that on average approximately 30 wars or conflicts continue to rage annually in other less stable parts of the globe. Meanwhile, there is continuing concern over the spread of international terrorism, and of proliferation of weapons of mass destruction, and it is acknowledged that weak and failing states can affect the stability and security of economically important regions or trading routes nearby. Such strife may spark unrest or conflict with neighbouring states, the effect of which is to send ripples that can be felt all across an increasingly globalised world.

Since 9/11, many nations have taken steps to tighten homeland security and improve inter-agency cooperation. There has also been a greater focus on the protection of offshore resources within national economic exclusion zones. Environmental and ecological protection has also become a greater priority.

In summary, western governments are less worried about defence, but increasingly concerned about security. As a result, there is an increasing propensity today for crisis management, peace-keeping, peace support and humanitarian relief operations in theatres of instability well away from the traditional operating areas.

This means armed forces today are smaller than before, but are required to be far more mobile in order to be able to intervene at long range and short notice in areas of tension, unrest or conflict. They must exploit modern information and communications technology to achieve decisive information superiority. They must operate within often constrained rules of engagement that demand measured use of force and minimum collateral effects. And they must do their utmost to ensure the survivability of force elements in the face of diverse threats.

KONGSBERG's own product portfolio well reflects these profound changes and challenges. The company's capability in command, control and communications meets the growing need for real-time situational awareness and network-enabled capability. Examples include integrated air defence systems that provide command, control and fire control for missile and radar systems supplied by Raytheon, and tactical communications solutions for VHF data and voice, secure broadband infrastructure, and battle management systems for mobile forces.

The need to deliver pinpoint strikes against difficult targets has created a need for a new generation of 'smart' precision-guided weapons. KONGSBERG's strong capability in this area, proven first with the Penguin anti-ship missile and more recently with the successful development of the NSM (Naval Strike Missile), is now being directed towards a new product, an air-launched Joint Strike Missile (JSM) sized for internal carriage aboard the new F-35 Joint Strike Fighter. Building on NSM, the JSM would be a true long range, multi-role weapon capable of precision attack against a wide variety of land, littoral and naval targets. Joint marketing is being conducted with Lockheed Martin.

There is also an increased focus on force protection as greater efforts are taken to reduce risk to deployed forces. KONGSBERG's PROTECTOR remote weapon station, which provides self-protection for armoured fighting vehicles without exposing the operator to the risks of hostile fire, is today acknowledged as the global market leader in this area.

Already in service with the US Army, it has been selected to meet the service's CROWS II programme, and is also the remote weapon station of choice for 10 other nations. A lightweight version, known as PROTECTOR Lite, is also in production, and a 'marinised' SEA PROTECTOR has also been demonstrated.

A further trend is towards the introduction of unmanned autonomous systems to perform reconnaissance, surveillance, intelligence-gathering and interdiction operations in difficult and dangerous environments. The combined expertise of Kongsberg Maritime and Kongsberg Defence & Aerospace has been applied in this market in the shape of the HUGIN 1000 autonomous underwater vehicle, already selected by both the Norwegian and Finnish navies to serve their mine reconnaissance and rapid environmental assessment needs.

DIVISION MISSILE SYSTEMS & AEROSTRUCTURES

The division develops and manufactures anti-ship missiles, as well as advanced technology for international aerospace activities. The main product is the new Naval Strike Missile (NSM).

Missiles
2007 marked the end of the development phase of the new NSM anti-ship missile (Naval Strike Missile). A contract with the Armed Forces' Logistics Organisation for series production led to orders worth NOK 2.5 billion. The NSM is to be the Navy's main weapon for surface combat on the new Norwegian Nansen Class frigates and the new Norwegian Skjold Class missile torpedo boats.

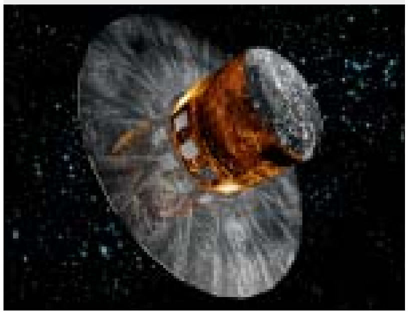
The contract with the Armed Forces is a profoundly important reference with a view to export opportunities for the missile. Several countries have indicated interest in the NSM. The contract will run until 2014 and delivery is scheduled to start in 2010.

The Joint Strike Missile (JSM) is the designation used for the new custom-made product for fighter craft, and Australia and Norway have funded studies to examine how the NSM can be deployed on the JSF fighter craft. The missile has properties that have caught the eye of the Australian and American authorities. Active efforts are also in progress with a view to other types of fighter craft such as the JAS Gripen and the Eurofighter.

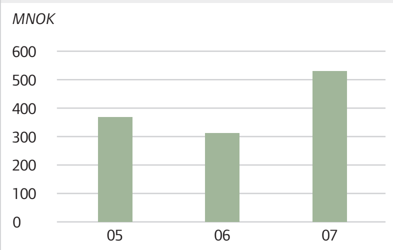
The Penguin missile has been operational in Norway and in several other countries' naval defence forces for years. The missile is still among the world's leading anti-ship missiles; it can be deployed on helicopters, aircraft and vessels.

Aerospace
Kongsberg Defence & Aerospace is Norway's largest supplier to ESA, the European Space Agency. The division has provided equipment for numerous space programmes, and for many satellites as well as the booster rockets that carry satellites into outer space.

GAIA to survey the Milky Way
The satellite GAIA's trajectory away from Earth will allow it to chart more than one billion stars in our own galaxy. The goal is to make an accurate 3D map of the Milky Way. In addition, GAIA will search for unknown planets near the stars. The GAIA satellite is scheduled for launch in 2011. The satellite will carry three extremely sensitive cameras to measure the position, light intensity, direction of motion, colours and chemical composition of the stars. As a subcontractor for Astrium of France, Kongsberg will supply equipment for measuring the angle between two telescopes on GAIA. This Kongsberg technology will help ensure the success of one of the most ambitious astronomy projects in the history of ESA.



Operating revenues
Missile Systems & Aerostructures Division



Successful test firings of the new NSM anti-ship missile in 2007 at the testing grounds at Pt. Mugu, California (USA) demonstrated that the missile is the most advanced in its class in the world today.

NSM – CONTRACT FOR SERIAL PRODUCTION

In December 1996, Kongsberg Defence & Aerospace concluded a contract valued at NOK 1.5 billion with the Norwegian Navy for the development of a new Naval Strike Missile (NSM). KONGSBERG developed the NSM in collaboration with the Norwegian Defence Research Establishment and the Royal Norwegian Navy. It is one of Norway's most advanced development projects. In June 2007, KONGSBERG secured a contract valued at approx. NOK 2.5 billion for serial production of the new anti-ship missile.

NSM is an autonomous missile that is four metres long and weighs about 400 kg. It has a range of 185+ kilometres. The missile has properties that enable it to follow the sea and terrain at a very low altitude at high subsonic speed. It is built of composite material and has a surface and shape that make it difficult to detect on radar.

The missile is equipped with an infrared imaging seeker that represents the most advanced seeker technology in the world. Using satellite navigation (GPS), inertial navigation and a laser altimeter, the missile knows exactly where it is. The missile contains a large number of processors that process data in real-time for guidance and navigation, and handle target detection through image recognition. The missile selects its trajectory towards the target using map coordinates. In the final phase, the flight pattern is unpredictable, making it difficult to shoot down.

The NSM will be the main weapon deployed on the new Norwegian Skjold Class missile torpedo boats and Norway's new Nansen Class frigates.

The final successful test firing of the missile in 2007 demonstrated that it is the most advanced missile of its kind in existence today. That translates into demand and makes the missile attractive on the market. Besides serial production of the NSM for Norway, the Group therefore expects sales to other countries as well.

KONGSBERG has also studied the opportunities for developing a missile custom-made for fighter craft. This new product will be named the Joint Strike Missile (JSM). The missile may be of interest for all three of the fighter craft (the Joint Strike Fighter, JAS Gripen and the Eurofighter Typhoon) on the Norwegian Armed Forces' short list to supersede the F-16 fighter craft.

DIVISION NAVAL SYSTEMS & SURVEILLANCE

The division delivers command and weapon control systems for naval vessels, systems for surface and underwater surveillance of sea, coastal and harbour areas, and training equipment and simulators.

The frigate project
The frigate project is the largest investment project in Norwegian Armed Forces' history, with overall costs of approx. NOK 21 billion. In 2007, the second of the five frigates was delivered by the shipyard. All the frigates are to be operative as from 2010. The vessels are highly robust and designed for ocean-going operations, and they feature advanced tactical and information systems. KONGSBERG has supplied sub-systems for the command and weapons control system, as well as sonar and navigation equipment.

From the bridge of the KNM Fridtjof Nansen.

The division's 2007 results were commensurate with its targets, and its backlog of orders increased during the year.

In 2007, the division signed a contract with the Finnish Armed Forces for the delivery of hydrographic equipment and systems integration worth about MNOK 200. Among other things, the equipment is designed to detect and destroy sea mines, and it will be carried on the Finnish Navy's new mine clearance vessels.

The division also signed a contract with the French Navy for the delivery of bridge and navigation equipment to the new French FREMM Class frigates. The contract is valued at MNOK 110.

KONGSBERG made its final delivery of weapon, sonar and navigation systems for the new Norwegian Fridtjof Nansen Class frigates in 2007. Two of the frigates have been handed over to the Navy and are being tested in Norway. KONGSBERG has fulfilled its obligations right on schedule. The frigate orders have been filled in collaboration with Lockheed Martin of the US and the Navantia Shipyard in Spain.

Deliveries of systems for the new Norwegian Skjold Class missile torpedo boats are also on schedule, and will continue for a few more years. Along with Umoe Mandal and Armaris of France, KONGSBERG is maintaining its scheduled programme for the missile torpedo boats.

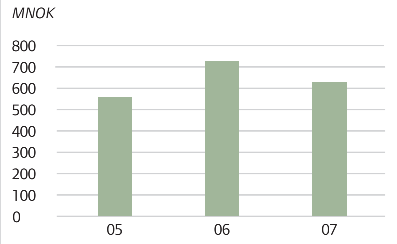
The Simulation and Training Department had a strong influx of new orders in 2007. The department signed a contract with the Swedish Defence Materiel Administration (FMV) to supply two simulator systems to teach Swedish Army soldiers how to use the CV90 tracked armoured combat vehicle. The simulators for the PROTECTOR RWS are another important product and the US market is growing.

Surveillance is a target area and the division includes the subsidiaries Kongsberg Norcontrol IT, Kongsberg Spacetec and Kongsberg Satellite Services. Kongsberg Norcontrol IT delivers systems for the surveillance of harbours and coastal waters. In 2007, it concluded a contract to monitor and communicate vessel traffic data to existing and future harbours in India's Gulf of Khambat. The division is also trying to improve its position as a supplier of surveillance systems for use in the Barents Sea area, not least with a view to the development of oil and gas deposits.

The subsidiary Kongsberg Spacetec in Tromsø delivers ground systems for earth observation satellites and is the international market leader in the development of ground station technology for downloading and processing satellite data.

Kongsberg Satellite Services is jointly and equally owned by KONGSBERG and the Norwegian Space Centre. The company downloads and analyses satellite data. Kongsberg Satellite Services has facilities in Tromsø, and on Svalbard and Antarctica.

Operating revenues
Naval Systems & Surveillance Division



DIVISION INTEGRATED DEFENCE SYSTEMS

The Integrated Defence Systems Division delivers air defence systems, ground-based systems and air and ground surveillance systems, as well as tactical radio and communications systems.

In 2007, a contract was signed for the delivery of an operation centre to the Swedish Army. A GBADOC (Ground Based Air Defence Operation Centre) was delivered in December and is ready for deployment in the Swedish-commanded Nordic Battle Group, part of the EU Battle Group.

Along with the Norwegian Air Force and the American defence contractor Raytheon, since the 1990s, the division has developed a mobile air defence system, NASAMS (Norwegian Advanced Surface to Air Missile System), a highly efficient, competitive solution for the international market. The strategic co-operation agreement with Raytheon generally involves KONGSBERG delivering decision-support tools and command and control systems, while Raytheon delivers missiles, radars and other equipment for air defence systems. The division is following up several international leads.

The division's operations also include tactical radio and communications systems. The business focuses exclusively on export customers, and competes with large international companies on the commercial market. The largest markets are in the Middle East and Eastern Europe, where the division's communications solutions are well established. The division largely finances its own product renewal. In 2007, the division launched a new generation of equipment for wireless radio communication of large volumes of data on military frequency bands. This equipment is in demand, and several delivery contracts have already been signed, including one with Ericsson AB. In Norway, in 2007, smaller-scale contracts were signed for development, optional equipment and the adaptation of equipment supplied previously, including tactical radios (MRR – Multi Role Radio and LFR – Light multi-Functional Radio) and for encryption and safety equipment.

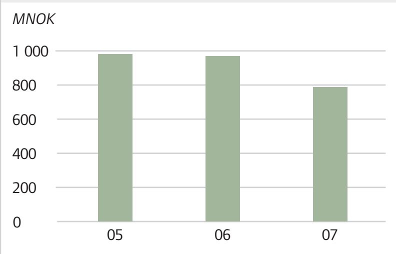
The division has also developed software for computer screens for operators onboard AWACS surveillance aircraft, and is a subcontractor for Boeing of the US. The division has a long-term contract with NATO to maintain and further develop software.

Within the market for tactical leadership systems, KONGSBERG has been the main contractor for further development of the Norwegian Army's command, control and information system, NORTaC-C2IS. The system is adapted to international operations, improving Norwegian units' opportunities to exchange information with allied forces.

Gallium Visual Systems of Canada is focusing on simulation for Air Traffic Control (ATC), in addition to visualisation and mapping systems for military applications. The company delivered several simulators in 2007, including units for air traffic controller training. Some of the programs have been devised in collaboration with business activities in Kongsberg.

The Armed Forces' test firing of the NASAMS II mobile air defence system in El Paso, Texas (USA) in 2007.

Operating revenues
Integrated Air Defence Systems Division



DIVISION DYNAMIC SYSTEMS

The division's main product is the PROTECTOR weapon control system to protect military personnel in armoured vehicles. The system has achieved a leading position in this market.

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

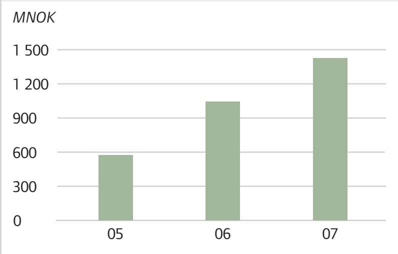
The division had a very good year in 2007. In August, Dynamic Systems signed a framework agreement with the US Army valued at NOK 8 billion for the delivery of remote weapon systems for the CROWS programme. The division received the first order, worth NOK 1.7 billion, the same day. There has also been a very good influx of other new orders and the backlog was valued MNOK 2 719 at year end.

KONGSBERG has contracts with Norway, the USA, Canada, Ireland, Australia, Finland, Switzerland, the Czech Republic the Netherlands, Luxembourg and Portugal. It is the world's largest manufacturer of remotely controlled weapon stations (RWS) for armoured personnel carriers. Several countries are planning to acquire similar systems.

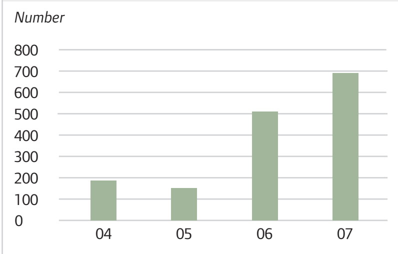
Dynamic systems doubled its production capacity in 2007, and will at least double its capacity again in 2008. The plants in the US have been expanded and enlarged by several production lines and are manufacturing the systems for the CROWS order. This helps reduce foreign currency risk and will keep us closer to the customer, translating into first-class service and follow up.

The RWS is developed and improved on a continuous basis. A new, lighter version for smaller vehicles has been developed for sale to the US. We are also testing a version of the PROTECTOR (Sea PROTECTOR) for deployment on ships.

Operating revenues
Dynamic Systems Division



The number of weapon control systems made per year



Facts
The current PROTECTOR is the fourth generation weapon control system that is qualified for international operations. PROTECTOR has power steering, with integrated sensors for target observation, nad sophisticated ballistics calculation and image processing. The RWS can be deployed on all types of vehicles. KONGSBERG spends considerable resources on improving and further developing the weapon control system.

PROTECTING MILITARY PERSONNEL

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

The PROTECTOR has been in full-scale production since December 2001. Altogether, more than 2 000 RWS systems have been produced since then. The control system has been tested in war zones, and has rapidly become a world leader in its segment. KONGSBERG delivers orders to Norway, the USA, Canada, Ireland, Australia, Finland, Switzerland, the Czech Republic, Portugal, the Netherlands and Luxembourg.

In August, KONGSBERG signed a framework agreement with the US Army for weapon control systems for the CROWS (Common Remotely Operated Weapon Station) programme worth roughly NOK 8 billion over five years. The total scope will depend on future needs and annual appropriations.

The framework agreement makes KONGSBERG by far the pre-dominant and largest supplier of weapon control systems to the US, and a world leader in this niche. In consequence, KONGSBERG is expanding its capacity considerably in Pennsylvania, adding another 10 000 m2 of factory space in addition to the new production facilities that just opened. PROTECTOR currently consists of four main products: PROTECTOR M151, PROTECTOR Lite, PROTECTOR NM 221 og Sea PROTECTOR.

The M151 has been the most high-volume product thus far. It is lightweight, easy to integrate and does not require any reduction in the vehicle's armour, offering great flexibility for customer-specific modifications. PROTECTOR NM 221 is the original product and differs from M151 and Lite in that the system allows the user to reload ammunition from the inside instead of using an external ammo box. Launched in 2006, PROTECTOR Lite is well suited for smaller vehicles and armoured trucks armed with smaller calibre weapons. KONGSBERG was first in the world to sign a contract for this product, which lends itself for use with several new vehicle programmes. KONGSBERG sees a strong potential for a new growth product here.

CORPORATE GOVERNANCE AND FINANCIAL STATEMENTS

Long-term added value
We achieve profitable growth through responsible teamwork.

Oil tankers are among the many different types of commercial vessels to which Kongsberg Maritime delivers automation and navigation systems.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AT KONGSBERG

KONGSBERG aspires to protect and enhance shareholders' investments through profitable, sustainable business activities. Good corporate governance is intended to maximise added value and decrease business risk, at the same time as the Group's resources are to be utilised in an efficient, sustainable manner. The value added should benefit shareholders, employees and the community. KONGSBERG is listed on the Oslo Stock Exchange and is subject to Norwegian securities legislation and stock exchange regulations.

Definition of the concept
The Group's value platform and corporate Code of Ethics are basic premises for KONGSBERG's corporate governance. Corporate governance deals with issues and principles attached to the distribution of roles between the governing bodies in an enterprise, and the responsibility and authority assigned to each body. Good corporate governance is distinguished by responsible teamwork between owners, the Board of Directors and management in a long-term, productive and sustainable perspective. It calls for effective cooperation, a defined division of responsibilities and roles between shareholders, the Board of Directors and management, respect for the Group's other stakeholders and open, honest communication with the communities in which the Group operates.

Treatment of the topic in 2007
The topic of corporate governance is subject to annual reviews and discussions by the corporate Board of Directors. Among other things, the Group's governance documents are reviewed and revised annually and the text for this chapter of the annual report is thoroughly reviewed.

Corporate governance at KONGSBERG

Owners

Shareholders

General Meeting

Nominating Committee

The General Meeting elects five shareholders' representatives to the Board based on nominations from the Nominating Committee. Two-year terms of office.

Board

Board

Compensation Committee

Audit Committee

Ultimate responsibility for strategy and management of the company. Advice regarding and oversight of routine management.

Management

CEO

Corporate Management

Executive management.

KONGSBERG'S POLICY

KONGSBERG aspires to comply with the 'Norwegian Code of Practice for Corporate Governance' dated 7 December 2004 and most recently revised on 4 December 2007. KONGSBERG's compliance with and deviations, if any, from the Code will be commented upon and made available to stakeholders.

The above decision was adopted by the corporate Board of Directors. The Norwegian State, which owns 50.001 per cent of the Group, also requires that all companies in which the State has stakes comply the Code. Since the Norwegian State owns a stake of 50.001 per cent, the Group also complies with the White Paper No. 13 (2006/2007) – the 'Ownership Report', the State's 10 Principles for Good Corporate Governance and the OECD's Guidelines regarding State Ownership and Corporate Governance. These guidelines can be found on the Group's website at: www.kongsberg.com

The following elements underpin KONGSBERG's Corporate Governance Policy:

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

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

ARTICLES OF ASSOCIATION FOR KONGSBERG GRUPPEN ASA

Most recently revised by the ordinary Annual General Meeting on 8 May 2007

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

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

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

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

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

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

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

§ 8 The ordinary AGM shall:

1. Adopt the financial statements and the Annual Report, including the payment of dividends.
2. Discuss other matters which, pursuant to legislation or the Articles of Association, are the province of the AGM.
3. Elect the shareholders' representatives and their deputies to the corporate Board of Directors.
4. Elect the members of the Nominating Committee.
5. Elect one or more auditors, based on nominations made by the AGM.
6. Stipulate the Board's remuneration and approve remuneration to the Auditor.
7. Deal with the Board's declaration regarding the stipulation of salary and other remuneration to senior employees.

The convening letter shall state that shareholders who would like to participate in the AGM are to sign up by a deadline specified in the convening letter. The deadline shall expire no more than five days prior to the AGM. The AGM shall be chaired by the Chair of the Board or, in his/her absence, by the Deputy Chair. In the absence of both, the AGM shall elect a moderator.

§ 9 The Nominating Committee shall consist of three members who shall be shareholders or representatives of shareholders. The members of the Nominating Committee, including the chair, shall be elected by the ordinary Annual General Meeting. The Nominating Committee shall submit its roster of candidates to the AGM to elect the members of the Nominating Committee. The term of office is two years. Based on a recommendation from the Board of Directors, the AGM shall stipulate the remuneration to be paid to the Nominating Committee's members.
The Nominating Committee shall present to the AGM its recommendations for the election of and remuneration to the Directors and Deputy Directors on the Board. The Chair of the Board shall, without being enfranchised to vote, be called in to at least one meeting of the Nominating Committee before the Nominating Committee presents its final recommendation.

INTERVIEW

Vigdis Almestad, Portfolio Manager, National Insurance Fund

OWNERS BENEFIT FROM STRONGER COMMERCIAL FOCUS

Institutional investors pose increasingly higher requirements for corporate governance. Companies are well aware of this. While the trend is international, the positive development in Norway has been driven by active, demanding Norwegian owners. It is essential that KONGSBERG takes this seriously, not least due to the Group's special ownership structure.

As owners, we are concerned with the composition and independence of the Board of Directors. The Board must also have the expertise needed to promote value creation in the company. Every company is to have a Nominating Committee and that, as is the case with KONGSBERG, the committee is to be completely independent of the Board and management, at the same time as it reflects the ownership structure of the company in an appropriate manner.

Value creation calls for commercial thinking

KONGSBERG is a sound industrial enterprise which has improved its profitability considerably in recent years. The Group's strong focus on R&D is now bearing fruit, and has resulted in strong market positions and good profitability in defence as well as maritime niches. The entire Group shares the same core technologies, opening opportunities relative to existing and new markets. KONGSBERG has been adroit at taking advantage of these opportunities.

Despite the strong improvement in profitability, we are confident that there is still a potential for rapid growth in the years ahead. More commercial emphasis and determined R&D can lead to further organic growth.

KONGSBERG's strong balance sheet combined with the recent turmoil in financial markets could open up possibilities for making a good buy in the time ahead.

NORWEGIAN CODE OF PRACTICE

The following is a detailed discussion of each individual section of the Norwegian Code of Practice for Corporate Governance based on the latest revision dated 4 December 2007. Each section starts by reiterating the text of the Code. This is followed by a description of KONGSBERG's compliance. For the full annotated Code of Practice, see the Oslo Stock Exchange's website at www.oslobors.no/ob/cg or NUES (Norwegian Corporate Governance Committee): www.nues.no

The description is generally structured in accordance with the Code of Practice. As recommended, a greater degree of detail is provided on certain points. Point 16, 'Management and in-house procedures', is not covered by the Code of Practice, but it has been included because it is considered crucial to KONGSBERG's discussion of corporate governance.

1 Reporting on corporate governance

- *The board of directors must ensure that the company implements sound corporate governance.*
- *The board of directors must provide a report on the company's corporate governance in the annual report. The report must cover every section of the Code of Practice. If the company does not fully comply with Code of Practice, this must be explained in the report.*
- *The board of directors should define the company's basic corporate values and formulate ethical guidelines in accordance with these values.*

The Group has drawn up a special policy for corporate governance, and the Board has decided that 'the Norwegian Code of Practice for Corporate Governance' is to be observed. There is a discussion and clarification of the Group's value platform in the sustainability section of this report on page 130 and at www.kongsberg.com.

The Group has drawn up its own corporate Code of Ethics, most recently revised in April 2008. For more details, see the commentary on page 149, and www.kongsberg.com.

Departures from the Code of Practice:
None.

2 Operations

- *The company's business should be clearly defined in its articles of association.*
- *The company should have clear objectives and strategies for its business within the scope of the definition of its business in its articles of association.*
- *The annual report should include the business activities clause from the articles of association and describe the company's objectives and principal strategies.*

"The object of Kongsberg Gruppen ASA is to engage in technological and industrial activities in the maritime, defence and related sectors. The Company may participate in and own other companies." These sentences appear in §3 of KONGSBERG's Articles of Association. The company's Articles of Association can be found on page 105 of the Annual Report and on the Group's website at www.kongsberg.com. The Group's objectives and principal strategies are discussed on page 14.

Departures from the Code of Practice:
None.

3 Equity and dividends

- *The company should have equity capital at a level appropriate to its objectives, strategy and risk profile.*
- *The board of directors should establish a clear and predictable dividend policy as the basis for*

the proposals on dividend payments that it makes to the general meeting. The dividend policy should be disclosed.

- *Mandates granted to the board of directors to increase the company's share capital should be restricted to defined purposes and should be limited in time to no later than the date of the next annual general meeting. This should also apply to mandates granted to the board for the company to purchase its own shares.*

Equity

The Board considers consolidated equity to be 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 normally strive to achieve an annual dividend of 30 per cent of its annual profit from ordinary operations, after tax.

The Annual General Meeting (AGM) stipulates the annual dividend, based on the Board's recommendation. The proposal is the ceiling for what the AGM can adopt.

Capital increase

The Board is not authorised to undertake share issues.

Purchase of treasury shares

The AGM can authorise the Board to purchase up to 10 per cent of its own shares. On 8 May 2007, the ordinary AGM authorised the Board of Directors to purchase treasury shares for up to the nominal sum of NOK 7 500 000. This comes to 5 per cent of the share capital. The mandate can be used several times and applies for 12 months from the date of the AGM. Pursuant to this mandate, the Board's acquisition of treasury shares can be exercised only between a minimum price of NOK 100 and a maximum price on NOK 300 per share. At 31 December 2007, the Group owned a total of 18 585 shares, or 0.06 per cent of the total number of shares in the Group.

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

Departures from the Code of Practice:
None.

4 Equal treatment of shareholders and transactions with close associates

- *The company should have only one class of shares.*
- *Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase in share capital must be justified.*
- *Any transactions the company carries out in its own shares should be carried out either through the stock exchange or at prevailing stock exchange prices if carried out in any other way. If there is limited liquidity in the company's shares, the company should consider other ways to ensure equal treatment of all shareholders.*
- *In the event of any material transactions between the company and shareholders, members of the board of directors, members of the executive management or close associates of any such parties, the board should arrange for a valuation to be obtained from an independent third party. This will not apply if the transaction requires the approval of the general meeting pursuant to the requirements of the Public Companies Act. Independent valuations should also be arranged in respect of transactions between companies in the same group where any of the companies involved have minority shareholders.*
- *The company should have guidelines to ensure that members of the board of directors and the executive management notify the board if they have any material direct or indirect interest in any transaction entered into by the company.*

Class of shares

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

Trading in treasury shares

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

Transactions with close associates

In the Board's opinion, in 2007 there have been no transactions between the company and a shareholder, director, executive management or a party closely related to such individuals that can be described as significant. See also Note 32.

Guidelines for directors and corporate management

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

The State as customer and shareholder

The Norwegian state owns a 50.001 per cent stake in 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 State, as represented by the Ministry of Trade and Industry. The topics discussed at these meetings are first and foremost the Group's economic development and there are briefings on strategic questions related to KONGSBERG. The State's expectations regarding investment performance and yield are also communicated. These 'one-on-one' meetings with the State are comparable to what is customary between a private company and its principal shareholders. The meetings comply with the provisions specified in company and securities legislation, not least with a view to equal treatment of shareholders. As a shareholder, the State does not usually have access to more information than what is available to other shareholders. Under certain circumstances, where the State's participation is imperative and the Government must obtain an authorisation from the Storting, from time to time, it will be necessary to give the Ministry insider information. In such cases, the State is subject to the general rules that apply to dealing with such information.

Departures from the Code of Practice:
None.

5 Freely negotiable shares

- *Shares in listed companies must, in principle, be freely negotiable. Therefore, no form of restriction on negotiability should be included in a company's articles of association.*

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

Departures from the Code of Practice:
None.

6 General meetings

The board of directors should take steps to ensure that as many shareholders as possible may exercise their rights by participating in general meetings of the company, and that general meetings are an effective forum for the views of shareholders and the board. Such steps should include:

- *making the notice calling the meeting and the support information on the resolutions to be considered at the general meeting, including the recommendations of the nomination committee, available on the company's website no later than 21 days prior to the date of the general meeting, and sending this information to shareholders no later than two weeks prior to the date of the general meeting*
- *ensuring that the resolutions and supporting information distributed are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting*
- *the deadline is set as close to the date of the meeting as possible*
- *shareholders who cannot attend the meeting in person can vote by proxy*
- *the board of directors and the nomination committee and the auditor are present at the general meeting*
- *arrangements have been made to ensure an independent chairman for the general meeting*

The notice calling the general meeting shall provide information on the procedures shareholders must observe in order to participate in and vote at the general meeting. The notice should also set out:

- *the procedure for representation at the meeting through a proxy, including a form to appoint a proxy*
- *shareholders' right to propose motions for the consideration of the general meeting*
- *the web site featuring the notice and other relevant documents will be accessible*

The company should, at the earliest possible opportunity, make available on its website:

- *information on the right of shareholders to propose matters to be considered by the general meeting*
- *proposals for motions, alternatively comments on items where no motion is proposed*
- *a form for appointing a proxy*

The board of directors and the chairman of the general meeting should ensure that the general meeting is given the opportunity to vote separately for each candidate nominated for election to the company's corporate bodies.

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

Notice calling the annual general meeting
An AGM will ordinarily be held by 1 June each year. The 2008 AGM is scheduled for 24 April. Notification is usually sent out three weeks in advance. That is one week earlier than the statutory minimum requirement (two weeks). The relevant documents are available on the Group's website at least 21 days prior to date of the general meeting. It is important that the documents contain all the information necessary for the shareholders to take a position on all items up for discussion. The company's Articles of Association stipulate that the final date for registration cannot expire less than five days prior to the date of the general meeting. Efforts are made to set the deadline as close to the meeting date as possible.

The Financial Calendar is published on the Group's website and in its annual report.

Participation
It is possible to register by post, telefax or E-mail. The Board tries 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 for discussion. Representatives of the Board, at least one representative of the Nominating Committee and the auditor participate in general meetings. Management is represented by the Chief Executive Officer and the Chief Financial Officer, at least.

In 2007, 79 per cent (79 per cent in 2006) of the aggregate share capital was represented.

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

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

7 Nomination Committee

- *The company should have a nomination committee, and the general meeting should elect the chairperson and members of the nomination committee and should determine the committee's remuneration.*
- *The nomination committee should be laid down in the company's articles of association.*
- *The members of the nomination committee should be selected to take into account the interests of shareholders in general. The majority of the committee should be independent of the board of directors and the executive management. At least one member of the nomination committee should not be a member of the corporate assembly, committee of representatives or the board. No more than one member of the nomination committee should be a member of the board of directors, and any such member should not offer himself for re-election. The nomination committee should not include the company's chief executive*

or any other representative of the company's executive management.

- *The nomination committee's duties are to propose candidates for election to the corporate assembly and the board of directors and to propose the fees to be paid to members of these bodies.*
- *The nomination committee should justify its recommendations.*
- *The company should provide information on the membership of the committee and any deadlines for submitting proposals to the committee.*

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

The Nominating Committee shall consist of three members who shall be shareholders or representatives of shareholders. The AGM shall elect all members of the Nominating Committee, including the chair. The Nominating Committee itself proposes to the AGM a roster of candidates for the Committee. The term of office is two years. The above-mentioned is stated in §9 of the Group's Articles of Association, based on amendments adopted by the ordinary Annual General Meeting on 8 May 2007.

The Committee works under instructions from the AGM which were revised most recently at the ordinary Annual General Meeting on 8 May 2007.

Composition

The current Committee was elected by the ordinary AGM on 9 May 2006 and consists of:

- Anne Grethe Dalane, human resources director, Yara International ASA (re-election)
- Knut J. Utvik, deputy director general, Ministry of Trade and Industry (new)
- Sverre Valvik, managing director, Arendals Fossekompani ASA (re-election)

Anne Grethe Dalane was elected chair of the Committee.

None of the Committee's members represents KONGSBERG's management or Board. The majority of the members are considered independent of management and the Board. Sverre Valvik is managing director of Arendals Fossekompani ASA, where Erik Must, a member of KONGSBERG's Board, owns a substantial stake, directly and indirectly. The Nominating Committee is considered to reflect the interests of the body of shareholders as a whole.

Information on 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. No nominations to the Board were presented through this channel in 2007.

The work of the Nominating Committee

The Committee held three meetings prior to the 2007 AGM, supplemented by telephone conferences and E-mails. To prepare the Nominating Committee met with Chair of the Board Finn Jebsen and Chief Executive Officer Jan Erik Korssjøen and had telephone contact with KONGSBERG's largest shareholders.

In Q1 2008, a meeting was held with the Chair of the Board to review the Board's evaluation of its own work. Prior to the 2008 AGM, another meeting will be held to discuss the Board's compensation and the nominations for a new Nominating Committee.

None of the Board's members is up for election in 2008.

Departures from the Code of Practice:
None.

8 Corporate assembly and board of directors: composition and independence

- *The composition of the corporate assembly should be determined with a view to ensuring that it represents a broad cross-section of the company's shareholders.*
- *The composition of the board of directors should ensure that the board can attend to the common interests of all shareholders and meets the company's need for expertise, capacity and diversity. Attention should be paid to ensuring that the board can function effectively as a collegiate body.*
- *The composition of the board of directors should ensure that it can operate independently of any special interests. The majority of the shareholder-elected members of the board should be independent of the company's executive management and material business contacts. At least two of the members of the board elected by shareholders should be independent of the company's main shareholder(s).*
- *The board of directors should not include representatives of the company's executive management. If the board does include members of the executive management, the company should provide an explanation for this and implement consequential adjustments to the organisation of the work of the board, including the use of board committees to help ensure more independent preparation of matters for discussion by the board, cf. Section 9.*
- *The chairman of the board of directors should be elected by the general meeting so long as the Public Companies Act does not require that the chairman shall be appointed either by the corporate assembly or by the board of directors as a consequence of an agreement that the company shall not have a corporate assembly.*
- *The term of office for members of the board of directors should not be longer than two years at a time.*
- *The annual report should provide information to illustrate the expertise and capacity of the members of the board of directors and identify which members are considered to be independent.*
- *Members of the board of directors should be encouraged to own shares in the company.*

Composition of the Board of Directors

The Board of Directors consists of eight members: Finn Jebsen (chair), Benedicte Berg Schilbred (deputy chair), Siri Hatlen, Erik Must, John Giverholt, Roar Marthiniussen, Kai Johansen and Audun Solås. The three latter directors have been elected by and from among the employees. For detailed information on the individual directors, see page 116.

It is essential that the Board as a whole be competent to deal with Board work and the company's main business activities. In addition, the directors are to have the capacity to carry out their duties. According to the Articles of Association, the Group shall have five to eight directors. At present, the Board consists of five external directors and three directors elected by and from among the Group's employees.

The CEO is not a member of the Board.

The directors are elected for two-year terms. The AGM elects the Chair of the Board. This is stated in the instructions to the Nominating Committee. Finn Jebsen was elected Chair of the Board.

Changes in the Board in 2007
All shareholder-elected directors were elected for a new two-year term by the Group's AGM in 2007. Kai Johansen was elected as a new employee representative.

The Board's independence
All shareholder-elected directors are considered autonomous and independent of the Group's management. The same applies in connection with important business associates. Arendals Fossekompani ASA, in which Erik Must directly and indirectly has a substantial stake, owned 7.96 per cent of Kongsberg Gruppen ASA year end (6.85). Ferd AS, where John Giverholt is CFO, owned a 1.6 per cent stake in Kongsberg Gruppen ASA at year end (2.17). The Board is favourable to long-term shareholders being represented. Emphasis is attached to ensuring there are no conflicts of interest between owners, the Board, management and the Group's other stakeholders.

The shareholder-elected directors are three men and two women, so women account for 40 per cent of the Board.

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

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

Directors are elected for two-year terms and can be re-elected.

The directors' shareholdings
The shareholder-elected directors held the following stakes in the Group at 31 December 2007: Finn Jebsen, Chair of the Board, owner 5 000 shares through his wholly-owned company Fateburet AS. Benedicte Berg Schilbred, deputy chair, owns 17 500 shares through Odd Berg AS. Erik Must owns 31 150 shares personally and 100 000 shares through Must Invest AS.

Departures from the Code of Practice:
None.

9 The work of the board of directors

- *The board of directors should produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation.*
- *The board of directors should issue instructions for its own work as well as for the executive management with particular emphasis on clear internal allocation of responsibilities and duties.*
- *A deputy chairman should be elected for the purpose of chairing the board in the event that the chairman cannot or should not lead the work of the board.*
- *The board of directors should consider appointing board committees in order to help ensure thorough and independent preparation of matters relating to financial reporting and compensation paid to the members of the executive management. Membership of such sub-committees should be restricted to members of the board who are independent of the company's executive management.*
- *The Board should provide details in the annual report of any board committees appointed.*
- *The board should evaluate its performance and expertise annually.*

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

The Board's main tasks are to contribute to corporate competitiveness, and to ensure the Group develops and adds value. Further, the Board shall participate in the shaping of, and adopt the Group's strategy, exercise the requisite control functions and ensure that the Group is well managed and organised. The Board sets the objectives for financial structure and adopts the Group's plans and budgets. Items of major strategic or financial importance for the Group are handled by the Board. The Board hires the CEO, defines his or her work instructions and authority, and sets his or her wages.

Instructions for the Board of Directors
The Board's instructions are extensive and were most recently revised on 12 February 2007. The instructions cover the following points: notification of the Board meetings, notification deadlines, previous instructions, Board meetings, Board decisions, the keeping of minutes, the Board's competency and items for the agenda, the division of responsibilities between the Board and CEO, the relationship between subsidiaries and the parent company, independence and disqualification, the main principles for the work of the Board in the event of a takeover of the company, confidentiality and professional secrecy, compliance with legislation, Articles of Association and instructions.

The Board can decide to deviate from the instructions in certain cases.

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

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

Notice of meetings and discussion of items
The Board schedules regular board meetings each year. There are usually eight meetings per year. Additional meetings

are convened on an *ad hoc* basis. In 2007, there were 14 Board meetings and one Board seminar. The Board meetings had a 96 per cent attendance rate in 2007.

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 routinely reviewed and evaluated by the Board. Directors are free to consult the Group's executives as needed.

The Board draws up and establishes an annual plan. The CEO usually proposes the agenda for each Board meeting. The final agenda is decided in consultation between the CEO and the Chair of the Board. Besides the directors, Board meetings are attended by the CEO, CFO, Executive Vice President, Corporate Communications, and General Counsel (secretary of the Board). Other participants are summoned as needed.

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

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

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

Expertise
An extensive programme has been conducted to give directors insight into the Group's business activities. In early 2007, the Board and corporate management toured the Group's operations in Northeast and Southeast Asia to improve the Board's insight into 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. In 2007, there was one case of recusal.

Use of Board Committees
The Group has stipulated the use of a Nominating Committee in the Articles of Association. In addition, 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 full corporate Board and their authority is limited to making recommendations to the Board. The terms of reference for all Board committees can be found on the Group's website at www.kongsberg.com.

The Board's Audit Committee
The Audit Committee has responsibilities related to financial reporting, the independent auditor, internal audits and risk management. The Committee consists of two shareholder-elected directors and one employee-elected director. The independent auditor usually attends the meetings. The CEO and the other directors are entitled to attend if they so desire. There were eight meetings in 2007. Members: John Giverholt, Siri Hatlen, Audun Solås.

Compensation Committee
The Committee's responsibilities revolve around the CEO's terms of employment, questions of principle related to wage levels, the bonus system, pension systems/terms, and employment contracts, etc. for executive management, 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 Chair of the Board, one shareholder-elected director and one employee-elected director. The CEO is entitled to participate in the Committee's meetings when he so desires, except when his or her own situation is under discussion. Six meetings were held in 2007.

Members: Find Jebsen, Erik Must, Roar Martiniussen.

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

Participation in meetings	Board meetings	Compensation Committee	Audit Committee
Finn Jebsen	13	6	
Benedicte Berg Schilbred	11		
Siri Hatlen	13		8
Erik Must	13	6	
John Giverholt	12		8
Roar Marthiniussen	12	6	
Audun Solås	13		8
Kai Johansen [1]	8		
Jan Erik Hagen [2]	5		

1) Kai Johansen, member of the Board of Directors from 8 May 2007
2) Jan Erik Hagen, member of the Board of Directors up to and including 2 May 2007

has not found it expedient to use external consultants to evaluate its work. The evaluation is made available to the Nominating Committee.

Departures from the Code of Practice:
None.

10 Risk management and internal control

- *The board of directors must ensure that the company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the company's activities. Internal control and the systems should also encompass the company's corporate values and ethical guidelines.*
- *The board of directors should carry out an annual review of the company's most important areas of exposure to risk and its internal control arrangements.*
- *In the annual report, the Board should describe the main elements of the company's internal controls and risk management systems in conjunction with the financial statements.*

The Board and internal control
Management draws up monthly performance reports that are sent to and reviewed by the directors. The quarterly financial statements, risk reports and HSE reports are also subject to review at the quarterly Board meetings. See page 115 for a more detailed description.

The Board's annual review
The Board of Directors undertakes an annual review of the risk and HSE situation in connection with reviewing the preliminary accounts in early February. The auditor also attends this meeting.

The Board's reporting routines
The Board presents an in-depth review of the company's financial status in the Directors' Report. It also describes the main elements related to HSE and risk. Further, there is a statement about internal control activities under the heading Organisation and Governance on page 115.

Departures from the Code of Practice:
There are currently no separate internal control routines for following up the company's value platform and Code of Ethics. Meanwhile, the Group has set up an Ethics Council to contribute to high ethical awareness, promote good behaviour and ensure a good reputation in and for KONGSBERG.

11 Remuneration of the board of directors

- *The remuneration of the board of directors should reflect the board's responsibility, expertise, time commitment and the complexity of the company's activities.*
- *The remuneration of the board of directors should not be linked to the company's performance. The company should not grant share options to members of its board.*
- *Members of the board of directors and/or companies with which they are associated should not take on specific assignments for the company in addition to their appointment as a member of the board. If they do nonetheless take on such assignments this should be disclosed to the full board. The remuneration for such additional duties should by approved by the board.*
- *The annual report should provide information on all remuneration paid to each members of the board of directors. Where any remuneration beyond the usual director's fee has been paid, this should be specified.*

The Annual General Meeting stipulates the Board's remuneration each year. The proposal for remuneration will be made by the chair of the Nominating Committee. In 2007, total remuneration to the Board came to NOK 1 360 002 (NOK 1 208 002 in 2006). For further information about remuneration, see Note 32.

The directors' fees are not linked to performance, option programmes or the like. None of the Board's shareholder-elected directors works for the company in any capacity other than as a director.

Departures from the Code of Practice:
None.

12 Remuneration of the executive management

- *The board of directors is required by law to establish guidelines for the remuneration of the members of the executive management. These guidelines are communicated to the annual general meeting.*
- *The guidelines for the remuneration of the executive management should set out the main principles applied in determining the salary and other remuneration of the executive management. The guidelines should help to ensure convergence of the financial interests of the executive management and the shareholders.*
- *Performance-related remuneration of the executive management in the form of share options, bonus programmes or the like should be linked to value creation for shareholders or the company's earnings performance over time. Such arrangements, including share option arrangements, should incentivise performance and be based on quantifiable factors over which the employee in question can have influence.*

Guidelines
The Board has drawn up special guidelines for the stipulation of salary 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 review is based on market polls of similar positions.

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

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

The incentive system consists of basic wages, a bonus, pension, and severance scheme and benefits in kind.

Performance-related remuneration
The Board of Directors adopted a new bonus scheme in 2006. Performance-related remuneration is linked to the added value for the shareholders or to the Group's performance trends over time. The prerequisites for the payment of performance-related remuneration are described in Note 32.

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

Conditions
Remuneration to executive management and the Board is described in Note 32.

Departures from the Code of Practice:
None.

13 Information and communications

- *The board of directors should establish guidelines for the company's reporting of financial and other information based on openness and taking into account the requirement for equal treatment of all participants in the securities market.*
- *The company should publish an overview each year of the dates for major events such as its annual general meeting, publication of interim reports, public presentations, dividend payment date if appropriate etc.*
- *All information distributed to the company's shareholders should be published on the company's web site at the same time as it is sent to shareholders.*
- *The Board of Directors should establish guidelines for the Group's contact with shareholders outside the AGM.*

The annual report and accounts – interim reporting
The Group normally presents provisional annual accounts in late February. Complete accounts, the Directors' Report and the Annual Report are sent to shareholders and other stakeholders in March/April. Beyond this, the Group presents its accounts on a quarterly basis. The Group's Financial Calendar is published on the corporate website and in the Annual Report. The Sustainability Report is part of the Annual Report sent to all shareholders. All shareholders are treated equally as a matter of course.

Other market information
Open investor presentations are conducted in connection with the Group's annual and quarterly reports. There, the CEO reviews 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 presentations of the annual and quarterly reports are posted on the Group's website at the same time as they are presented. The annual and mid-year results are also made available through webcasts. Beyond that, the Group maintains an ongoing dialogue with and makes presentations for analysts and investors.

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

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

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

Departures from the Code of Practice:
None.

14 Take-overs

- *The board of directors should establish guiding principles for how it will act in the event of a take-over bid.*
- *During the course of a take-over process, the board of directors and management of both the party making the offer and the target company have an independent responsibility to help ensure that shareholders in the target company are treated equally, and that the target company's business activities are not disrupted unnecessarily. The board of the target company has a particular responsibility to ensure that shareholders are given sufficient information and time to form a view of the offer.*
- *The board of directors should not seek to hinder or obstruct take-over bids for the company's activities or shares unless there are particular reasons for this.*
- *Where an offer is made for the Group's shares, the Group's Board should not take advantage of its share issue authorisation or initiate other measures to impede the offer, unless this is approved by the AGM once the offer is made public.*
- *If an offer is made for a company's shares, the company's board of directors should issue a statement evaluating the offer and making a recommendation as to whether shareholders should or should not accept the offer. If the board finds itself unable to give a recommendation to shareholders on whether or not to accept the offer, it should explain the background for not making such a recommendation. The board's statement on a bid should make it clear whether the views expressed are unanimous, and if this is not the case it should explain the basis on which specific members of the board have excluded themselves from the board's statement. The board should consider whether to arrange a valuation from an independent expert. If any member of the board or executive management, or close associates of such individuals, or anyone who has recently held such a position, is either the bidder or has a particular personal interest in the bid, the board should arrange an independent valuation in any case. This shall also apply if the bidder is a major shareholder. Any such valuation should be either appended to the board's statement, be reproduced in the statement or be referred to in the statement.*
- *Transactions that are in reality disposals of business activities should be decided by the AGM, except where the law states that such decisions are to be taken by the Corporate Assembly.*

There are no defence mechanisms against take-over bids in the Group's Articles of Association, nor have other measures been implemented to limit opportunities to acquire shares in the company. The Norwegian state owns 50.001 per cent of the shares. The negotiability of these shares is subject to parliamentary discretion.

A new section has been added to the Board's instructions, and it refers to the main principles for how the Board should react to any takeover bid. The Board is responsible for ensuring that Kongsberg's shareholders are treated equally and that operations are not disrupted unnecessarily.

In the event a bid is made for the company, the Board shall make a statement containing a well-grounded evaluation of the bid. The evaluation shall specify how, for example, a takeover would affect long-term value creation at Kongsberg.

Departures from the Code of Practice:
None.

15 Auditor

- *The auditor should submit the main features of the plan for the audit of the company to the board of directors annually.*
- *The auditor should participate in meetings of the board of directors that deal with the annual accounts. At these meetings the auditor should review any material changes in the company's accounting principles, comment on any material*

- estimated accounting figures and report all material matters on which there has been disagreement between the auditor and the executive management of the company.
- *The auditor should at least once a year present to the board of directors a review of the company's internal control procedures, including identified weaknesses and proposals for improvement.*
- *The board of directors should hold a meeting with the auditor at least once a year at which neither the chief executive nor any other member of the executive management is present.*
- *The board of directors should establish guidelines in respect of the use of the auditor by the company's executive management for services other than the audit. The board should receive annual written confirmation from the auditor that the auditor continues to satisfy the requirements for independence. In addition, the auditor should provide the board with a summary of all services in addition to audit work that have been undertaken for the company.*
- *At the ordinary AGM, the Board should provide information about the auditor's remuneration, broken down into audits and other services.*

The auditor's relationship with the Board
The auditor will present an action plan to the Board once a year.

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

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

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

The auditor has submitted to the Board a written statement on fulfilment of the Statutory Audit Independence and Objectivity requirement, cf. the Auditing and Auditors Act.

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

The Group hired Arthur Andersen & Co. as its independent auditor upon its inception in 1987. In April 2002, Arthur Andersen & Co in Norway was merged with Ernst & Young. In addition to ordinary auditing, the company has provided consultancy services related to accounting, tax and due diligence. See Note 12 to the consolidated accounts.

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

Departures from the Code of Practice:
None.

16 Management and internal procedures

- *This point is not covered by the Code of Practice.*

CEO
The CEO is in charge of the routine management of the business, including responsibility for the Group being organised, run and further developed in compliance with legislation, the Articles of Association and decisions taken by the Board and the AGM.

The Board adopts instructions for the CEO.

Chief Executive Officer Jan Erik Korssjøen retired on 1 March 2008. The new CEO Walter Qvam took over the helm as from the same date.

Executive management
Corporate executive management currently consists of seven individuals. In addition to the CEO, executive management consists of the chief financial officer, the presidents of the two business areas (Kongsberg Maritime and Kongsberg Defence & Aerospace), the executive vice president for Human Resources, the executive vice president for Business Development, and the executive vice president for Corporate Communications.

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

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

Evaluations
Each year executive management evaluates its work and work routines.

Inter-group Boards of Directors
The Group's subsidiaries have their own Boards of Directors, staffed by in-house managers and employees. The president of the holding company or a person so authorised by the president will chair the Boards of the subsidiaries. Appointment of the Boards and board work in subsidiaries shall take place in accordance with the Group's principles for good corporate governance.

Special share register
The company has stipulated in-house guidelines for trading in the company's shares. The rules are in compliance with applicable legislation and regulations for primary insiders and insider trading. These guidelines are updated regularly pursuant to the rules that apply at any given time, and they are distributed to the primary insiders. The in-house guidelines require, among other things, that primary insiders must get internal clearance prior to trading in the company's shares.

ORGANISATION AND MANAGEMENT

Organisation

The main bodies in KONGSBERG's management model are the general meeting, the Board, the CEO and corporate management. The Group has two business areas (BAs) which have their own sales, growth, improvement and performance goals. The Group's organisational model attaches importance to clear accountability for results, so authority is to a large extent delegated. The main corporate functions include drawing up policies and principles that apply to the entire Group, having subject-specific responsibility in selected areas, providing technical advice to the BAs, and providing services in fields in which coordination generates profits.

Strategy

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

Budgets

The budget process usually starts in mid-September. All profit centres take part in these efforts. Budgetary guidelines are drawn up at the corporate level, based on the strategy document and relevant external framework conditions. It is important to improve on past performance. The budget is subject to in-depth treatment by corporate management and the Board. The final budget is adopted by the Board in December, and then used as a tool for short-term financial management for the next calendar year. The budget applies throughout the budget period, and has a binding effect on the managers of the individual units.

Risk reporting to the Board

Comprehensive risk analyses are compiled for the Board on a quarterly basis. The analyses mainly cover operational risk, business risk, legal risk and financial risk. It has been decided that reputation risk will be included in the analyses as from 2008. KONGSBERG's operational risk is largely related to the implementation of projects of great technical complexity, where product quality is decisive. Business risk is related to market conditions, competitors and other general conditions prevailing in the markets in which we operate. Legal risk is linked to ongoing disputes that are already in the legal system and to projects that involve differences of opinion with customer/partners. Financial risk is mainly related to foreign exchange and interest rate fluctuations and funding.

In addition, the Board receives a separate HSE report each quarter.

Follow up

Corporate management conducts monthly follow-up meetings with the Group's BAs. These meetings address the follow up of objectives, large-scale projects and risk analyses, as well as of other factors that deserve attention, in addition to financial and market status. The meetings comment on departures from budgets, previous years, planned activities and the outlook for the current year. Corrections are implemented where so required.

Internal control

The Group has no special unit for internal control. Accounting controls are handled through different divisions of responsibilities, guidelines and approval routines. The Group's central accounting service bears overall responsibility for establishing and following up guidelines and principles. The International Financial Reporting Standard (IFRS) and the new Bookkeeping Act have raised the requirements for accounting-related follow-up and control. As a result, the Group's accounting expertise has been fortified. In addition, the Board has appointed a separate Audit Committee.

Intra-Group financial transactions are subject to special control systems and routines. Financial risk is reduced using appropriate financial instruments. Financial risk management is handled by the Group's central financial service.

Responsibility for the commercial content of contracts and agreements rests with the individual business areas.

Follow-up and control relative to the Group's value platform, Code of Ethics and corporate social responsibility policy take place out in the line as part of routine operations. The Group has a special Ethics Council that addresses topics related to the corporate Code of Ethics.

THE BOARD OF DIRECTORS OF KONGSBERG GRUPPEN ASA

Finn Jebsen (58)
Chair of the Board
Position: Self-employed
Education: Economist, Norwegian School of Economics and Business Administration in Bergen (1974), MBA, University of California, Los Angeles (1976)
Other: Previously CEO of the Orkla Group ASA
Number of years on the Board: 3
Number of shares in Kongsberg Gruppen ASA: 5 000 (through the wholly-owned enterprise Fateburet AS)
Directorships outside Kongsberg: Chair of the Board of Directors in Kavli Holding AS. Deputy Chair of the Board for Cermaq ASA and for KLP Forsikring. Director of Berner Gruppen AS, Anders Wilhelmsen & Co AS and Norsk Hydro ASA

Benedicte Berg Schilbred (61)
Deputy Chair
Position: Executive Chair of the Board, Odd Berg Group
Education: The Norwegian School of Management (1969) and further studies from the Norwegian School of Economics and Business Administration (1972)
Number of years on the Board: 7
Number of shares in Kongsberg Gruppen ASA: 17 500 (through the company Odd Berg AS)
Directorships outside Kongsberg: Chair of the Board of Odd Berg AS and Tos Lab AS. Director of Norway Pelagic Group AS, Fiskeriforskning AS, Norsildmel AL and Norsildmel Innovation AS

Erik Must (65)
Director
Education: Economist, Copenhagen School of Economics (1967)
Number of years on the Board: 3
Number of shares in Kongsberg Gruppen ASA: 100 000 (through Must Invest AS), 31 150 (personally)
Directorships outside Kongsberg: Chair of the Board in Fondsfinans ASA, Fondsfinans Kapitalforvaltning Holding AS, Arendals Fossekompani ASA, Gyldendal ASA and Erik Must AS. Director of Norges Handels- og Sjøfartstidende AS, Norwegian Museum of Cultural History, the Arenzt Legacy and the Biotechnology Centre at the University of Oslo

Siri Hatlen (50)
Director
Position: EVP, New Energy, Statkraft
Education: Graduate Engineer, the Norwegian Institute of Technology (1980) and further studies (MBA) from INSEAD, Fontainebleau (1991)
Number of years on the Board: 5
Number of shares in Kongsberg Gruppen ASA: 0
Directorships outside Kongsberg: Chair of the Board of AS Vinmonopolet and Det Norske Samlaget Publishing House. Director of PGS ASA, NTNU and Det Norske Teateret, among others

John Giverholt (55)
Director
Position: CFO, Ferd AS
Education: Economist, University of Manchester (1976). Registered auditors' examination, the Norwegian School of Economics and Business Administration (1979)
Other: Managerial positions in Orkla ASA, Den norske Bank ASA and Norsk Hydro ASA
Number of years on the Board: 3
Number of shares in Kongsberg Gruppen ASA: 0
Directorships outside Kongsberg: Director of Telenor ASA

Roar Marthiniussen (51)
Director (employee representative)
Position: Sales and Marketing Manager at Kongsberg Maritime AS
Education: Engineer from Horten College of Engineering
Number of years on the Board: 9
Number of years with Kongsberg: 29
Number of shares in Kongsberg Gruppen ASA: 3 279

Audun Solås (49)
Director (employee representative)
Position: Chief engineer at Kongsberg Defence & Aerospace AS
Education: Graduate Engineer, Royal College of Technology, Stockholm
Number of years on the Board: 3
Number of years with Kongsberg: 17
Number of shares in Kongsberg Gruppen ASA: 1

Kai Johansen (40)
Director (employee representative)
Position: Shop Steward, Kongsberg Defence & Aerospace AS
Education: Tinius Olsen School and guild certificate as an operator
Number of years on the Board: 1
Number of years with Kongsberg: 23
Number of shares in Kongsberg Gruppen ASA: 0

EXECUTIVE MANAGEMENT

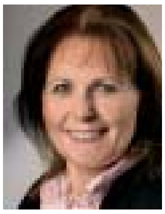
Jan Erik Korssjøen (60)
Position: Chief Executive Officer until March 2008.
Education: Graduate Engineer from the Norwegian Institute of Technology (1972).
Other: Began his professional career at AS Kongsberg Våpenfabrikk, where he held several managerial positions. Subsequently president of Dresser Rand AS and Kongsberg Systems AS. Named president of KONGSBERG in 1999 after 4 years at the helm of Kongsberg Maritime. Retired on 1 March 2008.
Number of years with the Group: 13
Number of shares in Kongsberg Gruppen ASA: 6 930
Directorships and other offices outside the Group: SINTEF (Chair of the Board), Corporate Assembly of Telenor ASA (Chair), DNV Council (director).

Walter Qvam (54)
Position: Chief Executive Officer
Education: Graduate Engineer from the Norwegian Institute of Technology (1979) with further studies at INSEAD in Singapore (1985).
Other: Has had executive positions with several major Norwegian and international companies in oil, gas and shipping (Det Norske Veritas), IT (Capgemini), transportation (NSB) and consultancy (Gemini Consulting). Took over as CEO of KONGSBERG in March 2008.
Number of years with the Group: 0
Number of shares in Kongsberg Gruppen ASA: 0
Directorships and other offices outside the Group: 0

Arne Solberg (55)
Position: Chief Financial Officer.
Education: Economist from the Norwegian School of Management (1980).
Other: Formerly in leading positions in finance/administration at Elektrisk Bureau AS.
Number of years with the Group: 21
Number of shares in Kongsberg Gruppen ASA: 7 284
Directorships outside the Group: Kitron ASA (deputy chair), Navico Holding (director).

Torfinn Kildal (53)
Position: President, Kongsberg Maritime AS.
Education: Economist from the Norwegian School of Economics and Business Administration (1977).
Other: Began his professional career with AS Kongsberg Våpenfabrikk, then managerial positions in the Simrad Group.
Number of years with the Group: 11
Number of shares in Kongsberg Gruppen ASA: 8 144
Directorships outside the Group: Argos Control AS (director).

Tom Gerhardsen (59)
Position: President, Kongsberg Defence & Aerospace AS.
Education: Graduate Engineer from the Norwegian Institute of Technology (1971).
Other: Formerly employed by the Norwegian Defence Research Establishment and AS Kongsberg Våpenfabrikk.
Number of years with the Group: 21
Number of shares in Kongsberg Gruppen ASA: 6 592
Directorships outside the Group: 0



Ellen Christine Orvin Raaholt (52)
Position: Executive Vice President, Human Resources.
Education: Law degree from the University of Oslo (1988).
Other: Former executive director of the ErgoGroup AS, where she was in charge of HR and strategic development initiatives.
Number of years with the Group: 3
Number of shares in Kongsberg Gruppen ASA: 1 022
Directorships outside the Group: 0

Even Aas (46)
Position: Executive Vice President, Corporate Communications.
Education: Economist from the University of Oslo (1988).
Other: Formerly employed by the Norwegian Confederation of Trade Unions, political adviser and later state secretary for commerce and shipping at the Ministry of Foreign Affairs. Also worked for Telenor ASA.
Number of years with the Group: 10
Number of shares in Kongsberg Gruppen ASA: 2 186
Directorships outside the Group: Federation of Norwegian Industries (a member of the Board and the Members' Council).

Stig Trondvold (54)
Position: Executive Vice President, Business Development.
Education: Graduate Engineer from the Norwegian Institute of Technology (1976), as well as MBA from IMD in Switzerland (1984).
Other: Began his professional career at SINTEF, followed by several managerial positions at AS Kongsberg Våpenfabrikk, Kongsberg Automotive AS, Kongsberg Automotive Technology AS, AP Kongsberg Ltd and Kongsberg Techmatic AS.
Number of years with the Group: 8
Number of shares in Kongsberg Gruppen ASA: 3 109
Directorships outside the Group: Kongsberg Innovasjon AS (Chair of the Board), Teknologisk Institutt AS (Chair of the Board), Research Board for Innovation – The Research Council of Norway (director).

FINANCIAL STATEMENTS

SHARES AND SHAREHOLDERS

KONGSBERG's share price climbed from NOK 175 at year-end 2006 to NOK 339 at year-end 2007. Including dividends of NOK 2.50 per share, shareholders got a 95 per cent return on investments in 2007.

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

KONGSBERG attaches a great deal of importance to keeping the equity market and the communities in which the Group operates well informed about the Group's profit trends and prospects for the future. The information will at all times be relevant and timely. It will be published in a manner that guarantees equal treatment, credibility and predictability, while creating a sound platform for the equity market's valuation of the Group. KONGSBERG strives to ensure a long-term competitive return on shareholders' investments, which is commensurate with the risk involved.

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

The Group's goal is that 30 per cent of the Group's annual profit from ordinary operations, after tax, be returned to the shareholders as dividends.

Dividends and earnings per share
Dividends have been paid every year since 1993, with the exception of 2000 and 2001, and the dividends have averaged approx. 30 per cent of the Group's net profit.

The ordinary AGM will be held on 24 April 2008. The Board of Directors will propose a dividend of NOK 5.00 per share. Any dividends adopted will be paid on 7 May 2008 to those listed as shareholders in Kongsberg Gruppen ASA on 24 April 2008. Upon payment of dividends to foreign shareholders, a deduction will be made for Norwegian withholding tax, pursuant to provisions. The company's shares will be listed on the Oslo Stock Exchange excluding dividends as from 25 April 2008.

Share price trends in 2007

Market capitalisation increased by 93.7 per cent on the year, from MNOK 5 250 to MNOK 10 170. The Group was launched on the Oslo Stock Exchange on 13 December 1993 with a market capitalisation of MNOK 643.

The total return on the share since its Stock Exchange launch was 1 133 per cent at year-end 2007. During the same years, the All-Share Index on the Oslo Stock Exchange has climbed by 522 per cent.

The share had a positive trend in 2007, ending the year at NOK 339 after ending 2006 at NOK 175. The Oslo Stock Exchange All-Share Index and the Industrial Index rose by 11.5 per cent and 42.5 per cent, respectively, during the same period.

The share's liquidity

In 2007, approx. 4.2 million KONGSBERG shares were traded in 5 158 transactions. The total value of the shares traded was

Dividends and earning per share

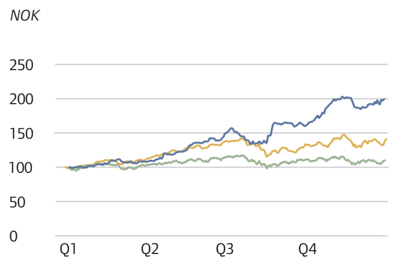
Amounts in NOK	*2007*	*2006*	*2005*	*2004[1]*	*2003[3]*	*2002[3]*	*2001[3]*	*2000[3]*	*1999[3]*
Earnings per share	16.17	8.30	7.19	3.66	4.23	7.21	4.18	(1.86)	8.84
Dividend	5.00	2.50	2.15	2.00[2]	1.30	2.10	-	-	2.25

1) The figures have been adjusted for the effects of the transition to IFRS and the sale of yachting activities.
2) Dividends for 2004 were proposed on the basis of the result prior to the MNOK 150 charge related to the NSM project.
3) The figures have not been adjusted for effects in connection with the transition to IFRS, but are presented according to NGAAP and include yachting activities.

Share price data by quarter 2007

Amounts in NOK	*Q407*	*Q307*	*Q207*	*Q107*
Opening share price	274.0	245.0	186.0	175.0
Closing share price	339.0	274.0	245.0	186.0
Investment performance during the period	23.7%	11.8%	31.7%	6.3%
Highest closing rate	345.0	282.0	245.0	190.0
Lowest closing rate	276.0	227.0	185.0	167.0
Average closing rate	321.0	258.0	216.6	178.6
Median	325.5	260.0	214.0	180.0
Volume (in 1 000 shares)	1 631	1 064	1 155	389

Share price trends in 2007



Share price trends since the Group's launch on the Oslo Stock Exchange until 31. Dec 2007

INTERVIEW

Per Haagensen, financial analyst, Fondsfinans ASA

STILL UNDER-ANALYSED

Too few analysts follow the KONGSBERG share actively. Although liquidity has picked up, most securities houses require even more liquidity to provide coverage. Some investors stay away for ethical reasons, while others are sceptical to the risk ensuing from the political ties related to weapons production. What is more, the pricing is not fair when such a small part of the company's shares is actually subject to trading.

All the same, we have noted growing interest. The rise in the share price and the company's more proactive Investor Relations work have helped. KONGSBERG is currently engaged in a constructive learning process. Today's ownership structure does not allow great changes when it comes to liquidity, but one possible tactic could be to split the share, for example, 1:3.

In my experience, KONGSBERG has become better and clearer in its communication with the financial market. Their presentations and Capital Markets Days are well attended. They have also got better at explaining what drives asset appreciation and earnings in the business areas. They might also benefit from providing more detailed breakdowns of sales and giving more details about tied-up capital, e.g. broken down by areas of activity.

There are strong indications that the company has been beat to the finish line on several of its takeover bids. That has not necessarily been a bad thing. Perhaps quite to the contrary, inasmuch as it has allowed the company the time and space to develop opportunities inherent in existing activities. By the way, I would prefer that instead of expressing growth and revenues goals, the company would set some profitability goals, for example, targets related to the return on average capital employed.

KONGSBERG has expanded in a bull market in recent years, and has been good at taking advantage of this. Ever fuller order books at Kongsberg Maritime and attractive new products in the defence segment have brought good results. However, everything has not gone their way, for instance, the USD exchange rate. That being said, I am impressed that the company is actually earning more now than it did when the USD exchange rate was high.

MNOK 1 137. In 2006, the total value of trading was MNOK 433.

In the early half of 2007, Kongsberg was noted on the OB Standard list (shares with an average of fewer than 10 trading transaction per day). In June, Kongsberg was promoted to the OB Match list (shares with an average of more than 10 transactions per day). The structure of the Oslo Stock Exchange lists is reconsidered semi-annually, based on transactions during the preceding half year. Kongsberg is still listed on the OB Match list. The Group continues its efforts to promote interest in the share.

Share capital

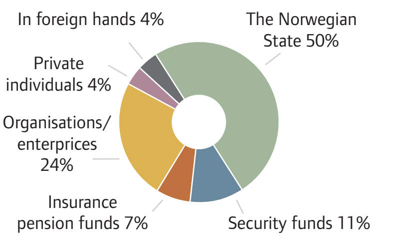
Kongsberg Gruppen ASA has share capital of MNOK 150, divided among 30 million shares with a nominal value of NOK 5 per share. There is just one class of shares, and there are no limitations on voting rights. When launched on the Stock Exchange on 13 December 1993, the Group had 5.85 million shares with a nominal value of NOK 20. In 1999, the number of shares was increased to 6 million in connection with a share issue directed at the employees. In May 1997, the share was split into four, increasing the number of shares to 24 million with a nominal value of NOK 5 per share. All key figures for 1997 and earlier years have been adjusted accordingly. In July 1999, six million new shares were issued, bringing the total up to the current level of 30 000 000 shares.

Employee share and option programmes

The Group's annual employee share programme was conducted in summer 2007. This was the eleventh time all employees were given the opportunity to buy Group shares at a 20 per cent discount. A total of 144 112 shares were sold at a price of NOK 168. Shares were allocated to 875 employees. The 2007 programme did not include options, although they have been part of preceding programmes. As from 2007, the Group will no longer be awarding options in connection with its annual share programme. In November 2007, there was an additional sale to three employees of a total of 270 shares. These shares were sold at a price of NOK 272 per share.

In connection with the employee share programme in 2005, all those who bought shares were allocated a number options corresponding to half the number of shares purchased. The strike price for these options was NOK 106. Upon expiry of the options, the share price was NOK 242.50. Employees had a choice between purchasing the shares at the agreed price or receiving a cash settlement for the

Ownership structure at 1 Feb. 2008



Breakdown of shareholders by size of stake at 31 Dec. 2007

Stake	*Number of shareholders*	*% of total number of shareholders*	*% of number of shares*
1 – 1 000	4 859	90.48%	2.86%
1 001 – 10 000	424	7.90%	3.23%
10 001 – 100 000	70	1.30%	8.33%
100 000 – 1 000 000	11	0.25%	14.71%
Over 1 000 000	4	0.07%	70.90%

Historical share information

Amounts in NOK	*2007*	*2006*	*2005*	*2004*	*2003*	*2002*	*2001*	*2000*	*1993*
Market capitalisation 31 Dec.	10 170	5 250	3 720	2 970	3 180	2 715	2 895	2 550	643 [2]
Change during the year	93.7%	41.1%	25.3%	(4.8%)	17.1%	(6.2%)	13.5%	(32.5%)	-
Closing share price, 31 Dec.	339.00	175.00	124.00	99.00	106.00	90.50	96.50	85.00	32.25
Closing share price, 1st trading day	170.00	125.00	99.00	104.00	90.50	102.00	86.50	127.00	27.5 [2]
Highest closing share price	345.00	175.00	132.00	116.00	110.00	118.00	115.00	127.00	32.5
Lowest closing share price	167.00	122.00	91.00	76.75	74.00	86.00	83.00	80.00	30.25
Average closing share price	243.51	145.79	108.34	92.21	88.97	102.26	99.80	101.30	31.10
Number of shares traded (in 1 000)	4 235	2 990	5 297	7 861	11 736	2 458	9 379	9 278	
As a % of bonus shares [1]	28%	20%	35%	52%	78%	16%	63%	62%	
Number of transactions	5 158	1 980	3 345	4 552	4 329	1 558	2 274	3 305	
Number of trading days	242	225	247	252	238	218	231	250	

1) Of the shares in circulation. The State's interest of 50.001 per cent (15 000 400 shares) is not included.
2) Stock Exchange launch on 13 December 1993.

increased value. There were 128 employees who chose to purchase a total of 20 941 shares in connection with this programme.

At 31 Dec. 2007, more than 1 000 employees own a total of approx. 650 000 shares. This corresponds to 2.2 per cent of the shares in KONGSBERG.

Treasury shares

KONGSBERG's ordinary Annual General Meeting held on 8 May 2007 authorised the Board to buy treasury shares. The authorisation is limited 5 per cent of the share capital and applies for 12 months from the date of the general meeting. At 31 December 2007, KONGSBERG owned a total of 18 585 treasury shares. Acquired shares may only be disposed of on the market, as payment for acquisitions, or through the option and share scheme for employees.

Shares owned by Board members and management

For information about shares owned by directors and corporate executive management, see Note 32 to the consolidated accounts.

Investor relations

KONGSBERG furnishes the equity market with relevant, comprehensive information as the basis for a balanced, correct valuation of the share. The Group attaches importance to maintaining an open dialogue with the equity market and media through stock exchange bulletins, press releases and other media initiatives, as well as through presentations for analysts and investors. The Group's website at www.kongsberg.com features a special section on investor relations which contains the Group's annual reports, interim reports and presentation material. The Group has been awarded distinctions for Good Information and Good English by the Oslo Stock Exchange.

During 2007, KONGSBERG organised a number of presentations in Norway and abroad. KONGSBERG aspires to be accessible to the market, and corporate management or parts of it are present at most of these events. The quarterly presentations are made available through webcasts. In September 2007, KONGSBERG organised Capital Markets Day at the Group's premises in Kongsberg. The event was well attended. There were presentations by several members of corporate management, as well as a guided tour of the facility and product demonstrations. The Group also plans to organise a Capital Markets Day in 2008.

List of the principal shareholders at 18 February 2008

Shareholder	*Antall aksjer*	*%-andel*
Norw. Govt. Repr. by the Ministry of Trade and Industry	15 000 400	50.00%
Norw. National Insurance Fund	2 676 810	8.92%
Arendals Fossekompani ASA	2 388 199	7.96%
MP Pensjon	1 203 200	4.01%
Skagen Vekst	811 400	2.70%
Odin Norge	724 690	2.42%
Orkla ASA	700 200	2.33%
Odin Norden	500 807	1.67%
Ferd AS	500 000	1.67%
Vital Forsikring	373 677	1.25%
Total, 10 largest shareholders	**24 879 383**	**82.9%**
Total number of shares	**30 000 000**	**100.0%**

Capital Markets Day in September was well attended.

FINANCIAL RISK AND MARKET CONDITIONS

Currency

KONGSBERG's policy is to limit foreign currency risk for the business areas and for the Group as a whole. At the same time, the Group takes a proactive approach to the importance of currency as a competitive parameter. Accordingly, all significant contractual currency flows are hedged (project hedges). Hedging is also used for anticipated future currency flows (prognosis hedges). These hedges, along with hedges related to major bids in foreign currency, are based on the individual business area's market and competitive situation.

The hedging strategy offsets transient currency fluctuations, and gives the Group time to make operational adjustments in the event of lasting changes.

Although the bulk of KONGSBERG's production takes place in Norway, about 70 per cent of its sales take place outside Norway. Procurements in foreign currencies are equivalent to roughly 35 per cent of sales. This means KONGSBERG has substantial net foreign currency exposure, not least in terms of US Dollars (USD).

The Group's foreign currency exposure is especially high in the offshore market where many of its competitors have their cost base in USD.

Many companies competing on the merchant marine market are located in Europe. Keener competition from Asia is increasing currency risk in this segment as well.

For Kongsberg Defence & Aerospace, all new bids will be based on market rates. Defence market customers are less sensitive to currency fluctuations.

At 31 December 2007, the Group had hedged a total of NOK 8.6 billion in foreign currencies, mainly in USD and EUR.

Hedging by objective

The hedging strategy has a two- to three-year perspective. It offsets transient currency fluctuations and gives the Group time to make operational adjustments in the event of lasting changes. We take active initiatives to reduce the effect of currency fluctuations, both by increasing the percentage of production abroad and by increasing the share of our cost base in foreign currencies.

The hedging of net anticipated future foreign exchange earnings in USD and EUR is based on a hedging matrix based on levels and time. For USD, the floor of the matrix is an exchange rate of NOK 6.00. This means that prognosis hedges will not be made in USD as long as the exchange rate is less than NOK 6.

See Note 24 to the consolidated accounts for details on hedging.

Funding

Satisfactory creditworthiness with financial institutions is a prerequisite for predictability when it comes to funding operational and investment plans. KONGSBERG is considered 'investment grade', i.e. the Group is associated with low risk. Good creditworthiness will reduce refinancing risk and financing costs.

In 2007, KONGSBERG reduced its gross debt to MNOK 700. At year-end 2007, the Group had net cash and cash deposits of MNOK 242. Borrowing requirements vary as a result of seasonal fluctuations in some areas and due to the terms of payment in major defence contracts. Any acquisitions will also affect the need for capital. At the beginning of 2008, KONGSBERG has the following loans in its central funding programme:

Bond issue	MNOK 300	Due March 2012
Bond issue	MNOK 400	Due June 2009

At the beginning of 2008, KONGSBERG has placed surplus liquidity of MNOK 700 in short-term deposits with the Group's banks.

KONGSBERG's financing is otherwise based on a syndicated credit facility (a group of banks stands behind the credit facility) of MNOK 1 000 that will mature in 2013. The credit facility was unused at 1 January 2008. Financial and liquidity management is coordinated by Kongsberg Finans, the Group's corporate financial services unit.

Interest

At year-end 2007, the Group's loan programme had an average fixed-rate period of 1.4 years. KONGSBERG has hedged its loans through fixed-interest and interest swap agreements which create predictability.

Interest swap agreements	*MNOK*	*Due date*	*Years remaining*
DnB 13	300	17 June 2009	1.5 yearsr
XiAN 11	100	17 Dec. 2008	1 year

Otherwise, reference is made to Note 24 to the consolidated accounts.

Hedging by objective

Amounts in MNOK	*Value based and agreed exchange rates*	*More- (+)/ negative (-) 31 Dec 07*	*More- (+)/ negative (-) 31 Dec 06*
Prognosis hedges (cash flow hedges)	3 292	188	57
Currency options	261	14	-
Total cash flow hedges	3 553	202	57
Project hedges (fair value hedges)	5 263	248	24
Loan hedges	123	2	-
Total	**8 939**	**452**	**81**

IMPORTANT BALANCE SHEET ASSETS

Property

KONGSBERG manages substantial real estate.

The business consists of property management of real estate owned or leased by the Group. The majority of the properties are located in Kongsberg and Horten.

Owned by KONGSBERG

	Projected gross rental income in 2008 – MNOK	*Area m²*
Kongsberg	60.4	91 800
Horten	23.3	29 500
Total	**83.7**	**121 300**

The properties enjoy fully occupancy, consisting mainly of KONGSBERG companies. Following demergers in 2005 and 2006, aggregate real property is divided among several companies, all of which are wholly-owned by Kongsberg Gruppen ASA. They have a collective book value of MNOK 508. Rental revenues reflect market rates for comparable properties in the area.

Goodwill

Goodwill is an asset that arises in connection with acquisitions. It represents the difference between the acquisition price and the items identified and capitalised as underlying assets and liabilities. Compared with other assets such as buildings, technology, receivables and stock in trade, goodwill is more abstract and complex. Our goodwill includes the value of acquired expertise and anticipated synergies ensuing from acquisitions. Synergies can consist of expertise, additional market access and distribution, sales and administration, as well as cost reductions due to more efficient processes and the coordination of central functions. Goodwill is no longer amortised, but rather impairment tested annually to see whether the value is lower than the capitalised value. If the value is lower than the capitalised value, goodwill must be written down. At 31 Dec. 2007, goodwill accounted for approx. 15 per cent of the Group's total assets. See Notes 14 and 15.

Other intangible assets

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

Adding up to about MNOK 374, R&D accounts for a significant share of our costs. In addition, R&D valued at MNOK 97 has been capitalised. The criteria for capitalisation (balance sheet recognition) are strict. There are extensive documentation requirements and the chances of success must be demonstrated before an R&D project can be recognised on the balance sheet. At an early stage, there is normally considerable uncertainty about whether a project can be brought to fruition. For that reason, many of the costs will already be incurred before they satisfy the criteria for balance sheet recognition. Accordingly, the capitalised percentage is relatively low. Even if R&D is not capitalised, it is still of significant value to the company. The percentage of R&D relative to revenue is an indicator of how much the Group invests in R&D.

Receivables

At 31 December 2007, the Group had total receivables of MNOK 1 690, cf. Note 22 to the consolidated accounts.

Amounts in MNOK	*31 Dec 07*	*31 Dec 06*
Accounts receivable	1 456	1 329
Other receivables	151	123
Prepayments to suppliers	83	30
Total	**1 690**	**1 482**

Projects

The Group's main business objective is largely to develop and manufacture products and systems based on orders received. Balance sheet values attached to long-term production contracts are reported at gross values. Outstanding gross amounts from customers for contractual work are reported as assets.

Most of Kongsberg Maritime's projects last for less than two years, and earnings on individual projects make a modest contribution to overall earnings. The projects at Kongsberg Defence & Aerospace are of longer duration and the overall earnings from each individual project make a significant contribution to the Group's operations. See Note 23.

Carpus – Kongsberg Maritime's building in Kongsberg. When built, Carpus II will cover 14-16 000 m².

KEY FINANCIAL FIGURES

Amounts in MNOK		*2007*[1) 2)]	*2006*[2)]	*2005*[3)]	*2004*[3)]	*2003*[4)]	*2002*[4)]	*2001*[4)]	*2000*[4)]	*1999*[4)]	*1998*[4)]	*1997*[4)]
Operations	Operating revenues,	8 306	6 720	5 791	5 901	6 651	6 980	6 176	5 296	4 412	4 404	3 674
	- civilian	62%	57%	59%	54%	54%	58%	63%	64%	73%	71%	71%
	- outside Norway	71%	72%	67%	69%	76%	72%	74%	74%	62%	62%	55%
	Earnings before interest, taxes, depreciation and amortisation (EBITDA)	966	627	536	410	583	673	595	465	400	417	306
	Earnings before interest, tax and amortisation (EBITA)	796	464	378	239	383	485	437	287	249	278	192
	Earnings before tax (EBT)	685	390	314	180	190	291	191	188	205	279	121
	Profit for the year	490	252	262	118	125	216	123	(56)	233	171	73
	Effective tax rate	28%	35%	32%	40%	34%	28%	38%	-	32%	33%	40%
	Net cash flows from operating activities	1 015	623	631	328	83	264	321	46	409	423	358
	EBITA margin	9.6%	6.9%	6.5%	4.1%	5.8%	6.9%	7.1%	5.4%	5.6%	6.3%	5.2%
	Profit margin (EBT)	8.2%	5.8%	5.4%	3.1%	2.9%	4.2%	3.1%	3.5%	4.6%	6.3%	3.3%
	New orders	14 338	7 672	5 683	5 323	7 421	5 725	5 967	7 648	4 123	4 604	3 952
	Backlog of orders	12 646	6 472	5 416	5 425	5 913	5 143	6 401	6 610	4 258	4 551	4 349
	Equity-financed development	374	320	325	286	302	318	282	184	185	172	146
	Equity-financed development as a % of operating revenues	5%	5%	6%	5%	5%	5%	5%	3%	4%	4%	4%
Capital	Total assets	9 214	7 356	6 586	6 258	6 008	5 597	5 629	5 371	4 012	3 949	3 412
	Employed capital	4 900	4 055	3 715	3 930	3 698	3 260	3 078	2 942	1 796	1 959	1 798
	Return on employed capital	12%	8%	7%	4%	6%	9%	8%	7%	8%	7%	6%
	Pre-payments from customers	1 938	1 497	1 617	1 044	931	818	1 028	957	858	552	555
	Net interest-bearing debt	(242)	294	282	1 101	1 164	795	776	1 029	(330)	456	126
	Net interest-bearing debt/EBITDA	(0.3)	0.5	0.5	2.7	2.0	1.2	1.3	2.2	(0.8)	1.1	0.4
	Gearing ratio	(9%)	17%	19%	68%	64%	46%	50%	73%	(22%)	41%	12%
	Equity	2 758	1 684	1 505	1 626	1 830	1 741	1 538	1 406	1 490	1 106	1 042
	Equity ratio	30%	23%	23%	26%	30%	31%	27%	26%	37%	28%	31%
	Investments	876	463	168	197	292	360	339	1 235	305	574	216
	Depreciation and amortisation	214	179	165	174	292	269	267	240	187	228	149
Employees	Number of employees	4 205	3 650	3 372	3 495	4 176	4 208	4 012	3 765	3 382	3 333	3 262
	Number of graduate engineers/engineers/ technicians incl. other degrees – 3 years or more)	3 116	2 898	2 426	2 898	2 904	2 871	2 633	2 294	2 106	1 990	1 901
	Wage share	34%	35%	35%	35%	33%	30%	30%	32%	32%	30%	33%
Owners'	Market capitalisation	10 170	5 250	3 720	2 970	3 180	2 715	2 895	2 550	3 780	1 824	1 824
values	Annual change in value	4 920	1 530	750	(210)	465	(180)	345	(1 230)	1 956	0	438
	Earnings per share in NOK	16.17	8.30	7.19	3.66	4.23	7.21	4.18	(1.86)	8.84	7.04	3.04
	P/E	20.96	21.08	17.24	27.62	25.06	12.55	23.09	-	16.20	10.80	25.00
	Dividends per share in NOK	5.00	2.50	2.15	2.00	1.30	2.10	0.00	0.00	2.25	2.00	1.00

Definitions

EBITA margin	Earnings before interest, tax and amortisation (EBITA) as a % of operating revenues
Operating margin (EBIT)	Earnings before interest and tax (EBIT) as a % of operating revenues
Profit margin (EBT)	Earnings before tax (EBT) as a % of operating revenues
Effective tax rate	Tax as a % of the profit/loss before tax
Net cash flows from operating activities	Please see the Statement of Cash Flows on page 34
Total assets	Aggregate assets
Employed capital	Total assets less short-term interest-free liabilities
Return on employed capital	EBT less tax as a % of average tied-up capital
Gearing ratio	Net interest-bearing debt as a % of shareholders' equity
Equity	Capitalised equity and subordinated loan capital from the State (MNOK 300 from 1996-98)
Equity ratio	Equity as a % of total assets
Wage share	Wages and social security expenses as a % of operating income
Annual change in value	Change in share price compared with previous year
Earnings per share	Net profit after tax divided by weighted average number of shares
P/E	Price/Earnings. Market price at 31 December divided by earnings per share

1) The figures are presented before non-recurring items related to the settlement of the pension plan and gains on the disposal of property.
2) The figures are presented in accordance with IFRS (International Financial Reporting Standard), and jointly controlled undertakings are consolidated using the proportionate consolidation method.
3) The figures are adjusted for effects at the transition to IFRS, and the sale of yachting activities and jointly controlled operations are consolidated using the proportionate method of consolidation.
4) The figures are not adjusted for effects in connection with the transition to IFRS, but are presented according to NGAAP. Jointly controlled operations are reported as associates.

PROPERTY

KONGSBERG engages in extensive property operations, consisting of industrial property management on its own account and for others. Kongsberg Næringspark is the operating company. The majority of the properties are located in Kongsberg and Horten.

Property leased to KONGSBERG activities

In addition to the Group's own properties, 36 000 m^2 are subleased to Group companies. These properties are located in Oslo, Asker, Lillestrøm, Trondheim and Stjørdal.

Property owned by external owners, but managed by Kongsberg Næringsparkutvikling

These properties were previously owned by KONGSBERG and were subsequently sold through sale-leaseback agreements, cf. Note 31 to the accounts. Collectively, these comprise 106 800 m^2. All in all, KONGSBERG has about 264 000 m^2 of real property under management.

New composite plant

KONGSBERG is building a new industrial building for the production of aircraft components in composite and a factory for advanced machining of titanium. The building is just less than 30 000 m^2 in size, and will be ready for occupancy in 2008. This initiative is motivated by the planned acquisition of new Norwegian fighter craft. KONGSBERG has already signed long-term framework agreements with Lockheed Martin and Northrop Grumman for the production of composite products for the new Joint Strike Fighter. The Government would like any acquisition of new fighter craft to provide Norwegian industry with a significant boost in advanced materials technology. Consequently, KONGSBERG is working with all three candidates on plans for technological development and production related to advanced composites. The plant is one of the largest industrial complexes constructed in Norway in recent years. In full operation, it will accommodate approx. 350 workplaces.

New building planned

A pilot project was conducted in 2007 in connection with a new building for Kongsberg Maritime in Kongsberg. The building will cover approx. 17 000 m^2 and be ready for occupancy in late 2009.

It is expected that the new composite facility in Kongsberg will be engaged in industrial production for the next 30 to 50 years.

SUSTAINABILITY REPORT

Corporate social responsibility – part of our day-to-day routines

We should not merely create value, we should also stand for value.

One of our sustainable development goals is to understand and meet the local and global challenges society faces in the geographical areas in which we operate.

INTRODUCTION

KONGSBERG aspires to achieve sustainable development, i.e. to strike a good balance between financial results and corporate social and environmental responsibility. This is because corporate social responsibility and the environment are to be integral parts of the Group's daily routines.

This part of the report is intended to give our stakeholders an idea of the Group's activities from the point of view of sustainability. All companies in which we have a stake of more than 50 per cent are included in the report.

The Sustainability section is divided into three main chapters: financial management, corporate social responsibility and environmental management. This report is based on the principles outlined in the Global Reporting Initiative (GRI). This report includes criteria for which we have not provided answers. This is because we lack information and the data required by G3. Our ambition is to report on all G3 criteria that are relevant for our business operations.

We consider this year's report to satisfy the requirements for level B in G3. This is the same reporting level as last year. The report has not been independently verified. The responses to the indicators are interspersed throughout the text. The last pages of the report refer to the individual GRI indicators and to where they are discussed in the report.

GRI model		C	C+	B	B+	A	A+
Compulsory	Self-declared			KONGSBERG			
Optional	External Verified						
	GRI verified						

KONGSBERG does not have a separate reporting system for corporate social responsibility. The information in the report is based on information obtained from different parts of the organisation. The data is based on estimates in certain areas.

POLICY FOR CORPORATE SOCIAL RESPONSIBILITY

KONGSBERG's Environmental Policy and Policy for Corporate Social Responsibility were drawn up for the first time in 2002 and 2003. Since then, the content of the concept and expectations about how the Group will deal with the issues have changed and expanded in scope. Accordingly, we have drawn up a new policy.

POLICY FOR CORPORATE SOCIAL RESPONSIBILITY

Introduction

KONGSBERG aspires to achieve sustainable development, i.e. to strike a good balance between financial results and corporate social and environmental responsibility. The value created will accrue to owners, stakeholders and society-at-large.

The Group's work with corporate social responsibility shall be on a par with general national and international developments in this area. The quality of the work and the importance attached to it are to be commensurate with the expectations of owners, customers and other stakeholders.

KONGSBERG's goals for corporate social responsibility are to understand and meet the local and global challenges facing society in the geographical areas in which KONGSBERG operates.

The Group's suppliers and other partners are expected to comply with basic principles for corporate social and environmental responsibility which coincide with KONGSBERG's own principles.

Integrity and transparency are the linchpins of the Group's work with corporate social responsibility.

Corporate social responsibility

KONGSBERG endorses the UN Global Compact and actively strives to promote the initiative's 10 basic principles. Correspondingly, the Group will promote the intentions of ILO conventions and of the OECD Guidelines for Multinational Companies. KONGSBERG's employees shall comply with the Group's corporate Code of Ethics, which reflects attitudes expected and accepted by the community. The Code of Ethics will be updated regularly to stay abreast of trends in society.

Employees

KONGSBERG's employees are to be challenged to take full advantage of their abilities and to contribute to the Group's progress as well as their own. They are to be taken seriously, treated with respect and given orderly working conditions.

KONGSBERG is to be a corporation with an abundance of diversity. Naturally, health and safety are to be given priority and all KONGSBERG employees are to have equal opportunities, regardless of gender, age, and cultural or religious background.

Human rights

KONGSBERG will work systematically to promote internationally acknowledged human rights. All the Group's activities are to comply with the UN's Universal Declaration of Human Rights. There is to be no abuse of human rights in the company.

Corruption

KONGSBERG will work systematically to fight all forms of corruption. There is to be no corruption in the company.

Local commitment

By making social investments, we can make positive contributions to the local communities in which the Group operates.

The environment

KONGSBERG is to be a responsible corporation in terms of the footprint it leaves on the outdoor environment. This means we will strive to ensure that direct harmful influences on the outdoor environment, including emissions of greenhouse gases resulting directly or indirectly from our operations.

KONGSBERG endorses the UN Global Compact and actively strives to promote the initiative's environmental principles. Correspondingly, the Group will work to promote the environmental intentions of the OECD Guidelines for Multinational Companies.

Climate

KONGSBERG will work to reduce the direct and indirect greenhouse gas emissions resulting from its operations. In its operations, the Group will strive to use energy in an efficient, environment-friendly manner.

Products

The Group will make active efforts to find innovative product solutions that can reduce greenhouse gas emissions in the areas in which we operate. Product development, production, distribution, and the use and recycling of KONGSBERG products will be compatible with long-term sustainable social development. KONGSBERG will strive to minimise product-related environmental burdens.

Stakeholders

KONGSBERG cooperates on environmental and safety issues with customers, partners and suppliers to find the most environment-friendly solutions possible in the short- and the long-term perspectives.

Employees

KONGSBERG strives to raise awareness and to motivate the organisation and individuals to get involved in environmental issues.

Follow up

We will ensure that our work within corporate social and environmental responsibility is planned in a professional manner and integrated into the Group's business strategy, making it part of the Group's business planning and follow-up routines.

The Group's Policy for Corporate Social Responsibility will provide an overarching framework for efforts related to corporate social and environmental responsibility, and will be evaluated at least every second year.

KONGSBERG's external reporting routines shall comply with the principles set out in the Global Reporting Initiative (GRI).

KONGSBERG's Policy for Corporate Social Responsibility is laid down by the Group's Board of Directors.

KONGSBERG'S VALUES

KONGSBERG's values are to be normative for how we behave and work, and should characterise our cooperation within and outside the company.

Shared values are essential for building a strong corporate culture and a good reputation. This can help us bring out the energy in our organisation and support our vision: World Class – through people, technology and dedication.

The customer
The customer will remain at the centre of our attention at all times as we focus on how to further improve the customer's value creation. We are dependent on building up loyalty and confidence.

Quality
Reliability must permeate everything we do and deliver, giving customers confidence in our products and services. High quality is to be one of our hallmarks.

Boldness
Co-workers who think bold thoughts and managers who give such thoughts the opportunity to grow, can contribute to further innovation in our ranks. Transparency is a key word when it comes to boldness.

Network building
Teamwork is essential within the Group and relative to all KONGSBERG's external relations. Coordination and the re-use of knowledge are profitable and help motivate co-workers, at the same time as they create excess value internally and externally.

KONGSBERG AND THE DEFENCE BUSINESS

KONGSBERG is Norway's premier supplier of high-technology defence systems and products. Defence activities account for 38 per cent of the Group's aggregate turnover.

CEO Walter Qvam

KONGSBERG develops and manufactures weapon and defence systems. How is this related to the goal of conducting ethical and socially responsible operations from the perspective of sustainability?

There is broad political consensus that Norway should have armed forces and a defence industry. KONGSBERG is a cornerstone of this industry in Norway, as we have been for nearly 200 years. First of all, this means that we, in accordance with parliamentary and Government policy, perform an important service to society with a view to our defence capability. Further, it means that we maintain and develop substantial technological expertise which also benefits the Group and the community through our civilian business areas.

We operate within the parameters of prevailing legislation and regulations and within generally accepted norms for ethics and corporate social responsibility.

The global defence industry is accused of being one of the most corrupt industries in the world. How does KONGSBERG tackle the challenge?

We do not accept that as a general description of the industry, although we acknowledge that there are fly-by-night players around. KONGSBERG is very clear about where it stands. Norwegian law establishes that corruption is illegal. That ban also applies outside the country's borders. Moreover, our corporate Code of Ethics states that we are opposed to all forms of corruption. Within the Group, we have engaged in processes that include practicing various dilemmas that could arise, and we have established in-house warning systems for irregular decisions, actions and agreements. We joined Transparency International Norway in 2007. This constitutes an important signal about our staunch attitudes against and resistance to corruption.

What type of defence products does KONGSBERG sell?

KONGSBERG does not manufacture the types of weapons usually blacklisted by ethical funds, e.g. cluster bombs, land mines, nuclear weapons or small firearms.

Most of our defence businesses deliver systems for weapon command and control, decision-support and communication.

The PROTECTOR (RWS) system was developed to protect military personnel in armoured vehicles by allowing the operator to inside in a protected position. This means the operator of the weapon system feels safer and is thus less stressed under operative circumstances, reducing the risk of unintentionally using the weapon.

Mention should also be made of the new NSM anti-ship missile developed on commission for the Norwegian Armed Forces. The production contract was approved by the Storting in 2007 after no fewer than 10 years of development. This is the world's most advanced missile in its class, and it is a quantum leap for KONGSBERG in terms of technology. As we have experienced before, this technology, knowledge and expertise will gradually also see areas of application in our civilian business activities.

How can KONGSBERG be sure that its products do not fall into the wrong hands?

The Norwegian authorities practise one of the world's strictest sets of regulations for the export of defence products. The regulations, which are adopted by the Storting, allow us to sell our defence products to approved countries only. All exports require permits issued by the Royal Norwegian Ministry of Foreign Affairs.

They also require that a declaration be made by the end user if we sell our products to countries outside NATO. In other words, it is the government of the recipient country which guarantees that the product will be used for the agreed purpose. Where a delivery from us is just a small part of a larger system, the export regulations in the recipient country apply.

We are not only subject to a strict export regime, we are also largely a systems supplier. To be functional, our products and systems require considerable national infrastructure. This, in turn, means that it is highly unlikely that our products and systems can get lost in the shuffle.

What is the ethical dilemma?

It is a dilemma that, in extreme situations, our products can help take lives. That is in the nature of the defence industry, whether it refers to the defence of our own country or our systems being used in conflict situations in other parts of the world. There is, however, broad political consensus that we have armed forces, and that Norway, as a nation, uses Norwegian procurements of defence materiel to further develop the technological expertise of Norwegian industry. This expertise will support the Armed Forces' own materiel procurements, and military technology is often the point of departure for developing civilian products and systems. We have many examples of this at KONGSBERG.

INTELLECTUAL CAPITAL

KONGSBERG considers intellectual capital to be part of the sustainability concept. Our ability to innovate and create value over time is reflected in how we manage and develop our intellectual capital.

KONGSBERG's model for intellectual capital is based on interaction. The key to good teamwork (interaction capital) is to get employees and the organisation to work together within the Group and with customers outside the Group. In 2007, it was important to further processes initiated in 2006, while laying the foundation for 2008.

Leadership principles and practices

Good leadership is decisive for reaching our goals. This has resulted in the development of a leadership model consisting of common leadership principles and practices. Their purpose is to give all KONGSBERG employees a clear signal about what kind of leadership the Group values most. The leadership model is the point of departure for our in-house leadership development programmes, which are held continuously for new managers.

New executive management programme

In 2007, the Group began developing a new executive management programme. The goal for 2008 is for 130 managers to complete the financial module, which is the first module in the executive management programme. Several modules will be developed for the programme in 2008.

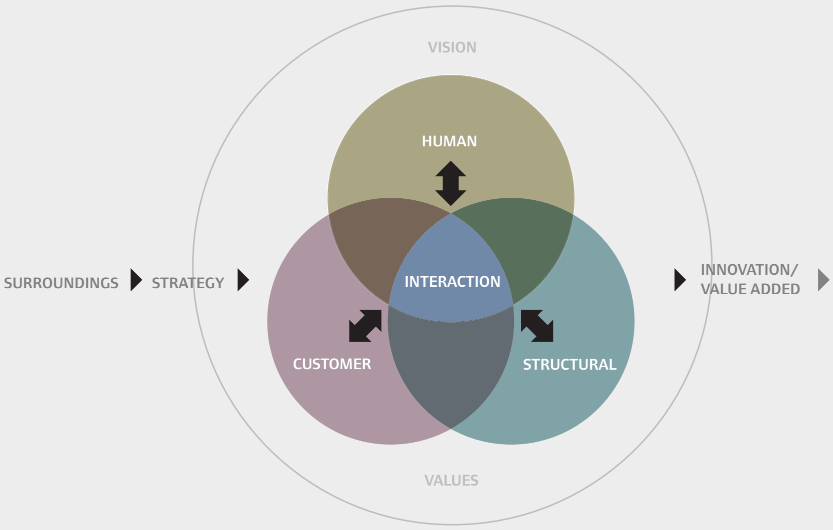
Development programme for project managers

Human resources development across the Group is an important target area for KONGSBERG. The past few years have seen the emergence of a need to better understand the different roles of project manager and line supervisor. The goal is to improve project implementation.
A module-based programme gives project managers basic line supervisor competence while line supervisors get basic project manager competence. In 2007, 330 managers participated in this programme.

Recruitment and visibility

In 2007, KONGSBERG conducted a series of public relations activities aimed at educational institutions in Norway and Sweden. The Group has also established closer co-operation with colleges and universities to ensure access to the expertise it needs. Cooperation consists mainly of human resources development and research collaboration. The Group has set up a mentoring programme, where senior engineers from KONGSBERG have regular meetings with engineering students.

The KONGSBERG model for intellectual capital



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

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

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

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

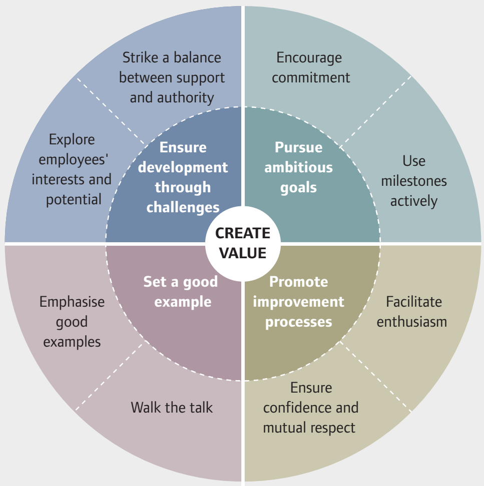
New opportunities for sharing knowledge

KONGSBERG attaches a great deal of importance to the sharing of knowledge and expertise across the organisation. Interaction, coordination and the re-use of knowledge are profitable and motivating for co-workers, at the same time as they create excess value internally and externally. The new Intranet portal INSIDE will be an important policy instrument for sharing knowledge and talking about lessons learned.

Master's in Systems Engineering

Buskerud University College has developed a whole new master's programme in Systems Engineering offered in collaboration with Kongsberg Industry, NHO and Steven Institute of Technology of the USA. It is under the auspices of the Norwegian Centre of Expertise (NCE), Systems Engineering in Kongsberg. Parallel to their studies, students temporarily work in a paid part-time position in one of NCE's eight partner enterprises in Kongsberg. The programme is 50/50 work/study. KONGSBERG currently has five students in the three-year programme. We also provide specialist expertise through a professor II position on the faculty of Systems Engineering.

Leadership model



KONGSBERG's model for WORLD CLASS leadership consists of four leadership principles. Each leadership principle is associated with two key leadership practices. The principles and practices are:

Pursue ambitious goals
World Class leadership involves setting crystal clear ambitions and establishing clear, attractive conceptions of our goals and strategy

Leadership practices
Leaders are to encourage commitment to reaching our goals through involvement and transparency. They should be accessible and use milestones actively.

Promote improvement processes
World Class leadership includes initiating and sustaining the momentum of improvement processes every step of the way.

Leadership practices
Leaders shall ensure confidence and mutual respect. Facilitating widespread enthusiasm will ensure that ideas for operational improvements and innovation develop naturally.

Set a good example
World Class leadership means setting a good example, especially when doing so is difficult and challenging

Leadership practices
Leaders should 'walk the talk'. By rendering visible and emphasising others' good examples, leaders reinforce team spirit and the feeling of mastery.

Ensure development through challenges
World Class leadership means promoting results through employees' development when facing challenges

Leadership practices
Leaders are to build good teams by actively exploring employees' interests and potential. Through close dialogue, leaders are to strike a balance between support and authority.

INTERVIEW

KONGSBERG employees in Mumbai
Purvi Sahay, engineer, Process Simulation
Samiksha Solanki, engineer, Process Control
Aakshi Sharma, ware engineer, Technology Base

EFFECTIVE COMMUNICATION IS ESSENTIAL

What challenges do you encounter when you are far from the main office?
Working in different time zones is a challenge. It is more difficult to coordinate with the head office in Norway and with KONGSBERG's offices the world over. We attach a great deal of importance to planning projects carefully, so that we are sure we can deliver on time. In connection with project implementation, we strive to use efficient means of communication, e.g. telephone and video conferencing, e-mail, Skype or the like, to communicate with other offices. This is how we build competence.
What is the key to successful interaction?
We must acquire sufficient expertise to be able to supply our best and contribute to KONGSBERG's growth. Successful teamwork between offices is the key to such success. The subsidiaries should be involved in the main office's activities, so that we are informed about updates, tools and procedures. All documents and all e-mail should be in English. Clear communication is crucial to understanding the needs and requirements that exist. This makes it simpler to achieve our goals and deadlines.
How important are good relations with customers, co-workers and other partners?
An organisation is a group of people who work together to achieve success. Good relations to customers and partners are essential to achieve effective communication and a good understanding of each other. This leads to the efficient utilisation of resources. It is also important to have good relations with our employees. They are the people with whom we work together as a team every day, often for many hours on end.
What can be achieved by bringing different corporate cultures together?
The Group expands its expertise in the interface in which corporate cultures from East and West meet. This contributes to diversity. A well diversified corporate culture helps ensure that KONGSBERG leaves a stronger international footprint.

THE WORLD OF KONGSBERG

EUROPE

Norway
Svalbard (Spitsbergen)
England
Greece
Italy
The Netherlands
France
Austria
Spain
Scotland
Sweden
Germany
Poland

Operating revenues
MNOK 4 398

Number of employees
3 618

ASIA

India
China
Singapore
South Korea
Japan
The United Arab Emirates
Oman
Kuwait
Saudi Arabia

Operating revenues
MNOK 1 762

Number of employees
362

NORTH AMERICA

USA
Canada

Operating revenues
MNOK 1 871

Number of employees
221

SOUTH AMERICA

Brazil

Operating revenues
MNOK 73

Number of employees
0

AFRICA

South Africa

Operating revenues
MNOK 85

Number of employees
4

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

Kongsberg Maritime is located in Kongsberg, Asker, Horten, Oslo, Kristiansand, Stavanger and Trondheim, and engages in development, production, testing, sales and service. Kongsberg Defence & Aerospace has its main base of activities in Kongsberg, and has facilities in Horten, Billingstad, Kjeller, Stjørdal, Tromsø and Svalbard. All these places engage in development, production, testing, sales and service.

The UK
With oil activities concentrated in the North Sea, it is natural for Kongsberg Maritime's centre for offshore activities to be located in Aberdeen, Scotland. Product development and the production of underwater cameras take place in Wick, Scotland, and we have a small engineering and support unit in Waterlooville in Hampshire. Kongsberg Norcontrol IT has a sales and service office in Bristol.

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

South Korea
Kongsberg Maritime has its main business in South Korea in Jungkwan outside Busan. The company's responsibilities are sales, engineering, installation, commissioning and service/support, as well as some local production. We are building up a local presence in the world's largest shipbuilding nation. Our wish is that customers will consider us as a reliable, local contractor that knows the customer's business operations and communicates in the customer's own language. Highly qualified local employees usually make it unnecessary to send people from Norway to run operations.

Singapore
Kongsberg Maritime's activities in Singapore generally focus on sales, installation, commissioning and service/support. Singapore has one of the world's largest harbours. We have equipment on board more than 17 000 vessels, so it is imperative to maintain a presence in such a major maritime hub. Singapore is also an important shipping and shipbuilding nation, making it very important for Kongsberg Maritime to provide good service there. Kongsberg Norcontrol IT makes significant deliveries to Singapore's vessel traffic monitoring systems, and is also represented there.

China
Kongsberg Maritime's activities in Shanghai are operated in collaboration with Hoi Tung, our long-standing partner in China. The main intention is to operate as a local supplier to the Chinese shipyard industry. We also have local production, mainly of cabinets and the equipment that goes into them. Given China's swiftly growing share of the global shipbuilding market, the company has the potential to become an increasingly important part of our international operations in the merchant marine sector. The Shanghai activities now also have a regional office in Dalian.

India
Kongsberg Maritime mainly makes software in Mumbai. The scope of activities is expected to increase in 2008, as the Indian market is growing.

Japan
Kongsberg Maritime has recently set up a sales office in Japan.

Kongsberg Defence & Aerospace
Kongsberg Defence & Aerospace has business activities in the United Arab Emirates, Oman, Kuwait and Saudi Arabia, focusing mainly on operations and the delivery of tactical radio and communications projects.

USA
Kongsberg Maritime has operations in Seattle (Washington) Houston (Texas), New Orleans (Louisiana) and West Mystic (Connecticut). These units are mainly devoted to sales and customer support. The unit in Seattle is also engaged in technological development and the adaptation of existing products to the US market.

Kongsberg Defence & Aerospace has a unit in Johnstown (Pennsylvania) which manufactures and maintains the PROTECTOR weapon control system for armoured personnel carriers for the US Army.

Canada
Kongsberg Maritime's largest base in Canada is located in Vancouver on the west coast. The unit there is engaged in proprietary product development and production. Operations in Vancouver are based on hydroacoustics-related technology, and are an integral part of Kongsberg Maritime's other underwater activities. In addition, Kongsberg Maritime has offices at two locations on the east coast, i.e. Nova Scotia and Newfoundland. All undertakings focus on sales and customer support.

Kongsberg Defence & Aerospace is represented by virtue of Gallium Visual Systems Inc. in Ottawa. The company is known for its map graphics tool for military command and control systems.

Brazil
Kongsberg Maritime's operations in Brazil are closely associated with its local agent in Brazil: REM. The office handles sales, service and commissioning of offshore vessels, in addition to user training.

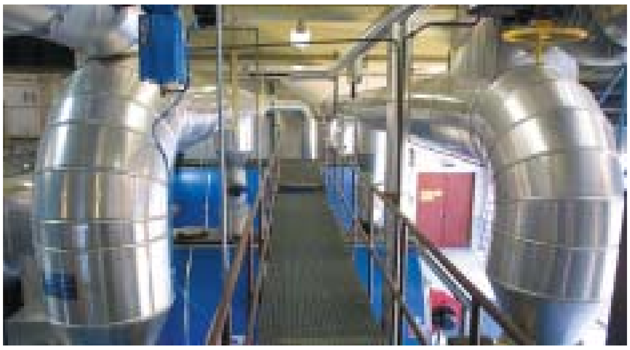
Business is booming on the oil fields outside Rio de Janeiro. The shipping industry has grown formidably as the country's political and financial situation has developed. Kongsberg Maritime currently has a number of delivery and commissioning projects in the area that are handled by local personnel. Kongsberg Maritime's training centre in Macaé near Rio de Janeiro offers a variety of training programmes for Brazilian crew members.

Africa
Kongsberg Norcontrol IT is represented in Johannesburg and Durban, South Africa, where the company is engaged in software development and service.

ACTIVITIES 2007

The following is a list of KONGSBERG's main goals and achievements in 2007.

Objectives	Activities	Status	Execution
CORPORATE SOCIAL RESPONSIBILITY (CSR)			
Strategy for corporate social responsibility Draw up a new strategy that can be integrated into the Group's other strategies	▪ Formulate and incorporate the strategy for corporate social responsibility into the Group's STP document in the early half of the year ▪ Get the operative units involved	▪ Strategy for corporate social responsibility is incorporated into the Group's STP	
In-house expertise and external cooperation Improve in-house expertise and reinforce external networks	▪ Implement measures to improve in-house information and involvement ▪ Maintain and build external networks	▪ Measures implemented ▪ Contact with the network maintained	
External evaluation Use external expertise to evaluate the Group's position with a view to corporate social responsibility	▪ An evaluation was to be conducted in autumn 2007	▪ Not implemented, but there are plans for a CSR risk assessment in spring 2008	
ENVIRONMENT			
Climate measures Continued reduction of own greenhouse gas emissions	▪ Initiate a project for assessing potential measures ▪ Involve employees in brainstorming	▪ Not implemented ▪ Work in progress, but not done	
Source separation Decrease residual waste	▪ The percentage of source separation of residual waste shall be at least as high as the current level, i.e. 60 per cent of the total volume of waste.	▪ The percentage of source separation is currently 60 to 65 per cent	
Energy Reduce energy consumption (stands firm from 2006)	▪ Decrease energy consumption in Kongsberg Industrial Park by 25 per cent by the end of 2008, relative to the 2003 level ▪ Implement energy conservation measures in respect of KONGSBERG units outside Kongsberg Industrial Park ▪ Energy conservation at Kongsberg Defence & Aerospace	▪ The reduction at year-end 2007 is 15 per cent ▪ Energy conservation initiatives outside Kongsberg Industrial Park not implemented ▪ Some energy conservation measures have been initiated at Kongsberg Defence & Aerospace	



OBJECTIVES 2008

The following is a list of KONGSBERG's main objectives and activities for 2008.

Objectives	Activities
CORPORATE SOCIAL RESPONSIBILITY (CSR)	
Operative involvement ▪ Involve the operative units in CSR goals and strategy	▪ Implement risk project related to reputation/CSR ▪ Establish a CSR strategy in Executive Management and the management groups at Kongsberg Maritime and Kongsberg Defence & Aerospace
Ethics ▪ Revise the corporate Code of Ethics	▪ Provide information about the changes in the revised version
▪ Provide instruction and training on ethical issues	▪ Consider making interactive e-learning modules ▪ Make instruction and training an integral part of the Group's leadership development programmes ▪ Include the topic as an element of working environment surveys ▪ Follow up the leadership responsibility attached to compliance with the corporate Code of Ethics
ENVIRONMENT	
Climate-related measures ▪ Continue efforts to decrease greenhouse gas emissions	▪ Develop products and systems which enable our customers to reduce their own emissions. Product development should insofar as possible be based on materials which take account of the environment and insofar as possible are designed for re-use and recycling ▪ Exchange ideas with other Norwegian companies/institutions
▪ Get employees involved to raise awareness relative to greenhouse gas emissions	▪ Climate-related measures as a topic on Intranet – Involve employees in brainstorming about how to reduce emissions
▪ Transportation	▪ Pave the way for less motoring
Energy saving ▪ Continue the ENOVA project under the auspices of Kongsberg Industrial Park	▪ Decrease energy consumption at Kongsberg Industrial Park by 25 per cent by the end of 2008, relative to the 2003 level ▪ Implement energy conservation measures in respect of KONGSBERG units outside Kongsberg Industrial Park
▪ Take special environmental considerations in new buildings	▪ Energy conservation at Kongsberg Defence & Aerospace
Source separation ▪ Continue source separation under the auspices of Kongsberg Industrial Park	▪ The percentage of residual waste shall be at least as high as the current level, i.e. 60 per cent of the total volume of waste
In addition to the above, further efforts will be made to achieve objectives from previous years	

FINANCIAL AFFAIRS AND ADDED VALUE

INTRODUCTION

KONGSBERG aspires to strike a good balance between financial results and corporate social and environmental responsibility.

KONGSBERG creates values in the areas and countries in which we operate. This is done directly by paying dividends to our owners and wages to our employees, and indirectly by purchasing goods and services from suppliers. Moreover, value is created through our emphasis on research and development.

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

The tables below show the cash flows generated by our operations and a breakdown of values, by our main stakeholders.

Payroll and social security expenses

In 2007, payroll and social security expenses aggregated NOK 2.8 billion, up NOK 0.5 billion compared with 2006. Payroll and social security expenses accounted for 38 per cent of total operating expenses, which is on a par with the figures from previous years.

Procurement of goods and services

KONGSBERG spent approx. NOK 7.0 billion on procurements in 2007. This was an increase of about 100 per cent from 2006. The procurements are distributed among approx. 3000 suppliers, and approx. 75 per cent of the orders are placed with or through Norwegian companies, even though the products are largely manufactured abroad. Procurements from outside Norway accounted for about 70 per cent. The Group aspires to buy more from local suppliers.

Taxes

The Group's total taxes came to MNOK 293 for 2007. This is an increase of about 110 per cent from the previous year. Tax expenses by geographical area:

Amounts in MNOK	*2007*	*2006*	*2005*
Norway	261	99	91
Rest of Europe	12	9	1
North America	10	4	3
Asia	10	26	4
Total	**293**	**138**	**99**

Value added and distribution of profit

Amounts in MNOK	*2007*	*2006*	*2005*
Operating revenues (excluding non-recurring items)	8 306	6 720	5 791
Payroll and social security expenses (net after tax)	1 338	1 206	1 060
Payments to subcontractors	6 968	3 400	2 300
Interest to lenders	59	51	54
Support for organisations and public utility causes	1.9	1.8	1.6
Earnings before tax and dividends	**1279**	**390**	**314**
Taxes	293	138	99
Profit for the year	986	252	262
Dividends paid to the shareholders	150	75	65
Retained earnings	836	177	197

Consolidated operating revenues, by geographical area

Amounts in MNOK	*2007*		*2006*		*2005*		*2004*	
Norway	2 417	29%	1 892	28%	1 920	33%	1 820	31%
Rest of Europe	1 981	24%	1 764	26%	1 402	24%	1 854	31%
America	2 038	25%	1 512	23%	1 180	20%	1 155	20%
Asia	1 762	21%	1 415	21%	1 181	20%	990	17%
Other	108	1%	137	2%	108	2%	82	1%
Total	**8 306**	**100%**	**6 720**	**100%**	**5 791**	**100%**	**5 901**	**100%**

Dividends

The Board of Directors proposes to the AGM a dividend for 2007 of NOK 5.00 per share. If the proposal is adopted at the AGM on 24 April 2008, dividends will be paid as follows, provided the ownership structure at 28 February remains unchanged.

Amounts in MNOK	*2007*	*2006*	*2005*
The Norwegian state	75	37.5	30.2
Organisations/enterprises	36.3	17.25	14.2
Securities funds	16.5	9.0	10.3
Insurance/pension funds	9.9	4.5	3.8
Private individuals	6.6	3.75	3.2
Foreign owners	5.7	3.0	0.6
Total	**150.0**	**75**	**64.5**

Climate change

The UN Intergovernmental Panel on Climate Change (IPCC) has never been more certain that climatic change is primarily ascribable to man-made emissions of greenhouse gases. According to researchers on the IPCC, we have only seen the tip of the climate change iceberg thus far. In the wake of the UN report, new research indicates that the changes may be coming more quickly than previously anticipated.

In view of the serious global challenges described in the UN's 2007 report, we must consider the consequences for KONGSBERG. As a first step, the Group has included the climate in its environment-related objectives when it comes to the Group's internal conditions as well as in connection with product development.

Tax rebate

KONGSBERG received some MNOK 2 in tax refunds from the Norwegian tax authorities. The tax refund is related to tax schemes associated with development projects.

Transparency International
KONGSBERG has joined Transparency International (TI), a non-profit, nonpartisan organisation intended to fight corruption at the national and international levels. The organisation was established in 1993 and is based in Berlin. Through national chapters in 90 countries, government authorities are encouraged to implement efficient legislation and policies against corruption. Along with international organisations, TI aspires to ensure transparency in international business transactions. TI also strives to increase the general public's awareness of corruption, and the organisation's corruption indices are recognised as being systematic and verifiable. Membership in TI is open to everyone who supports initiatives to reduce corruption.

Transparency International-Norway (TI-Norway) is the Norwegian chapter of Transparency International. Founded in 1999, TI-Norway has the same paramount objectives as the rest of the organisation. The Norwegian chapter is funded by membership dues, support from the State and support from business and industry.

DIALOGUE WITH OUR STAKEHOLDERS

Below please find a list of the groups of stakeholders with which KONGSBERG maintains an active dialogue:

Our customers
The customer is always the centre of our attention. We aspire to live up to customers' expectations of us. Customers' needs and expectations change constantly. Close dialogue is therefore a prerequisite for success. For several years, we have considered customers to be one of our four core value areas.

Our owners and investors
KONGSBERG's paramount objective is to enhance shareholder value. Transparency and trust are the basis of our dialogue with owners and investors. We strive to ensure that all players are treated equally. Our regular routines and channels are:

- Our website always contains up-to-date investor information.
- We strive to ensure that our annual report always exceeds expectations.
- We have regular routines for making market presentations.
- We also make a number of investor presentations in Norway and abroad.

All the Oslo Stock Exchange's disclosure requirements are satisfied. KONGSBERG has earned the Stock Exchange's Information Flag and Distinction for Good English.

Our employees
We emphasise maintaining an open, good dialogue with our employees through different types of committees, where corporate management and union representatives meet regularly for briefings and discussion. We have regular works council meetings. Moreover, we organise an annual meeting for all union representatives which corporate management attends.

Our suppliers
We collaborate closely with our suppliers. Our buyers are in the front lines of this contact. The corporate Code of Ethics states that suppliers are to be treated impartially and fairly and that they can rest assured that they compete for KONGSBERG contracts on an equal footing with other suppliers. The Group has set ethical, corporate governance-related and environmental standards for this group of stakeholders.

Our allies and partners
Both business areas work with numerous partners. They are crucial for product development and market contact. As a niche player in the defence market, KONGSBERG is sometimes dependent on alliances to ensure market access for its products.

The authorities and society-at-large
A close dialogue with the authorities is essential for ensuring the best possible conditions for KONGSBERG as a player on the international market. The authorities are both the customer and the decision-maker for most major defence procurements. Accordingly, our dialogue with the authorities is based on trust, transparency and honesty. We conduct a close, good dialogue with the social partners. We also work actively to make positive contributions to the local communities in which we are heavily represented.

Organisations
KONGSBERG supports the UN Global Compact and is a member of the Global Compact's Nordic network. In 2007, we joined Transparency International. We are engaged in a dialogue with the organisation about how we can contribute to the struggle for transparency and the war on corruption.

SYSTEMS OF GOVERNANCE FOR CORPORATE SOCIAL RESPONSIBILITY

KONGSBERG depends on good, effective governance and control systems to achieve its goals. Our overall system of governance is related to the 'The Norwegian Code of Practice for Corporate Governance'. It is important to achieve smooth, responsible interaction between owners, the Board, management and different stakeholders.

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

The Board of Directors
The Board's main responsibility is to look after all the shareholders' interests.

In addition, the Board has a responsibility to the Group's other stakeholders.

The corporate Board of Directors bears the ultimate responsibility for KONGSBERG's contribution to sustainable development. The Sustainability Report is put before and discussed by the Board.

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

The Business Areas (BAs)
The practical efforts involved in corporate social responsibility and environmental activities are usually handled by the BAs. Each BA has a designated person in charge of environmental efforts and one for corporate social responsibility.

The Environmental Forum
The Environmental Forum is responsible for following up, evaluating and proposing changes to and adjustments in the Group's environmental policy. The Forum is also responsible for drawing up and proposing environmental goals at the corporate level, for following up the goals in the business areas, and for routines and reporting at the corporate level. The Environmental Forum is comprised of representatives of the two main BAs, the property management company, union representatives and the parent company.

Quality assurance
It is a challenge to find good, relevant follow-up systems for policy, strategy and objectives in the field of corporate social responsibility. We are striving to find good solutions for this.

For further information about KONGSBERG's governing bodies, see pages 104–115.

CORPORATE SOCIAL RESPONSIBILITY

INTRODUCTION

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

KONGSBERG's goals for corporate social responsibility are to understand and meet the local and global challenges society faces in the geographical areas in which KONGSBERG operates. We will spend more time on this area in 2008.

KONGSBERG has joined the UN's Global Compact initiative. The initiative coincides with the Group's own Code of Ethics and attitudes. We feel it is important for business and industry to shoulder its share of the responsibility for how tomorrow's world should look. This is a responsibility we take seriously. In 2007, we also joined Transparency International. We hope to cooperate well with the organisation in the war on corruption.

THE UN GLOBAL COMPACT

Global Compact is a voluntary UN initiative under which business and industry endorse and respect 10 principles associated with human rights, labour rights, environmental obligations and the fight against corruption. Former UN Secretary-General Kofi Annan took the initiative for the Global Compact in 1999. The objective is to get the private sector to contribute to reaching targets relating to reducing poverty and promoting sustainable development. Companies which join Global Compact undertake a commitment to support and run their operations in compliance with the 10 principles. KONGSBERG joined Global Compact in 2006, and our commitment is underlined in the CEO's introduction on page 5 of this report.
At the end of 2007, approx. 5 000 companies and institutions from more than 100 countries had joined the initiative, including 20 Norwegian companies. The table below indicates where the 10 principles are discussed in this report.

For more information on Global Compact, see **www.globalcompact.org**

		Page
Human rights		
Principle 1	Support and respect the protection of internationally proclaimed human rights	129 and 145
Principle 2	Make sure the company is not complicit in human rights abuses	129 and 145
Labour standards		
Principle 3	Uphold the freedom of association and the right to collective bargaining	146
Principle 4	Eliminate all forms of forced and compulsory labour	145
Principle 5	Abolish child labour	145
Principle 6	Uphold the elimination of discrimination in respect of employment and occupation	145
Environment		
Principle 7	Business should take a precautionary approach to environmental challenges	129
Principle 8	Undertake initiatives to promote greater environmental responsibility	129
Principle 9	Encourage the development and diffusion of environmentally friendly technologies	129 and 137
Transparency and Anti-corruption		
Principle 10	Work against corruption in all its forms, including extortion and bribery	129 and 149

INTERVIEW

Jan Egeland, director, Norwegian Institute of International Affairs

SOCIAL RESPONSIBILITY – A CONCEPT IN FLUX

The concept 'social responsibility' is in rapid flux, shifting its focus from the local community to a broader commitment in and for society-at-large. Maintaining a presence in countries in which human rights are violated is demanding, and an ill-considered commitment can quickly become controversial. Meanwhile, there is growing understanding of how important external investments are for economic growth and development in poor countries. Enterprises are not humanitarian organisations. It is no longer enough simply to state that a company's operations comply with the law.

"How can businesses adapt to more stringent requirements to demonstrate corporate social responsibility?"

Companies which take corporate social responsibility seriously, will eventually face new, more comprehensive requirements for activities outside Norway. Ethical behaviour is imperative, not merely within the Group, but also in respect of all partners, local communities and society-at-large.

"Which issues do you believe will be most important for the business community in general?"

In the light of growing internationalisation and more emphasis on the business community's role, business must be prepared to focus on scenarios, future challenges and consequences. What will happen in the event of a state of emergency, crisis or conflict? Will the systems or products you sell be used for oppression, illegal surveillance or aggression? Enterprises can be used and abused in countless ways. This can be a challenge for Norwegian executives, since they have lived under predictable Norwegian framework conditions for 60 years.

"How can 'window dressing' criticism be avoided?"

One can no longer compensate for ethical mistakes by building a school or supporting a women's group. These days, enterprises must clarify their attitudes to ethical dilemmas in the broad sense. We must have an open dialogue about the consequences of future investments. Enterprises must recruit differently. Social scientists and experts on international issues will be just as important as economists and engineers for international initiatives.

KONGSBERG'S SOCIAL RESPONSIBILITY

Intra-Group
KONGSBERG's social responsibility is first and foremost to its employees. We emphasise that KONGSBERG is to be a good place to work where employees can feel that they are developing and working in a positive atmosphere.

External
KONGSBERG takes social responsibility in the local communities in which the Group is represented. For years, KONGSBERG has sponsored sports, culture and humanitarian organisations. In keeping with KONGSBERG's sponsorship strategy, we divide funding equally among these three groups.

Sports
The Group provides generous support for sports activities for children and young people. This is a good cause which we continue to support.

Culture
KONGSBERG supports local culture festivals, e.g. the Kongsberg Jazz Festival and the Gloger Festival.

Humanitarian organisations
One of the measures that demonstrates corporate social responsibility in actual practice is KONGSBERG's long-term agreement with SOS Children's Villages. Besides engendering commitment to making a better future for orphaned and neglected children, KONGSBERG hopes the agreement with SOS Children's Villages will help spawn enthusiasm among Group employees.

For KONGSBERG, it is important to show employees that the Group is an integral part of society around us, and that we are a socially responsible enterprise that aspires to contribute actively to building a positive community for ourselves and generations to come.

KONGSBERG supports sports programmes for children and young people in the local communities in which we operate.

The Gloger Festival
The Gloger organ in Kongsberg Church dates back to 1765, when it was built by Gottfried Heinrich Gloger. It is the Nordic countries' largest instrument from the Baroque period. It features six huge bellows, each made up of two thick pieces of wood the size of garage doors that are raised and lowered to be filled with air using pedals. After extensive restorations, two jam-packed inauguration organ concerts were held in January 2001.

Since then, the Gloger Festival in Kongsberg Church has been an annual tradition with a comprehensive, exciting programme. The festival has given the church a whole new international status as a concert church. KONGSBERG provides financial support for this festival.

HUMAN RIGHTS

Geographically and operationally speaking, the Group's current activities are not of a nature that presents any significant challenges related to human rights. Our expanding international efforts mean that we must focus on ensuring that we do not, directly or indirectly, come into conflict with recognised human rights.

KONGSBERG supports work with human rights through its adherence to the UN's Global Compact. We adhere to the reporting standards prescribed in the Global Reporting Initiative (GRI). Below please find responses to some of the human rights indicators required by GRI.

Suppliers
KONGSBERG uses a total of approx. 3 000 suppliers. Of that number, approx. 30 per cent are headquartered in Norway. The revised corporate Code of Ethics states that we expect our suppliers to comply with ethical standards comparable to KONGSBERG's ethical standards. This also includes human rights.

Training
For the moment, KONGSBERG has not found it necessary to draw up and implement separate human rights training programmes for its employees. KONGSBERG's corporate Code of Ethics is nevertheless reviewed in all corporate units. These guidelines touch on several issues related to human rights.

Discrimination
There have been no reports of episodes or incidents involving discrimination. KONGSBERG's corporate Code of Ethics states that: "We will not tolerate discrimination of any kind, e.g. due to gender, race, religion or sexual orientation". Further, it states that we are clearly opposed to all kinds of trafficking, including the purchase of sexual services.

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

Financial contributions
KONGSBERG's policy is not to make financial contributions to politicians, political parties or similar organisations.

Sanctions
The Group has not been fined or subjected to any other types of sanctions as a result of anti-competitive business practices or a lack of compliance with legislation or regulations.

SOS Children's Villages
SOS Children's Villages is an independent humanitarian organisation in terms of politics, religion and culture, and it gives orphaned and neglected children a family and a safe home, enabling them to carve out a future and participate in the development of their local communities. Activities span the range from children's villages and schools to emergency assistance and the prevention of orphanism. The SOS Children's Villages organisation takes a long-term perspective and emphasises help for self-help.

KONGSBERG has contributed to the construction of a family house in the 'Children's Football Village' in Livingstone, Zambia, scheduled to open in October 2008. Approx. 15 local underprivileged children will be given a new home in the family house.

HEALTH, SAFETY AND THE WORKING ENVIRONMENT

KONGSBERG takes a systematic approach to health, safety and the working environment (HSE). We emphasise commitment and participation at every level of the organisation to ensure compliance with relevant legislation and regulations. The main principle is that HSE work is to be preventative so that it fosters well-being and a healthy working environment. The Group's HSE status is reported to the Board quarterly.

KONGSBERG has a steadily increasing number of employees outside Norway. KONGSBERG's expanding international presence requires added attention to and insight into HSE issues in the countries in which we operate. We are making every effort to establish healthy attitudes and routines as the Group grows abroad.

The organisation of HSE work

HSE work is organised through formal bodies of representatives of management and the employees. In 2007, the formal bodies were: Works Council, joint consultative committees, departmental committees and working environment committees.

The Works Council

The Works Council is a meeting place for management and union representatives, and a forum for discussing items of business that involve two or more Group's operations. The quarterly HSE reports are reviewed at the Works Council.

The joint consultative committees, departmental committees and working environment committees

Each business area has a structure that complies with legislative and regulatory requirements, and meets the operational needs of the business units. Each business area has a joint consultative committee and a working environment committee, where the social parties deal with matters involving the entire business area. There are also local joint consultative committees in the individual divisions. This is a forum for discussing items involving the individual division.

Structured cooperation

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

In our foreign operations, structured cooperation complies with local practices and local requirements, and so that it fits into the rest of the HSE organisation. The Group is positive to employees joining trade unions. In Norway, about 75 per cent of our employees are represented through these formal bodies, compared with less than 25 per cent for our foreign business activities.

Preventative measures

Our Norwegian enterprises have well-developed HSE systems. All employees in Norway have company health services.

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

KONGSBERG has special programmes to ensure our employees and their families against severe diseases and epidemics. We adapt to the national public health service and supplement it through special corporate agreements as needed. Necessary vaccination programmes, preventative check-ups and emergency preparedness for extraordinary measures are part of our agreement with the company health service. Employees stationed abroad, their families, and personnel travelling on business are given special attention through the company health service, special seminars and expanded insurance coverage. KONGSBERG does not operate in countries that require special measures for employees' families and the local population.

Programmes related to the prevention of serious diseases

	Education/training		Consultancy		Preventative work		Treatment	
Course participant	Yes	No	Yes	No	Yes	No	Yes	No
Employee	▪		▪		▪		▪	
Employee's family in general		▪		▪		▪		▪
Employee's family when stationed abroad	▪		▪		▪		▪	
Local population		▪		▪		▪		▪

Agreements with employee organisations

In Norway, HSE is generally covered by agreements and legislation that have been in place for many years. Where this is not enshrined in formal agreements at our foreign undertakings, all personnel will get satisfactory training, be issued personal safety equipment and have the right to refuse work they perceive as risky. There are local HSE committees, periodic inspections that include employees' representatives, and a system for reporting defects and deficiencies. Mishaps or accidents will always be investigated to determine the causes and find opportunities for improvement. It is of the utmost importance that employees who are familiar with the duties in question and with local conditions take part in these investigations. In 2007, KONGSBERG has improved its system for the reporting of incidents and near-accidents on a global basis.

Use of security personnel on international operations

Thus far, our international operations have not called for the use of special security personnel to ensure employees' safety. KONGSBERG has nevertheless established an emergency preparedness system to deal with such challenges.

Absence due to illness

Absence due to illness (as a percentage of the number available hours) was at 2.4 per cent in 2007, which is somewhat lower than in 2006. This is in furtherance of a favourable trend in recent years, and well below the national average, which was 6.8 per cent during Q3 2007. We see that emphasis on a good working environment, interesting work and good development opportunities has a favourable impact on absence due to illness, and that our emphasis on continuously better adaptation to and follow-up of those on sick leave is paying off. It has been confirmed that the number of people on long-term sick leave is diminishing.

Injuries, occupational diseases, lost days and absence, and the number of work-related fatalities

In 2007, the Group had 28 accidents. 22 of them were minor accidents that required no form of treatment or follow up. Six were accidents that required medical attention, and 11 were near-accidents that required follow up. One accident was classified as high-risk incident that called for changes in routines. No occupational diseases or work-related fatalities were recorded in 2007.

Total work-related accidents entailed 43 lost working days involving medical certificates.

The working environment

Collective wage agreements

44 per cent of the Group's co-workers are covered by collective wage agreements. Freedom of association and the right to engage in collective bargaining are a matter of course, and apply to all Group units in Norway and abroad. In Norway, this is handled in compliance with legislation and a system of agreements and is related to the Group's long traditions of close cooperation with trade unions. As regards our foreign operations, our policy is that employees who would like to join unions are welcome to do so. In such cases, suitable cooperation structures are established, and the requisite training measures are initiated for trade union representatives and management.

No cases have been reported involving attempts to set aside the right to freedom of association or collective bargaining.

Local employment

KONGSBERG is to be a quality employer and contractor that can be counted on in the long term. Each individual location hires people locally with the assistance of local managers. In the establishment phase, we usually use Norwegian managers at our international locations. Once routines are in place, we want more local managers.

Starting salary

KONGSBERG's starting salaries are close to the average in the local markets.

Continuing education

The Group offers an extensive range of internal and external programmes and courses. These include technical courses as well as management development measures. KONGSBERG's employees should be able to move laterally as well as vertically throughout the Group. In 2007, the number of course days 'across' the Group continued to rise, and a growing number of our foreign co-workers participated in training in Norway.

Senior policy

Our seniors account for an important part of KONGSBERG's expertise and diversity. KONGSBERG's policy is to do what it can to retain co-workers up to the age of 67. If so required, special measures can be implemented to adapt the workplace. Seniors have the opportunity to participate in training measures on a par with all co-workers. We use peer review sessions to motivate our seniors to update their skills and continue working.

All employees are entitled to take full early retirement at age 62. If an employee wants to combine partial early retirement with a part-time position, KONGSBERG will do what it can wherever such solutions are practicable.

DIVERSITY

KONGSBERG defines diversity as variation in education, culture, nationality, gender and age. It is important to have a rich diversity which can help facilitate the best possible decisions. This, in turn, will strengthen the Group's competitiveness and goal achievement.

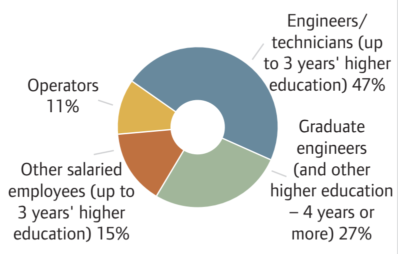
Education and expertise
We depend upon maintaining a wide range of competencies. Most technical disciplines are represented, and employees' levels of education range from guild certificates to doctorates. KONGSBERG also has great diversity in complementary competencies in non-technical subjects such as economics, law and leadership. This means that we can set up interdisciplinary teams with cutting edge as well as broad-based expertise adapted to the needs of different projects.

Culture and nationality
KONGSBERG's corporate Code of Ethics as well as its adherence to the UN's Global Compact initiative establishes that everyone is of equal value and that KONGSBERG will not accept discrimination of any kind. KONGSBERG's employees currently include people of about 40 different nationalities.

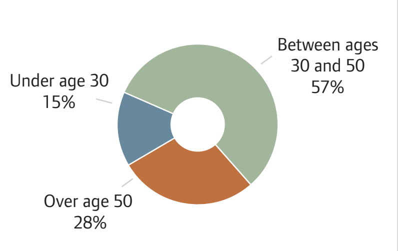
Gender
Few women graduate with degrees in our special segments. Women accounted for a total of 20 per cent of the employees recruited in 2007; the percentage reflects the ratio of women in the courses of study that are most important to us. Women account for a total of 19.5 per cent of the Group's employees. Women occupy 13 per cent of managerial positions. Women account for 40 per cent of the shareholder-elected directors.

Age
The average age of employees is 40.5, and there is an even distribution among the various age groups. Our youngest employees are apprentices, and our oldest are nearly 70. We see good results when teams combine people with long experience with those with the latest theories and youthful vitality.

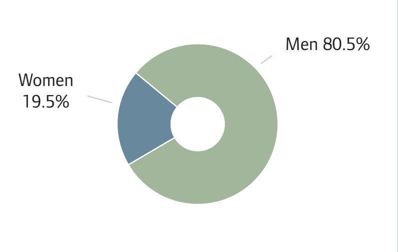
Employees, by level of education



Employees, by age



Employees, by gender



ETHICS

The Group's corporate Code of Ethics is a tool designed to govern corporate conduct and culture. The guidelines were revised in March 2008. New in-house programmes related to the guidelines will be initiated during the year.

KONGSBERG's attitudes to ethics
KONGSBERG's corporate Code of Ethics emphasises that all employees and the Group's Board of Directors are to maintain high ethical standards in the performance of their duties. The Code is first and foremost a tool designed to govern corporate conduct and culture. The text is also distributed to all partners, suppliers and agents, and is appended to all the Group's contracts. We expect contracting parties to maintain the same ethical standards as we set for ourselves.

Revised Code of Ethics
In early 2008, KONGSBERG revised its corporate Code of Ethics. The Group's policy is that the Code will be evaluated and revised, if so required, every second year. We do this to keep up-to-date on general developments in this field. The main changes are related to trafficking, requirements for ethical standards on the part of our suppliers and our focus on greenhouse gas emissions. A new point has also been added regarding the use of agents.

It is important that the work involving ethics and attitudes is carried out on a continuous basis. New in-house programmes to promote our corporate Code of Ethics will be initiated in 2008.

The Ethics Council
The Group has an Ethics Council which held two meetings in 2007. There were no reports of breaches or suspected breaches of the Code in 2007. The Group has special routines for the reporting of breaches of KONGSBERG's corporate Code of Ethics, and has appointed two ombudsmen.

KONGSBERG is opposed to corruption
KONGSBERG is opposed to all forms of corruption. Our attitudes to corruption are clearly expressed in KONGSBERG's corporate Code of Ethics, our adherence to the UN Global Compact and our membership of Transparency International. We actively address anti-corruption issues in our two business areas, both of which operate in markets that are susceptible to corruption.

Risk assessment
In 2008, KONGSBERG will perform risk assessments in several areas other than those in the field of finance, e.g. corporate social responsibility. This will be the first time KONGSBERG conducts such a systematic evaluation.

Anti-corruption programmes
Many of the Group's employees have undergone the Group's ethics programme, which includes a section on corruption. Over the past year, the Group has hired more than 1 000 new employees, at the same time as the corporate Code of Ethics has been revised. This calls for another review of the Code of Ethics and the anti-corruption programmes.

Sanctions
In 2007, there were no reported breaches of the corruption provisions that resulted in the termination of employment. Nor were there any cases in which contracts were not signed or renewed as a result of a breach of the Group's anti-corruption provisions.

INTERVIEW

Jan Borgen, Secretary General
Transparency International Norway

TRANSPARENCY PROMOTES A GOOD REPUTATION

What are the most important measures enterprises can take in the war on corruption?
Even enterprises that are well equipped to deal with corrupt practices may find that their employees pay or receive bribes or kickbacks. A zero tolerance policy must have consequences for the sinners, without exception. Otherwise, it is not zero tolerance. If the enterprise deals with individual cases in an open, honest manner, it will strengthen the enterprise's standing in the market. Transparency is the most important policy instrument available for combating corruption. And any form of secrecy will increase the probability of corruption.
Facilitation payments are a type of bribe. How should enterprises deal with this issue?
Graft involves small payments to facilitate public services to which the payer is entitled. For example, a customs agent is paid to expedite goods through customs more quickly. Transparency International (TI) has opposed such payments for a long time. They are inappropriate and prohibited under Norwegian law as well as many other countries' anti-corruption legislation. TI urges enterprises to stop making such payments, and to express their dissatisfaction to authorities that continue to demand them. When a demand for payment is perceived as putting pressure on an entire industry, there is every reason to take joint action in respect of the authorities. The industry should lobby to put a stop to the pressure for payment.
How can TI help enterprises in these efforts?
TI gives enterprises advice and guidance on integrity and transparency, and can recommend management tools to promote transparency. We can also help prevent problems by shaping healthy attitudes. We emphasise the importance of having a system that adheres to zero tolerance in actual practice, and of having a well-integrated warning system in every unit of the organisation. No one can build a culture of integrity without taking the whistleblowers seriously. Everyone has read in the media about key individuals in Norwegian companies who have warned management about inflated invoices, bribery and corruption, but who have been treated poorly, often to the point of harassment and losing their jobs.

THE ENVIRONMENT

INTRODUCTION

KONGSBERG works systematically to report data associated with energy consumption, waste treatment and the consumption of chemicals. The information makes us aware of the challenges we face and enables us to initiate improvement measures.

Global warming is one of the greatest threats facing our planet. The Earth is changing. New scientific knowledge about the Earth's climate indicates that changes are taking place more quickly than indicated in the IPCC report in 2007.

The Group's ordinary business activities cause little pollution of the outdoor environment.

Our goal for 2008 is to take further initiatives that can decrease our emissions of CO_2.

The limitations of the report

- This report is limited to companies in which KONGSBERG owns a stake of 50 per cent or more.
- The environmental data covers all Norwegian units, as well as all our production units and some offices abroad.
- The report does not include the following company:
  – Kongsberg Intellifield AS

Facts
KONGSBERG has ordered seven electric cars of the type 'Think City'. The car is being made in Norway and will be used for short-distance driving in the industrial parks in Kongsberg and Horten. The car currently has a range of up to 180 km. The car was chosen because it is in line with our environmental profile and, by today's standards, it has a good range. Safety, driving comfort and design were also important for this choice. The first car will be delivered in spring 2008.

INTERVIEW

Børge Brende, Managing Director
World Economic Forum

EXPENSIVE TO DELAY

The UN report on Climate Change shows that the dramatic consequences of climate change can be avoided by reducing emissions quickly. What must be done to accomplish this?
The Stern Review establishes that it will be less expensive to reduce greenhouse gas emissions now than if we wait to see the potential results, e.g. an acute shortage of freshwater, growing desertification, deforestation and rising ocean levels.

Cooperation to stop net logging in the rain forest would cost about NOK 60 billion per year on a global basis. The result would be an annual reduction in emissions of more than 20 per cent. What are we waiting for? Norway is trying to set a good example and has promised NOK 3 billion in an effort to start passing the hat. Other measures which must be implemented in a timely manner include energy conservation and more renewable energy such as solar and wind power. The capture and storage of CO_2 will also be important.

Which challenges are most important for businesses in the struggle against global warming?
Business and industry are a prime mover for climate improvement. In the US, many of the largest companies are in the forefront, calling for stricter national statutory provisions. In Norway, the process industry has reduced its pollution by nearly 20 per cent since 1990, at the same time as production has increased considerably. They have accomplished this by decoupling growth from growth in greenhouse gas emissions. This idea will be put to the test in the time ahead. The companies that succeed are also those which are best prepared for embarking on a new era, where climate requirements will be more stringent and where environmental technology pays.

How can KONGSBERG help improve the climate?
KONGSBERG is one of Norway's foremost technology enterprises. The Group should have ample opportunities to succeed in future by being an environmental role model in the maritime segment, and by striving to protect the climate in connection with technological development in defence and aerospace. KONGSBERG should use its technological expertise to become a green industrial locomotive.

ENVIRONMENTAL ACCOUNTS 2007

The environmental accounts provide an overview of KONGSBERG's consumption of energy and chemicals, as well as its waste production. The environmental data encompasses all our Norwegian units, as well as all our production units and some offices abroad.

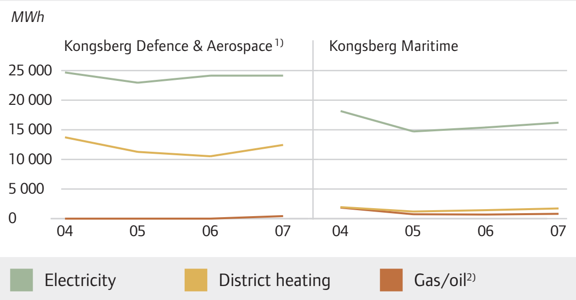
Comments on trends in 2007

ENERGY

KONGSBERG consumes energy in connection with production and office activities. The Group consumes energy derived from electricity, district heating, gas and oil. The district heating facility at Kongsberg Industrial Park supplies energy to several companies in the Group. Energy consumption is part of KONGSBERG's in-house environmental reporting. The district heating data includes KONGSBERG's own and external facilities. In respect of the companies located in Kongsberg Industrial Park and throughout the Group, our property company strives to reduce energy consumption and to convert to alternative energy sources.

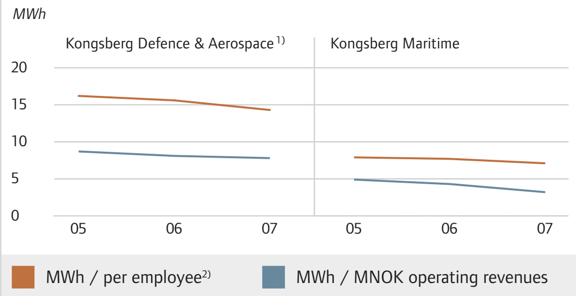
Kongsberg Defence & Aerospace	The consumption of electricity has not changed over the past year. When Kongsberg Defense Corporation is included in the environmental accounts for the year, there has been an increase in the consumption of gas for heating. Looking at energy consumption relative to the number of employees or operating revenues, energy consumption has declined over the past year[1].
Kongsberg Maritime	Energy consumption has increased over the past year. This is due to additional sales which have resulted in an increase in the number of employees and the floor space occupied. Looking at energy consumption relative to the number of employees or operating revenues, Kongsberg Maritime's energy consumption has declined over the past year[1].

Energy consumption by business area, by energy source



1) The energy consumption of the administration at Kongsberg Industrial Park, as well as the corporate staff, is reported under Kongsberg Defence & Aerospace.
2) Consumption of oil for the district heating facility at Kongsberg Industrial Park is not included here to avoid double reporting. The consumption of district heating is reported by the companies in the Industrial Park, but oil for the production of this heat is shown in separate CO_2 accounts below.

Consumption of electricity compared with operating income and no. of employees



1) The consumption of electricity by the administration at Kongsberg Industrial Park, as well as the corporate staff, is included with Kongsberg Defence & Aerospace.
2) The figures for 2005 and 2006 are based on the total number employees, while the 2007 figures are relative to the number of employees in the reporting units.

1) Energy consumption relative to the number of employees and operating revenues is illustrated below.

CO_2 EMISSIONS FROM KONGSBERG INDUSTRIAL PARK'S DISTRICT HEATING PLANT

Direct emissions of CO_2 originate from the combustion of oil at Kongsberg Industrial Park's district heating plant. This facility delivers district heating to two KONGSBERG enterprises in the Industrial Park as well as to the corporate staff and the industrial park itself. Altogether, this facility released 3 611 metric tonnes CO_2 in 2007.

	2006	*2007*
Consumption of heavy oil (litres)	1 067 797	1 087 110
Emissions of CO_2 (metric tonnes)	3 547	3 611

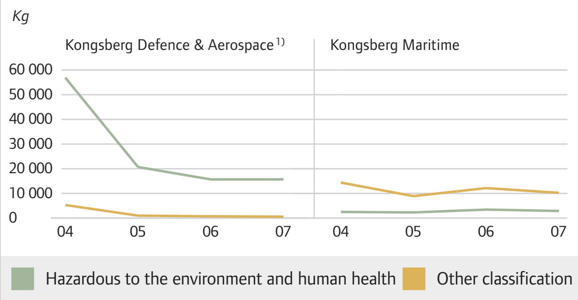
Comments on trends in 2007

CHEMICALS

Kongsberg uses environment-unfriendly and hazardous chemicals in certain parts of its production. The consumption of chemicals is part of Kongsberg's in-house environmental reporting.

Kongsberg Defence & Aerospace	The consumption of chemicals has not changed over the past year and predominantly stems from activities in Kongsberg.
Kongsberg Maritime	The consumption of chemicals has declined over the past year. Reports on chemicals are, however, based on purchasing information. As chemicals are bought in large consignments, there are significant fluctuations in the reported data from year to year.

Consumption of chemicals by business area, by classification[1)]



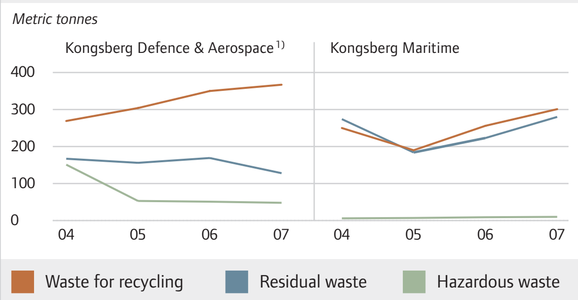
1) Based on the classification in CAS; the figures should be considered estimates.

WASTE

Kongsberg generates waste from production and from office activities. Waste volumes are part of Kongsberg's in-house environmental reporting. The report covers generated waste broken down by category of waste, and waste for recycling divided into recycling fractions. Our property company makes efforts to increase source separation among the companies located in Kongsberg Industrial Park.

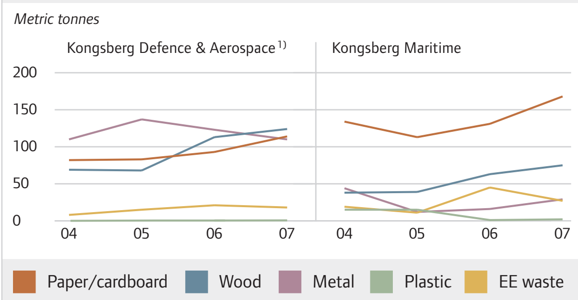
Kongsberg Defence & Aerospace	The percentage of source separation of rubbish, especially paper, cardboard and plastic, has increased over the past year and the amount of residual waste has declined.
Kongsberg Maritime	There has been an increase in waste for recycling over the past year, especially paper, cardboard and plastic fractions. There has also been an increase in the amount of residual waste. This is due to extensive clearing up and renovation in the buildings in Horten.

Waste generated by business area, by type of waste



1) Waste from the administration of Kongsberg Industrial Park, as well as the corporate staff, is included with Kongsberg Defence & Aerospace.

Waste for recycling by business area, divided into recycling fractions



1) Waste from the administration of Kongsberg Industrial Park, as well as the corporate staff, is included with Kongsberg Defence & Aerospace.

The following new units are included in the environmental accounts for 2007: Kongsberg Defense Corp., Inc. in Pennsylvania (USA) and Kongsberg Maritime's offices in Sandvika and Oslo. Kongsberg Intellifield AS will be included in the environmental accounts for 2008.

THE ORGANISATION OF ENVIRONMENTAL EFFORTS

The operative, day-to-day responsibility rests with the individual units and business areas.

Responsibility
The Board bears the ultimate responsibility for the Group's impact on the environment. This includes the Group's commitment to establishing management and control systems and to organising environmental efforts.

KONGSBERG's environmental policy has been adopted by the Board. Corporate management is responsible for ensuring compliance and for setting and following up environmental goals, as well as for compliance with legislation and regulations.

The Group has established an environmental forum to coordinate its environmental efforts.

Operative and routine responsibility rests with the management of the various companies and units in the Group.

Follow up
The Group's Sustainability Report is submitted to and discussed by the Board.

Twice a year, reports are drawn up to describe the status of the Group's work with environmental and corporate social responsibility. The reports are submitted to corporate management.

The environmental forum, consisting of representatives of all main units in the Group, meets on an *ad hoc* basis. The Forum follows up the Group's environmental goals and helps facilitate environmental measures.

Environment-related problems are otherwise dealt with by the respective department managers in the operative units. Management is required to report any serious incidents to corporate management.

Environmental management
With the exception of Kongsberg Intellifield, all Kongsberg Maritime's wholly-owned undertakings in Norway have environmental certification pursuant to ISO 14001.

Fantoft was merged into Kongsberg Maritime in 2007 and was part of Kongsberg Maritime at the time of re-certification in September 2007.

Kongsberg Defence & Aerospace has chosen for the moment not to seek certification pursuant to the ISO 14001 environmental standard, but routinely considers whether it should seek certification.

International presence
The Group has a number of companies outside Norway. Since these companies operate under different national and local rules, there will be differences in their environmental efforts, depending on where they are located. Notwithstanding, KONGSBERG's environmental policy applies to all units of the Group. Our companies therefore strive to show the best possible environmental conduct, based on the opportunities available locally.

Requirements for suppliers
KONGSBERG uses a total of approx. 3 000 suppliers. They represent a very large, important contribution to the Group's value chain. It is important that our suppliers have an attitude to environmental issues that is compatible with our own expectations and those of society-at-large. It is considered an advantage if our suppliers have an explicit environmental policy and an established environmental management system.

We will follow up our suppliers by providing our environmental standards in our standard terms of business, in connection with quality audits of suppliers and through regular surveys. One new factor this year is that KONGSBERG has included its expectations regarding suppliers' ethical standards in the Group's corporate Code of Ethics.

Property
The Group's property company is responsible for facilitating source separation and the collection of rubbish at Kongsberg Industrial Park, where there are about 5 000 employees. Of that number, about 2 000 are employed by KONGSBERG.

All new projects will be conducted in accordance with the amendment to the technical provisions adapted to EU Directive 2002/91/EU. The directive's objective is to reduce energy consumption in old and new buildings alike. The use of alternative energy carriers will be considered in connection with new projects and geo-energy may be an option. Studies are currently being carried out regarding whether the Industrial Park can use sewage water from the municipal purification plant for heat recovery.

GREENER SHIPPING

Greenhouse gas emissions from vessel traffic represent one of our greatest environmental challenges. The latest UN report indicates that shipping releases 1.12 billion metric tonnes of CO_2 each year on a global basis. This means that 4.5 per cent of the world's total CO_2 emissions are released at sea.

Shipping emissions are not regulated by any international climate protocol. In 1997, vessels were exempted from countries' national commitments under the Kyoto Protocol. Meanwhile, global economic growth has led to more vessel traffic, and thus to higher emissions of greenhouse gases. Continued growth in traffic makes it important for international shipping to be covered by a climate protocol.

Torfinn Kildal, president of Kongsberg Maritime, believes that emissions from shipping will have an ever stronger impact on the maritime sector. He points out that Kongsberg Maritime aims at optimising vessel operations when it comes to machinery, positioning, design and navigation. The company works continuously to devise solutions which call for less energy and curb greenhouse gas emissions.

Decreasing emissions and fuel consumption

The maritime industry has already joined forces on environmental efforts. Shipping companies are looking for products that can help curb fuel consumption and air and water pollution. Suppliers strive to furnish products and components which contain a minimum of pollutants, and which are recyclable and as non-polluting as possible. To address these challenges, Kongsberg Maritime works with product development continuously. Green DP is one example of how the company has further developed its system for dynamic positioning to reduce effluents. Green DP ensures that ship's engines need not run so hard, saving some wear and tear on the vessel. This reduces fuel consumption as well as emissions.

ISO 14 001 certified

To meet customers' specifications and requirements relative to contracts, Kongsberg Maritime is certified under the ISO 14 001 standard. This standard requires that the company has an environmental management system that prescribes how the enterprise should handle air, soil and water pollution. Although Kongsberg Maritime produces little pollution, each year the company sets environmental goals and draws up action plans to prevent potentially hazardous substances from polluting the soil, air and water.

Green passport

Besides customer specifications relative to ISO 14 001 certification, Kongsberg Maritime fulfils the requirements in the guidelines laid down by International Maritime Organisation (IMO). IMO aspires to decrease maritime pollution so it has devised a so-called 'green passport'. A green passport contains a list of hazardous and harmful substances carried on vessels. The passport is to be updated continuously and to be carried onboard throughout the vessel's life cycle. When the vessel is ready to be scrapped, the passport will provide accurate information about where the individual environment-unfriendly substances, specified by amounts, are found.

In keeping with the guidelines set by the IMO (A.962(23) IMO guidelines on ship recycling), Kongsberg Maritime has reviewed its products, identified hazardous substances and drawn up ECO declarations. Helge Kjørstad, QM manager, Offshore & Marine at Kongsberg Maritime explains that a declaration contains a list of the environment-unfriendly substances, if any, found in the products. This allows Kongsberg Maritime to supply ECO declarations with its products. Such declarations are to be included in a vessel's green passport.

Minimising hazardous substances

Although the review showed that Kongsberg Maritime's products contain few pollutants, the company has established a library for the ECO declarations associated with its products. Kongsberg Maritime poses the same requirements to its suppliers. When choosing component suppliers, the company selects those that produce the least possible pollution when manufacturing components. Kongsberg Maritime's goal is for 60 per cent of its newly developed products to be 80 per cent recyclable or recoverable (measured relative to revenues) by 2010.

Recycling Kongsberg products

Kongsberg Maritime also has a special system for disposing of products. All those who have purchased Kongsberg products can return them to Kongsberg, and the company will take responsibility for source separating or destroying the products in an environmentally responsible manner.

BUILDING FOR THE ENVIRONMENT

The Norwegian building industry takes the environment seriously. Based on an EU directive, Norway made amendments in the building regulations in the Planning and Building Act in 2007. The point of the amendments is to reduce energy consumption in all new buildings and in connection with major renovations.

The amendments set strict requirements for builders, and entails increased building costs. However, without making the requisite technical changes, it will be difficult to reduce energy consumption in buildings.

Heat recovery and initiatives to reduce heat loss

The amendment has had consequences for activities at Kongsberg Industrial Park, where the developer aspires to shoulder environmental responsibility and be in the forefront of developments.

A new 30 000 m^2 industrial building for the production of composite and advanced machining of titanium is under construction in Kongsberg. It is the first building to which the new technical regulations apply. The insulation in the walls and floor and around windows is thicker to reduce heat loss and ensure compliance with the new regulations. Sun screening will reduce overheating in the summer. The new building will feature heat recovery from the forced air system, based on new high-capacity heat recovery systems. Importance is attached to utilising the waste heat from production, and we have a 60 per cent recovery rate. Energy conservation has led to a 65 per cent decrease in CO_2 emissions compared with traditional facilities.

More expensive to build, cheaper to operate

In the short term, these measures require more expensive solutions, but they must be seen as investments that will give good returns over time. They will also be reflected in the environmental accounts, which the new regulations require for all new buildings and major renovations. Øyvind Wike, president of Kongsberg Industrial Park, believes that customers will ask for and set requirements for energy conservation in new buildings in future. This will be a competitive edge. Although it is more expensive to build according to these new regulations, such buildings will definitely be far less expensive to operate.

In addition to the regulations, Kongsberg Industrial Park will require of suppliers that all materials for the new building must have low degassing values. A 'clean' building process is another requirement. This means the building is to be clean during the construction period; dust should be vacuumed up and all waste materials should be sorted. 'Clean' construction will cause less pollution in new buildings.

New technology and heavier constructional designs

Øyvind Wike believes the next step in environmental efforts will be to use alternative energy sources. He believes industry will help develop new technologies for energy sources such as biofuel, geothermal heat, natural gas and other alternative energy sources. Today, only two per cent of all industrial buildings use alternative energy sources. Wike also expects that we will see more district heating plants, which will make it easier to use alternative energy sources.

Another trend is towards using heavier constructional designs in new buildings. Heavier constructional designs reduce energy consumption by storing heat in the buildings themselves. This will contribute to the achievement of energy conservation goals in such new buildings.

INDICATORS

	Indicator	*2007*	*2006*	*2005*	*2004*	*2003*	*2002*
Financial value	*Value creation*						
added	Direct and indirect taxes to state/municipality (MNOK)	1 347	993	889	919	924	905
	Payroll expenses (net after tax) (MNOK)	1 338	1206	1060	1 198	1 212	1 167
	Share dividend (MNOK)	150	75	64.5	60	39	63
	Interest to lenders (MNOK)	59	51	54	86	89	101
	Retained earnings (MNOK)	836	177	197	(23)	86	153
Corporate social	*Level of education*						
responsibility	Civil engineer and other higher ed. (4 yrs+) (%)	27	26	25	27	25	25
	Engineers/Technicians (up to 3 yrs) (%)	47	46	47	45	44	44
	Other salaried employees (higher ed. 3 yrs) (%)	15	17	16	17	19	20
	Operators (%)	11	11	12	11	12	11
	Average age	40.5	42.5	43.2	43.2	42.9	42.9
	Number of employees	4 205	3 650	3 372	4 017	4 176	4 208
	No. of full-time employees	4 021	3 486				
	No. of part-time employees	184	164				
	Social responsibility						
	Donations to organisations, etc. (NOK 1 000)	1 900	1 785	1 640	1 350	1 500	1 450
	Women (%)						
	Women as a % of the no. of employees	19.5	19	20	22	21	21
	Women in leading positions as a % of total managerial positions (Norway)	13	12	9	11	10	10
	Shareholder-elected women on the Board (%)	40	40	40	40	40	20
	Age distribution of employees (%)						
	No. of employees under age 30	15	12				
	No. of employees between ages 30 and 50	57	60				
	No. of employees over age 50	28	28				
	Turnover (employees who have resigned)	203	335				
	Turnover (%)	3.9	5.5				
	– men	3.3	4.3				
	– women	0.6	1.2				
	Health and safety						
	Absence due to illness as a % of hours worked	2.4	2.7	3.1	3.2	3.2	3.3
Environment	*Waste*						
	Waste for recycling (metric tonnes)	668	606	494	519	611	339
	Residual waste (metric tonnes)	408	392	340	441	608	735
	Hazardous waste (metric tonnes)	58	60	60	157	91	105
	Chemicals						
	Environment-unfriendly and hazardous chemicals (metric tonnes)	18.6	19.1	23.0	59.4	18.5	
	Other categories (metric tonnes)	10.8	12.9	9.9	19.7	20.5	
	Energy consumption						
	Electricity (MWh)	40 342	39 534	37 670	42 840	42 030	41 670
	District heating (MWh)	14 164	11 957	12 470	15 670	18 230	17 340
	Gas/oil (MWh)	1 239	689	740	1 860	1 040	220
	Energy consumption (MWh/year) per employee, Kongsberg Defence & Aerospace	14.3	15.6	16.2			
	Energy consumption (MWh/year) per employee, Kongsberg Maritime	7.1	7.7	7.9			
	CO_2 emissions (metric tonnes) – excl. travel	3 611	3 547				

THE GLOBAL REPORTING INITIATIVE INDEX (GRI)

The following matrix offers an overview of the GRI indicators, with references to the relevant pages in this report. The individual indicators are described in simple terms and very briefly. For more information, please see KONGSBERG's website at: www.kongsberg.com

NR - Not relevant
NA - Not addressed
PA - Partially addressed
ID - Insufficient data

Indicator		See page(s)
	Profile	
1	**Strategy and Analysis**	
1.1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy	5 (PA)
1.2	Description of key impacts, risks, and opportunities in relation to sustainability	NA
2	**Organizational Profile**	
2.1	Name of the organization	Cover
2.2	Primary brands, products, and/or services	9–10, 78–101
2.3	Operational structure of the organization	Cover
2.4	Location of organization's headquarters	161
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	134–135
2.6	Nature of ownership and legal form	35, 120
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	78–89, 90–101
2.8	Scale of the reporting organization, including: Number of employees; Net sales (for private sector organizations) or net revenues (for public sector organizations); Quantity of products or services provided	1–3, 124, 157
2.9	Significant changes during the reporting period regarding size, structure, or ownership	NA
2.10	Awards received in the reporting period	161
3	**Report Parameters**	
	Report profile	
3.1	Reporting period for information provided	Cover
3.2	Date of most recent previous report	Cover
3.3	Reporting cycle	Cover
3.4	Contact point for questions regarding the report or its contents	161
	Report scope and boundary	
3.5	Process for defining report content	NA
3.6	Boundary of the report	128
3.7	State any specific limitations on the scope or boundary of the report	NA
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations	NA
3.9	Data measurement techniques and the bases of calculations	128 (PA)

Indicator		See page(s)
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	NA
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	NA
	GRI content index	
3.12	Table identifying the location of the Standard Disclosures in the report	128
	Assurance	
3.13	Policy and current practice with regard to seeking external assurance for the report	128
4	**Governance, Commitments, and Engagement**	
4.1	Governance structure of the organization, including committees under the highest governance body	105
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	109
4.3	State the number of members of the highest governance body that are independent and/or non-executive members	109
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	NA
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives and the organization's performance	65, 112
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	111
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics	NA
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	129, 149
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance	NA
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	NA
	Commitments to external initiatives	
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	143 (PA)
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	143

Indi-cator		See page(s)
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizatons in which the organization: Has positions in governance bodies; Participates in projects or committes; Provides substantive funding beyond routine membership dues; or Views membership as strategic	NA
	Shareholder engagement	
4.14	List of stakeholder groups engaged by the organization	140
4.15	Basis for identification and selection of stakeholders with whom to engage	140 (PA)
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	140 (PA)
4.17	Key topics and concerns that have been raised thorugh stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	NA
	Economic Performance Indicators	
	Economic performance	
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	139
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	NA
EC3	Coverage of the organization's defined benefit plan obligations	NA
EC4	Significant financial assistance received from government	140
	Market presence	
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	147
EC6	Policy, practices, and proportion of spending on locally-based suppliers at signifiant locations of operation	139 (PA)
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	147
	Indirect economic ipmpacts	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	NA
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	NA
	Environmental Performance Indicators	
	Materials	
EN1	Materials used by weight or volume	152–153 (PA)
EN2	Percentage of materials used that are recycled input materials	NA
	Energy	
EN3	Direct energy consumption by primary energy source	152–153
EN4	Indirect energy consumption by primary source	152–153
EN5	Energy saved due to conservation and efficiency improvements	136
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	NA
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	NA
	Water	
EN8	Total water withdrawal by source	NA
EN9	Water sources significantly affected by withdrawal of water	NA
EN10	Percentage and total volume of water recycled and reused	NA
	Biodiversity	
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	NR

Indi-cator		See page(s)
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	NR
EN13	Habitats protected or restored	NR
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	NR
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	NR
	Emissions, effluents and waste	
EN16	Total direct and indirect greenhouse gas emissions by weight	152 (PA)
EN17	Other relevant indirect greenhouse gas emissions by weight	NA
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	NA
EN19	Emissions of ozone-depleting substances by weight	NA
EN20	NO, SO, and other significant air emissions by type and weight	NA
EN21	Total water discharge by quality and destination	NA
EN22	Total weight of waste by type and disposal method	153
EN23	Total number and volume of significant spills	NA
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	NA
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff	NA
	Products and services	
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	NA
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	NA
	Compliance	
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	NA
	Transport	
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	NA
	Overall	
EN30	Total environmental protection expenditures and investments by type	NA
	Labour Practices and Decent Work Performance Indicators	
	Employment	
LA1	Total workforce by employment type, employment contract, and region	157 (PA)
LA2	Total number and rate of employee turnover by age group, gender, and region	157 (PA)
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	NA
	Labor/management relations	
LA4	Percentage of employees covered by collective bargaining agreements	147
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	NA
	Occupational health and safety	
LA6	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs	146
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	147 (PA)

Indi-cator		See page(s)
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	146
LA9	Health and safety topics covered in formal agreements with trade unions	146 (PA)
	Training and education	
LA10	Average hours of training per year per employee by employee category	NA
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	147 (PA)
LA12	Percentage of employees receiving regular performance and career development reviews	NA
	Diversity and equal opportunity	
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	157 (PA)
LA14	Ratio of basic salary of men to women by employee category	NA
	Human Rights Performance Indicators	
	Investment and procurement practices	
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	NA
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	145 (PA)
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	145 (PA)
	Nondiscrimination	
HR4	Total number of incidents of discrimination and actions taken	145
	Freedom of association and collective bargaining	
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	NA
	Child labour	
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	145
	Forced and compulsory labor	
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	145
	Security practices	
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	147
	Indigenous rights	
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	NA
	Society Performance Indicators	
	Community	
SO1	Nature, scope, and effeectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	NA
	Corruption	
SO2	Percentage and total number of business units analyzed for risks related to corruption	149 (PA)
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	149 (PA)
SO4	Actions taken in response to incidents of corruption.	149
	Public policy	
SO5	Public policy positions and participation in public policy development and lobbying	NA
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	140

Indi-cator		See page(s)
	Anti-competitive behavior	
SO7	Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes	145
	Compliance	
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	145
	Product Responsibility Performance Indicators	
	Customer health and safety	
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	137 (PA)
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	NA
	Product and service labeling	
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	NA
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	NA
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	NA
	Marketing communications	
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	NA
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	None
	Customer privacy	
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	None
	Compliance	
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	None

Source: GRI

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In 2007, KONGSBERG was awarded a linguistic prize for the best Norwegian in an annual report by the Riksmål Society - The Society for the Preservation of Traditional Standard Norwegian.

FINANCIAL CALENDAR 2008

Annual General Meeting
The ordinary Annual General Meeting will be held at
2 p.m. on Thursday, 24 April 2008,
at the Conference Centre,
Kongsberg Industrial Park, Kongsberg

The dividend will be paid out on 7 May 2008.

Presentation of quarterly results
Q1: 24 April
Q2: 14 August
Q3: 23 October

Ticker code: KOG (Oslo Stock Exchange)

If you have views on or questions related to this report or the topics discussed in it, please contact Nils Molin, head of Corporate Social Responsibility at KONGSBERG at *nils.molin@kongsberg.com*
Otherwise, you are invited to follow along with the Group's development at www.kongsberg.com

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Linda Sivesind, Informatic Translations

Disclaimer
In the event of any discrepancy between the Norwegian and English versions of KONGSBERG's Annual Report, it is the Norwegian version that is valid.

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