KONGSBERG

ANNUAL REPORT AND SUSTAINABILITY REPORT 2017

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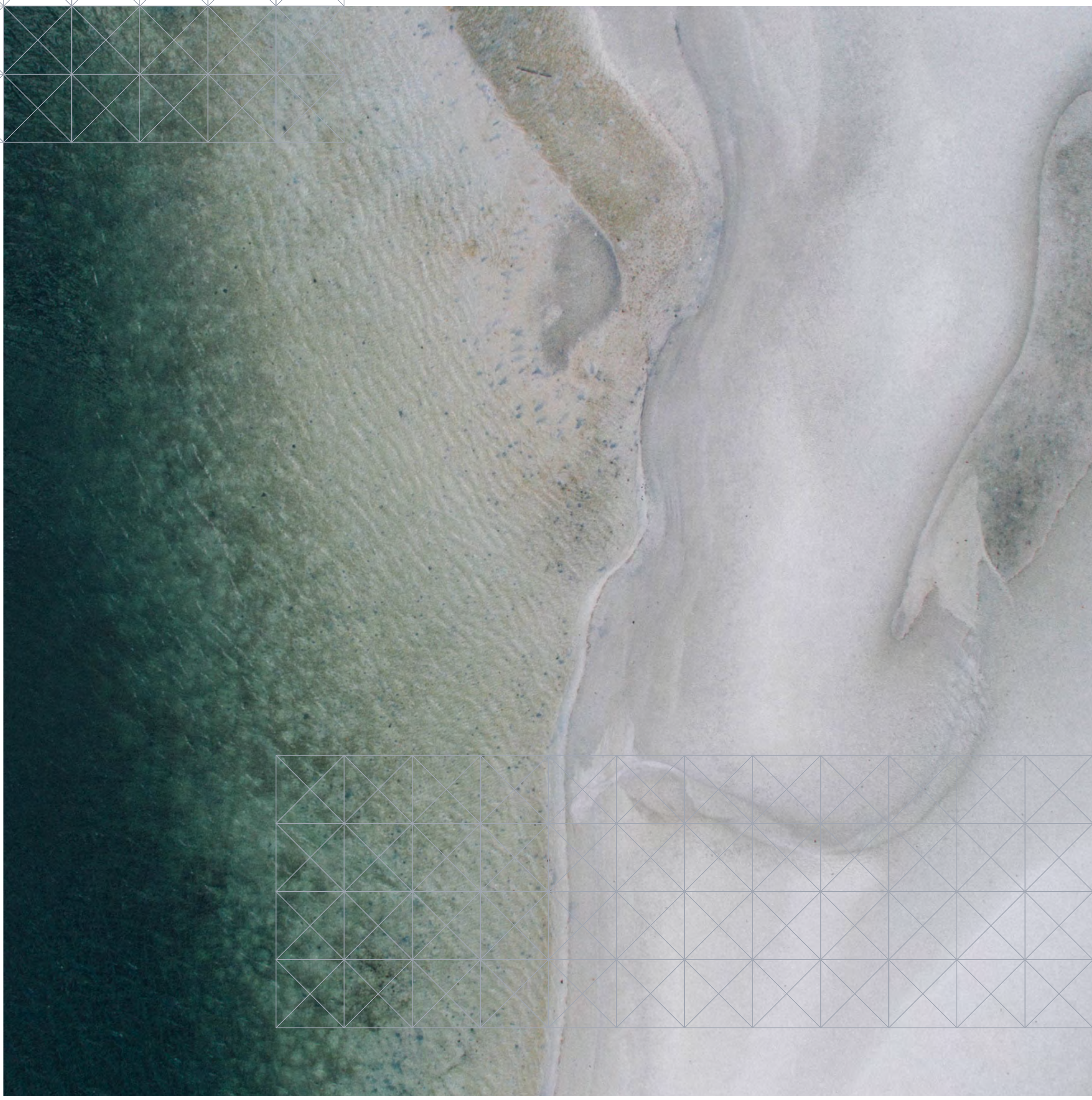
01

Year 2017



Key figures 2017

MNOK	2017	2016	2015	2014	2013	2012[1]	2011[1]	2010	2009	2008
SALES										
Revenues	14 490	15 845	17 032	16 613	16 323	15 652	15 128	15 497	13 816	11 056
New orders	13 430	14 319	15 238	22 097	15 043	14 605	15 016	13 584	17 605	14 635
Order backlog	15 629	16 914	19 597	21 020	15 687	16 523	17 839	17 759	19 892	16 692
Book-to-Bill Ratio	0.9	0.9	0.9	1.3	0.9	0.9	1.0	0.9	1.4	1.5
PERFORMANCE										
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	1 279	1 217	1 784	2 060	2 142	2 294	2 385	2 485	1 619	1 319
Earnings before interest, taxes and amortisation (EBITA)	886	835	1 405	1 718	1 797	1 971	2 123	2 216	1 376	1 122
Earnings before interest and taxes (EBIT)	772	692	944	1 258	1 659	1 840	2 026	2 113	1 263	1 038
Earnings before taxes (EBT)	654	729	944	1 285	1 644	1 809	1 991	2 097	1 169	861
Profit for the year	559	651	755	880	1 225	1 304	1 418	1 500	828	587
PROFITABILITY										
EBITDA %	8.8%	7.7%	10.5%	12.4%	13.1%	14.7%	15.8%	16.0%	11.7%	11.9%
EBITA %	6.1%	5.3%	8.2%	10.3%	11.0%	12.6%	14.0%	14.3%	10.0%	10.1%
EBIT %	5.3%	4.4%	5.5%	7.6%	10.2%	11.8%	13.4%	13.6%	9.1%	9.4%
BALANCE SHEET										
Equity	7 365	6 725	6 127	6 282	6 657	6 274	5 484	4 881	3 726	1 894
Equity ratio %	35.4	31.7	32.0	31.0	38.2	38.6	35.1	35.0	30.0	15.0
Net interest-bearing debt	384	2 195	(941)	(3 551)	(1 935)	(1 198)	(2 191)	(1 813)	(634)	1 439
Working capital[1]	955	2 533	2 698	155	775	1 000	(644)	(522)	(220)	992
ROACE[2]	9.1	8.2	21.8	35.9	32.5	36.3	51.6	65.2	34.8	30.8
EMPLOYEES										
Number of employees, total	6 830	7 159	7 688	7 664	7 493	7 259	6 681	5 681	5 423	5 243
Number of reported injuries per million hours worked (TRI)	3.2	3.5	4.1	4.7	3.7	1.5	1.7	6.3	5.5	3.5
Number of lost time days per million hours worked (ISR)	16.2	32.0	14.2	45.3	15.6	13.6	1.1	22.3	58.2	5.6
THE ENVIRONMENT										
Energy consumption (GWh)	124.4	122.8	119.35	123.7	127.0	114.7	108.9	103.2	100.0	74.4
CO_2 emissions (metric tonnes)	32 517	33 464	39 268	26 006	25 294	19 579	22 747	20 005	12 980	7 801
Waste (metric tonnes)	1 884	1 986	2 368	1 788	1 935	1 784	1 622	1 772	1 473	1 256
OWNERS' VALUE										
Market capitalisation	18 120	14 940	17 400	14 760	15 300	14 940	13 920	15 960	10 590	9 840
Earnings per share after tax (EPS) in NOK	4.62	5.44	6.23	7.28	10.24	10.91	11.83	12.46	6.83	4.86
P/E in NOK	32.70	22.95	23.05	16.77	12.49	11.46	9.82	10.64	12.92	16.87
Dividend per share in NOK	3.75	3.75	4.25	9.25	5.25	3.75	3.75	3.75	2.00	1.38

1) The figures have been revised in accordance with the description in Note 32. For other years, this change has not been taken into account.
2) See note 32 for definitions.

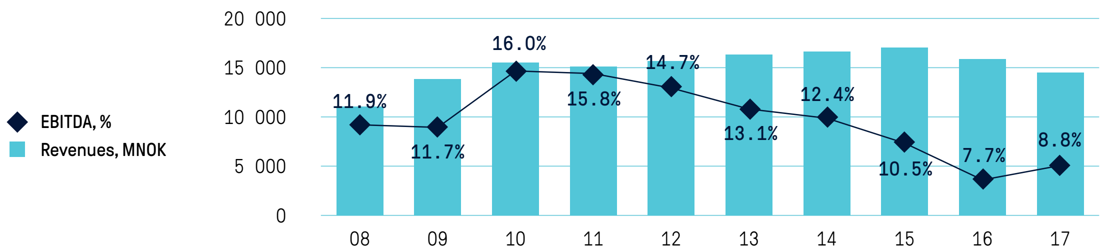
KEY FIGURES 2017 – KONGSBERG

REVENUES

MNOK 14,490

Kongsberg Defence & Aerospace 44%
Kongsberg Maritime 51%
Other 5%

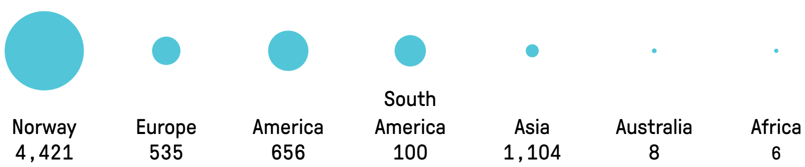
EBITDA	EBIT	PROFIT FOR THE YEAR
MNOK 1,279	MNOK 772	MNOK 559



DIVIDEND PER SHARE	EARNINGS PER SHARE AFTER TAX	MARKET CAPITALISATION
NOK 3.75	NOK 4.62	MNOK 18,120

NUMBER OF EMPLOYEES

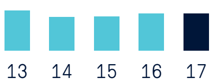
6,830



KEY FIGURES 2017 – BUSINESS AREAS

Kongsberg Defence & Aerospace

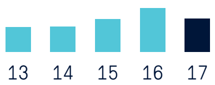
REVENUES



MNOK 6,333

+0.3% from 2016

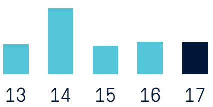
EBITDA



MNOK 702

-24.4% from 2016

NEW ORDERS



MNOK 5,376

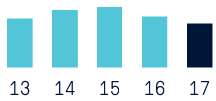
-0.9% from 2016

NUMBER OF EMPLOYEES

2,421

Kongsberg Maritime

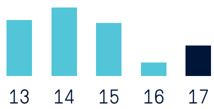
REVENUES



MNOK 7,429

-13.6% from 2016

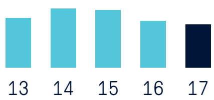
EBITDA



MNOK 642

+129.3% from 2016

NEW ORDERS



MNOK 7,336

-7.6% from 2016

NUMBER OF EMPLOYEES

3,819

Other activities

REVENUES

MNOK 728

-21.9% from 2016

EBITDA

MNOK -65

-822.2% from 2016

NEW ORDERS

MNOK 717

-24.8% from 2016

NUMBER OF EMPLOYEES

590

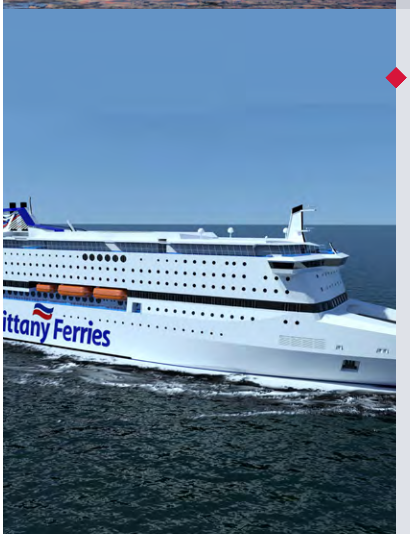
Important milestones 2017

KONGSBERG

- Adapting: Organisational restructuring to further increase competiveness
- Delivering: Strong focus on project execution
- Positioning: Important positions for future earnings achieved in all Business Areas

KONGSBERG DEFENCE & AEROSPACE

- Joint Venture, kta Naval systems, established with tyssenkrupp Marine Systems and ATLAS ELEKTRONIK to provide Submarine Combat System
- NSM selected as standard missile for the German Navy
- Signed contracts with Lithuania and Indonesia for the NASAMS Air Defence System. Selected as the preferred supplier of air defence systems to Australia, and mobile air defence systems to Norway
- Positioned for further success in the F-35 program with Australia signing in as JSM partner and successful ramp-up of the F-35 part production with zero defect
- Framework agreement for helicopter maintenance of SeaKing, as well as preparation for maintenance of gear boxes to NH-90 and AW101 helicopters
- Deliveries to the first global satellite-based world wide web



KONGSBERG MARITIME

- KONGSBERGs integrated vessel solutions is a new approach to the design and construction of vessels that utilise the integration between systems to achieve operational effectiveness and reduced life cycle costs. KONGSBERG signed four integrated vessel solution contracts in 2017
- The Norwegian Navy has signed a contract with KONGSBERG for delivery of four complete HUGIN AUV system
- Partnership agreement with Yara to build "Yara Birkeland", the world first autonomous zero-emission containership. KONGSBERG is responsible for development and deliveries of key technologies onboard. "Yara Birkeland" is expected to carry out fully autonomous operations from 2020
- Concessions for the world's largest offshore fish farm. KONGSBERG has major deliveries to this project
- KONGSBERG AUV qualified for US Navy Submarines

KONGSBERG DIGITAL

- Launch of the digital platform Kognifai

PRESIDENT AND CEO GEIR HÅØY

Dear Shareholders,

We live in a society where the rate of digitalisation is increasing, and this provides considerable opportunities for technology companies such as KONGSBERG. In the previous year, we have further strengthened our defence related positions and made several important investments in the maritime area. KONGSBERG has once again this year demonstrated our adaptability and unique culture characterised by world-class innovation.

For over 200 years, KONGSBERG has demonstrated that our ability within innovation and change is world-class. We are involved in strategically important sectors, and what we have in common is that we make a difference for our customers and the world around us. Our reliable solutions improve performance in the most demanding conditions - from the depths of the oceans to far out into space. KONGSBERG is a unique company, with leading solutions, technologies and skills.

We have significant opportunities going forward, both in the near future, the medium term and the long term. A number of years of innovation and dedicated product and market positioning within our defence segments have led to exciting opportunities within all of our defence segments. Within our maritime technology portfolio, we have taken leading positions in remote controlled operations, autonomy and integration, and have expanded our portfolio with vessels. With digital technologies, we are taking important positions based on our secure digital platform, Kognifai, as a provider of data analysis and technologies such as artificial intelligence, machine learning and virtual reality.

2017 followed two years where demanding market conditions in a number of maritime segments, particularly oil- and gas-related areas, affected the group's overall results. At the start of 2018, however, we are seeing the actions we took having a good effect.

Several of our technologies and products are in use within the ocean space. We have technology for what happens on the seabed, in the water column, on the ocean surface and to monitor the oceans from air and space. With the internationally growing interest in and focus on seas and what is under the water, both from government and commercial players, KONGSBERG's solutions and technology expertise are well positioned both to strengthen existing positions and take new ones within ocean space.

> "With the internationally growing interest and focus on seas and what is under the water, both from government and commercial players, KONGSBERG's solutions and technology expertise are well positioned both to strengthen existing positions and take new ones within ocean space."

Within our defence business, we have made organisational steps to make us stronger for future opportunities. On 1 October, we merged our two defence business areas into Kongsberg Defence & Aerospace. With this, we achieved a more efficient and coordinated utilisation of our combined resources, both on the market side and within product development and production.

An important part of our defence strategy is cooperation and alliances with a number of major international defence and industrial companies. In 2017, we entered into a partnership with thyssenkrupp Marine Systems (tkMS) in connection with the Norwegian submarine acquisition. Together with tkMS and ATLAS ELEKTRONIK, we have established the company kta Naval Systems, which will supply the battle management system for future Norwegian submarines, as well as future submarines produced by tkMS. The potential of this is around NOK 15 billion over the coming decades.

The announcement from the Norwegian government about cooperation with Germany on the submarines is also significant for KONGSBERG in the field of expanded industrial defence. An agreement has been reached between the Norwegian and German authorities that the KONGSBERG Naval Strike Missile navy missile will be the standard missile for the German Navy. This means that one more country will be a purchaser of the missile in addition to Norway and Poland, who currently have the missile in operation, and Malaysia, which has chosen the missile.

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The American company Lockheed Martin is another large company we have collaborated with over a number of decades. In recent years, we have supplied advanced composite and titanium components for the F-35 fighter from our production facilities in Kongsberg, and have received significant recognition for supplying the right quality at the right time, as well as for taking a number of measures to make production more cost-efficient. In 2018, the rate of production will increase, something we are ready and prepared for. At the end of the year, the first Norwegian F-35 fighters were handed over to the Norwegian Armed Forces, an important milestone for the fighter plane programme. F-35 is a programme ensuring decades of value creation for KONGSBERG and a number of Norwegian subcontractors.

Raytheon is another company we have collaborated with for a number of years on the NASAMS (Norwegian Advanced Surface to Air Missile System) air defence system, which is a major international success. In 2017, Lithuania and Indonesia became the eighth and ninth countries to choose the systems, and Australia announced that it will also procure NASAMS. In addition, the Norwegian Army announced its acquisition of the NASAMS mobile combat air defence system. We have also started a collaboration with Raytheon for both the Naval Strike Missile and Joint Strike Missile. With world-leading products, and a partnership with such a leading player as Raytheon, we have an extremely strong international position in these areas.

For nearly 20 years, KONGSBERG has been the world's leading provider of remote-controlled weapon stations for vehicles and has currently supplied around 19,000 stations to 19 nations, with the US Army being the largest customer. Based on the leading "PROTECTOR Remote Weapon Station", we have produced a number of different variants and solutions, including a low-profile solution, Sea Protector and MCT-30. The latter is a medium-calibre solution that is well positioned to take market shares in the new and growing tower solutions segment. We signed an MCT-30 agreement with the US Army in early 2016, and we started delivery in 2017.

In May 2016, we completed the acquisition of 49.9 per cent of the shares in the Finnish defence group Patria. Patria owns 50 per cent of the shares in the Norwegian company Nammo, and together these three companies form a leading Nordic defence alliance. We are finding that this collaboration is bearing fruit in a number of segments and that the three companies complement each other both in terms of products and markets. Our ownership of, and collaboration with, Patria is an important part of the further development of KONGSBERG.

KONGSBERG is the largest industrial space company in the Nordic region, and this position has been strengthened in 2017. The market for our industrial space company is largely international, and more than 90 per cent of revenue comes from outside Norway. We provide services and products within selected niche markets in both upstream and downstream activities. The industrial space market is developing significantly, and the intensity of change has increased significantly in the "New Space" segment in 2017, where new players are working on new, small and more cost-effective components and satellites, combined with new business models. With our expertise, products and our global download station infrastructure, we also aspire to be a leader in this segment. In 2017 we signed agreements with, among others, the company OneWeb, which has ambitions for a world-wide networking solution based on small satellites.

Our maritime business area, Kongsberg Maritime, has a diversified portfolio closely linked to core technological skills. We have underwater vehicles and instrumentation to monitor the ocean floor, solutions for fishing, and we are a world-leading provider of solutions for merchant vessels, rigs, service ships, ferries, cruise boats, commercial fishing boats, research ships and a number of other vessel classes. In total, the number of vessels operating with KONGSBERG technology is more than 18,000 worldwide. Based on our technology, expertise and installed base, we have a strong market position.

We are still facing a demanding offshore market, which, as in 2015 and 2016, has characterised our maritime business in 2017. The level of activity is lower than we have been used to, and we have made adjustments, both in the market we are in and the one we see in the future.

Other vessel segments have seen increased activity in 2017. We have won agreements to supply to ferries, and there has been increased activity within gas transport vessels. We are delivering a fully-integrated solution to the German research ship Atair II, with acoustic data collection, dynamic positioning, propulsion control, and navigation and automation systems. This is a delivery of our "integrated vessel concept" where we integrate more of a vessel's features to provide a more complete decision support and operating system for the operator. This new concept, which we introduced in the autumn of 2016, has also won delivery agreements in other vessel segments in 2017. Integrated systems are becoming a clear technological trend, and this is opening up new market opportunities for us as a supplier of more fully-integrated vessel solutions.

In parallel with the fact that we have been working on adapt-

"Integrated systems are becoming a clear technological trend, and this is opening up new market opportunities for us as a supplier of more fully-integrated vessel solutions."

> "KONGSBERG has zero tolerance for corruption among its employees, consultants and business associates. We have a comprehensive anti-corruption programme, and high ethical standards are an integral part of our business."

ing the organisation while delivering on projects, we have maintained our commitment to research and development throughout the year. In the past year, we have taken great steps in the field of autonomy. The launch of "Yara Birkeland", the world's first autonomous, fully-electric container vessel, is a world first which will become a reality within a few years. The idea for the vessel came from Yara, and they deserve great recognition for their pioneering spirit. Following the announcement, there have been enquiries from virtually every corner of the world, and this is a good example of how our technology base and expertise lead to the innovation of solutions that hold significant business potential for us, while at the same time having global significance for more sustainable societal development. The Norwegian Defence Research Establishment's vessel "Odin", with autonomous capability, is another example. A third example is that at the end of 2017, more than 700 vessels with KONGSBERG equipment can be remotely connected. There is great international interest in the increased use of remote services and autonomy, and Norwegian authorities have been assertive in opening a number of areas for the testing of autonomous ships in Norway. Norway and KONGSBERG have taken a leading role internationally and we will continue working to maintain this position.

Our underwater technology and expertise are widely used in the form of a number of different products and solutions, and in a variety of different areas. Our seabed observatories and our portfolio of autonomous underwater vehicles are world leaders in their fields of application, and we are continuously working to innovate and further develop their capacities. Our underwater vehicles are currently used for defence purposes, research, seabed mapping, offshore applications and search.

Fisheries and acquaculture management technology is another area of growth and significant potential. KONGSBERG is well established in a number of fishing segments and is a world-leading provider of equipment for commercial fishing vessels, research vessels and the Ocean Farming farm, the first of its kind in the world. The latter was put into operation on Frohavet outside Trøndelag in 2017 and, with a number of solutions from KONGSBERG, it helps solve a number of environmental challenges within farming.

KONGSBERG has been a driving force within digitisation for many years. However, major change is now happening in several of our industries. The combination of the fact that technologies such as artificial intelligence and advanced data analysis are more mature and that data capacity has increased considerably in recent years, brings new opportunities to solve tasks within operation and maintenance, and provide completely new services. Business models are changing, and the pace of development within industrial digitisation is extremely fast.

In 2017 KONGSBERG launched the digital platform "Kognifai". The platform is a digital ecosystem on which our customers can run applications and connect their operations via a digital interface. The platform is open and secure so that users can have their own applications, KONGSBERG applications and applications from other platform vendors. Kognifai is an important focus area for us, and we will continue to develop this platform further in the future.

Sustainability and social responsibility are very important to KONGSBERG. As a Norwegian and international industry and technology company, our values, our culture and our guidelines for our business activities are crucial. This is our "licence to operate".

We are putting significant resources into strengthening our values - self-perceived attitudes and the motivation for sustainability are far stronger than procedures and regulations. Values are on the agenda of leaders throughout our organisation, with close monitoring of both collective and individual behaviour. We also monitor our subcontractors closely in terms of values and sustainability. All of our contributions within sustainability are dependent on our suppliers contributing and having a clear focus on this.

The prevention of corruption is something that KONGSBERG takes very seriously. KONGSBERG

"Diversity is important for KONGSBERG, and we have had an increasing focus on this for a long time. Increased diversity increases value. We must find a balance between the established and experienced and the young talents, between women and men, and several other parameters. This applies at all levels."

has zero tolerance for corruption among its employees, consultants and business associates. We have a comprehensive anti-corruption programme, and high ethical standards are an integral part of our business. We are working systematically and continuously to develop this programme further. All KONGSBERG employees receive training and feedback, and we require everyone to keep up to date with rules and guidelines.

Integrated in our strategy for responsible and sustainable business, "Technology for global challenges", are the UN's 17 sustainability goals. These are important goals in our strategy, and we have identified the sustainability goals to which we can contribute, both nationally and internationally. We committed ourselves to the UN "Global Compact" programme in 2006, which means that we are setting up strategies and operations for principles regarding human rights, the environment and anti-corruption.

The world is facing a number of challenges within climate and environment, transport, energy, security and sovereignty, and food and biological resources. Technology companies are central in addressing these challenges, and KONGSBERG is playing a key role in a number of these areas. This is part of our social responsibility, and at the same time a significant business opportunity.

In 2017, more of our existing technologies and solutions have been developed in a more sustainable direction, and it was also a year in which we introduced a number of new and innovative solutions that will contribute to more sustainable societal development.

Recruiting the leading talents is crucial for a knowledge based company like KONGSBERG. In Universum's annual survey of the most attractive businesses for students in 2017, we were in second place. We offer students exciting opportunities, both while studying in the form of summer jobs, task writing, the "Your Extreme" student competition and collaboration with student associations, and by offering work involving exciting and challenging tasks when they finally finish their studies.

Diversity is important for KONGSBERG, and we have had an increasing focus on this for a long time. Diversity drives increased value creation. We must find a balance between the established and experienced and the young talents, between women and men, and several other parameters. This applies at all levels. Having wide-ranging teams who look at challenges in different ways and have different solutions, knowledge bases and methods contributes to creativity and to achieving the best results. Within the recruitment of women, for example, in recent years we have worked actively internally to bring women into senior positions, and externally to help more women choose a career in technology. This has produced results, and is a consequence of targeted work and concrete measures.

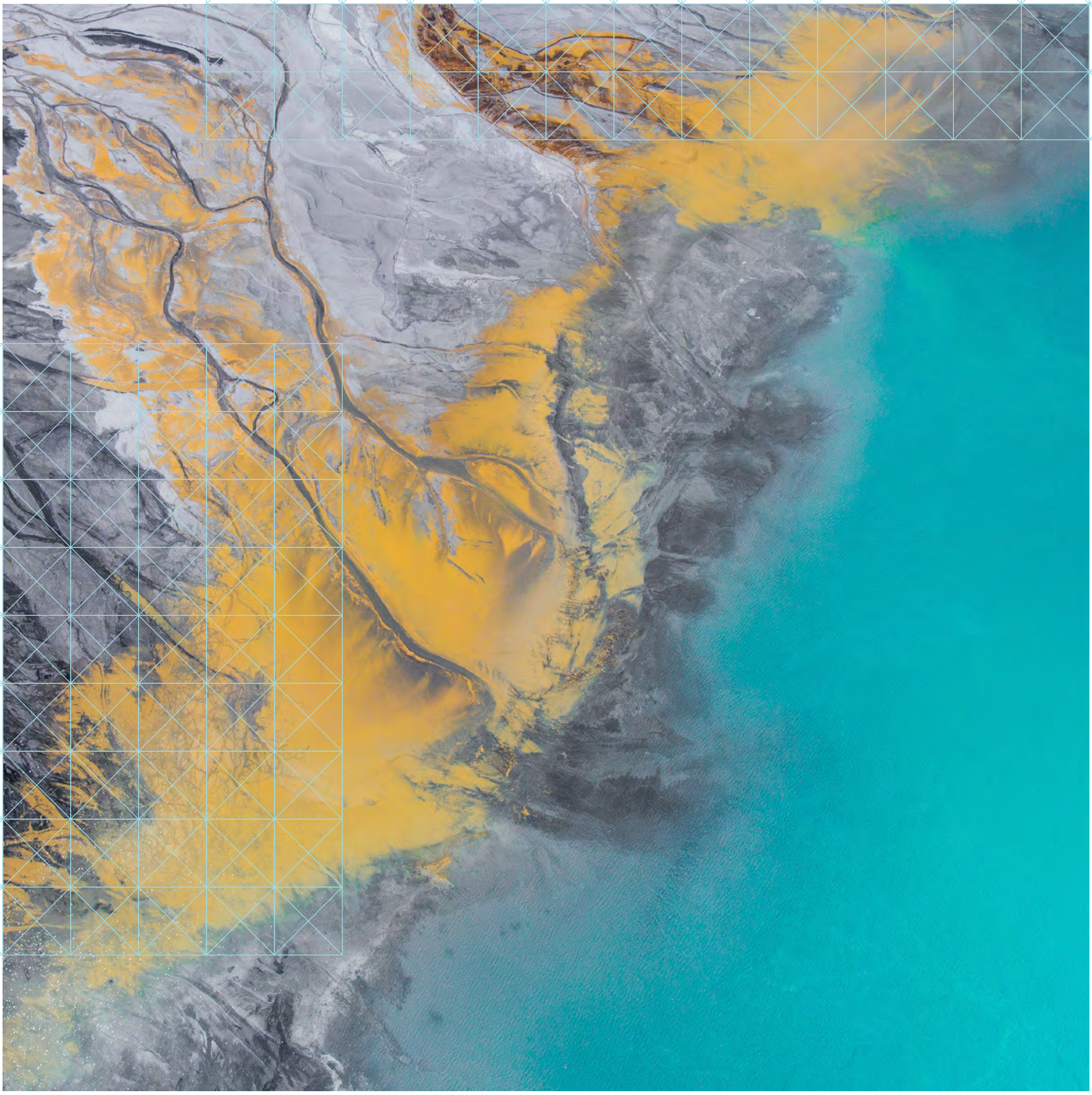
In summary, 2017 has been a year of changes, while delivering to our customers' expectations. We have adapted to the markets of today and the future, and we have used the year to positioned ourselves through innovation and market initiatives. Central to achieving all of this is our culture. We have shown that our vision - world class through people, technology and dedication - is not just words, but an ideal we live up to with great enthusiasm.

On behalf of KONGSBERG, I would like to thank the owners for their confidence in us, the employees for their driving force and courage, our customers who come to us with exciting and demanding challenges, and partners, suppliers and other stakeholders for our collaboration. We will continue to make a difference to our customers and to society as a whole. We are facing significant opportunities, and I am confident that we will be able to deliver on the potential KONGSBERG, a world-leading technology company, has in 2018 and in the years to come.

Geir Håøy
President and CEO
March 2018

02

About KONGSBERG



This is KONGSBERG

Kongsberg Gruppen (KONGSBERG) is an international technology group that delivers advanced and reliable solutions that improve safety, security and performance in complex operations and under extreme conditions. KONGSBERG works with demanding customers in the global defence, maritime, oil and gas, fisheries and aerospace sectors. We deliver EXTREME PERFORMANCE FOR EXTREME CONDITIONS.

KONGSBERG's objective is to secure and increase stakeholder value through profitable and growth-oriented industrial development with a long-term, sustainable and international perspective.

Organisation
The Group is divided into three business areas and other operations. The three business areas are Kongsberg Defence & Aerospace, Kongsberg Maritime and Kongsberg Digital. Kongsberg Digital is a digital focus area under development which is reported as other activities. Other activities also include real estate business and the corporate staff. The corporate staff provides group governance and supportfunctions to the business areas, the CEO and the Board and their councils and committees.

EXTREME PERFORMANCE

for extreme conditions

KONGSBERG develops and delivers advanced systems and technologies for extreme conditions. Our solutions ensure efficiency, safety and high performance in operations ranging from deep sea to outer space.

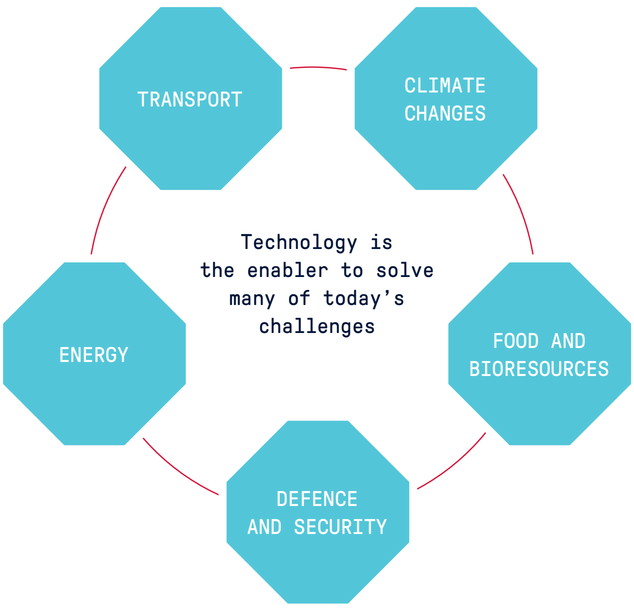
Ownership structure
Kongsberg Gruppen ASA is listed on the Oslo Stock Exchange and is subject to Norwegian securities legislation and stock exchange regulations. The Norwegian state owns 50.001 per cent of the shares in the company.

Financial value added
At KONGSBERG, we create value in the areas and countries in which we operate. We create value for our customers through our products. We create value through the payment of government fees and taxes, dividends to owners and wages to employees, and indirectly by buying goods and services from suppliers. Value is also created through the importance we attach to research and development.

Sustainability and corporate social responsibility
Sustainability and corporate social responsibility is important for KONGSBERG and is an integral part of our strategy. We shall conduct our business in a sustainable and accountable manner, and we must carry out our corporate social responsibility in accordance with the applicable expectations of society. This gives KONGSBERG the necessary "licence to operate" in order to execute our business.

The UN has defined 17 sustainability development goals the world should reach by 2030. Several of these goals can only be achieved through innovation and the sensible application of technology. Sustainable technological development is a central element in our strategy. For KONGSBERG, this involves business opportunities in several markets viewed in the light of our broad technology and skills platform.

KONGSBERG has acceded to the UN Global Compact initiative. We support and respect international human and employee rights such as the UN's Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, ILO Core Conventions and the OECD Guidelines for Multinational Enterprises. KONGSBERG uses the Global Reporting Initiative (GRI) guidelines for the voluntary reporting of sustainable development.



Strategy and ambitions

KONGSBERG delivers world-leading products and services, and our objective is to secure and increase the stakeholders' values through profitable and growth-oriented industrial development with a long-term and international perspective. Our ambitions in the different business areas support this. For KONGSBERG to be successful, a good balance between operations, market positioning and new initiatives is important. Our strategic and business related decisions are based on a culture that promotes high ethical standards and sustainable development.

Strategic priorities

DEFENCE	MARITIME	TECHNOLOGY
Increase market penetration with our modern product portfolio	Expand our product portfolio based on our leading position	Take advantage of our strong technological position in order to take new market positions

Focus areas to ensure profitable growth and sound business operations

- Deliver what we have promised our customers on time and with the agreed quality and price
- Develop and sell attractive products and solutions and win new contracts
- Always have an organisation tailored to the demands of the market
- Position ourselves for new opportunities and markets
- Continuous focus on innovations

KONGSBERG's financial ambitions

In connection with the group's Capital Markets Day in the autumn of 2015, the following financial ambitions for the next five years were launched:

- We aim for average growth of 10 per cent over the next five years, approximately half of which is organic. Organic growth is expected to take place towards the end of the period
- A "double digit" EBITA-margin business
- New projects and initiatives will be evaluated against a 10—15 per cent return on capital employed.

Vision

We have a strong, value-based culture that drives our business performance. Our shared vision defines our direction and what we are striving to achieve.

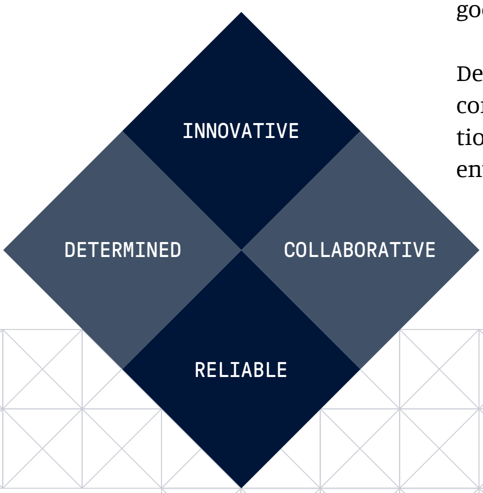
WORLD CLASS

through people, technology and dedication

Our values

We have four core values that support this vision, that describe what we stand for, our ethical attitudes and what we believe in. Our core values are our foundations; they make us who we are and have formed the basis of our operations for over 200 years. These core values act as guidelines for the way in which we act and work, and characterise our cooperation both within and outside the Group. These values are important for developing a healthy and strong corporate culture and thereby provide a platform for good corporate governance.

Our customers and partners can trust KONGSBERG to deliver, always. Dealing with KONGSBERG means dealing with reliable people, a reliable corporation and reliable products. KONGSBERG is a responsible organisation characterised by integrity and concern for health, safety and the environment.



DETERMINED

(intent, resolute, goal-oriented)

We are known for our drive and persistence. We always strive to meet our customers' expectations. We set ambitious goals for ourselves and we are driven towards them with a clear and constant focus.

What we start, we finish. We do not give in.

INNOVATIVE

(unconventional, pioneering)

Always performing better is a vital part of who we are. We constantly innovate and implement improvements in all parts of our business – from our products, through our processes, to our customers' experiences.

We are relentless in our pursuit of improvement, fresh ideas and new solutions.

COLLABORATIVE

(cooperative, network-oriented)

Collaboration is fundamental to our business. We exchange ideas among ourselves, with our suppliers and partners, and we cooperate closely with our customers. We work as a team, we share knowledge and we value team success – to the benefit of our customers and our own competitiveness.

We collaborate as individuals and as an organisation.

RELIABLE

(dependable, trustworthy)

Our customers and partners can trust KONGSBERG to deliver, always. Dealing with KONGSBERG means dealing with reliable people, a reliable corporation and reliable products. KONGSBERG is a responsible organisation characterised by integrity and concern for health, safety and the environment.

We are reliable people. We are responsible citizens.

Corporate Executive Management

GEIR HÅØY

President &
Chief Executive Officer

GYRID SKALLEBERG INGERØ

Group Executive Vice President
& Chief Financial Officer

EGIL HAUGSDAL

Executive Vice President,
KONGSBERG.
President, Kongsberg Maritime

EIRIK LIE

Executive Vice President, KONGSBERG.
President, Kongsberg Defence &
Aerospace

HEGE SKRYSETH

Executive Vice President,
KONGSBERG.
President, Kongsberg Digital

HANS PETTER BLOKKUM

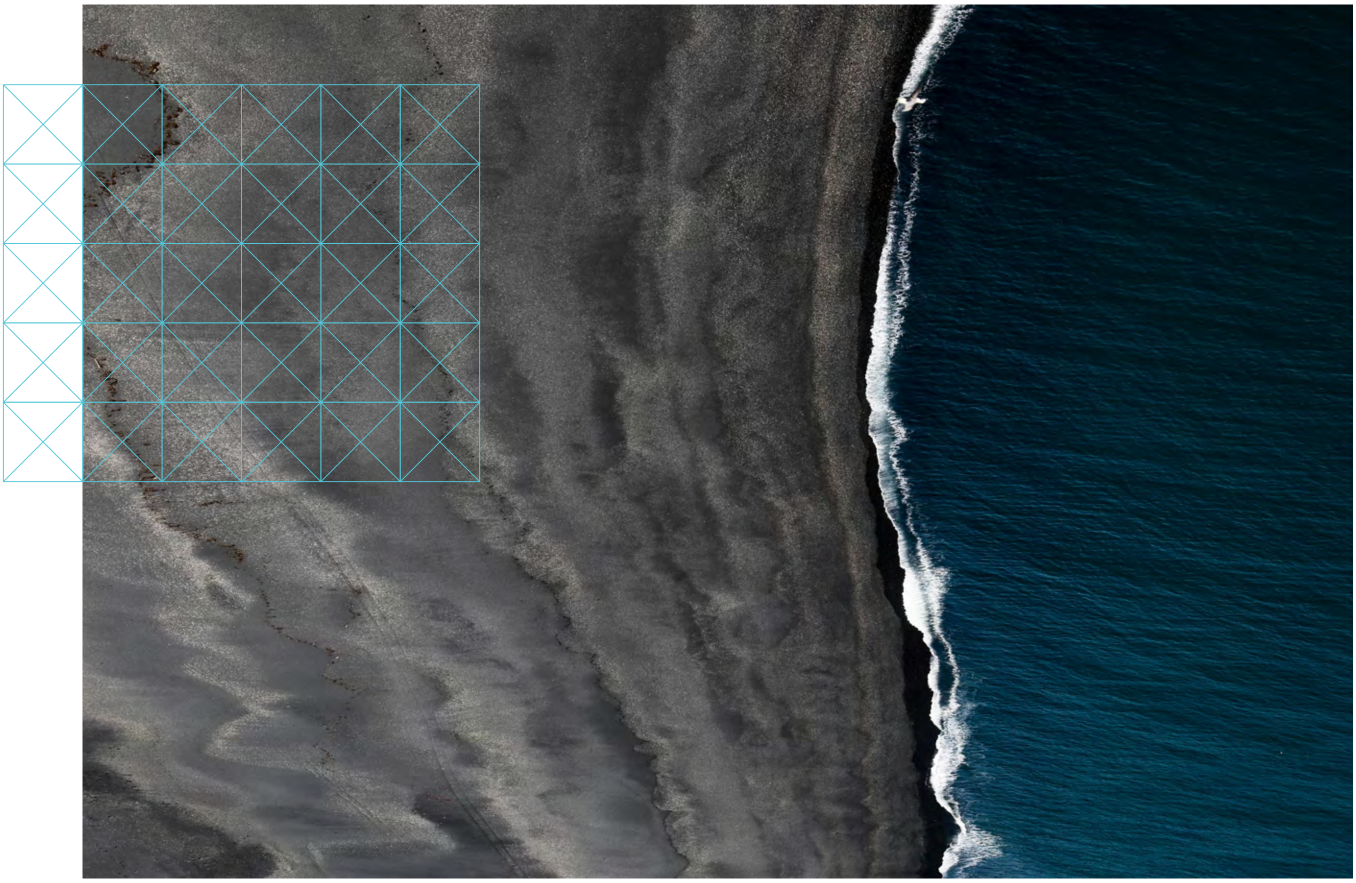
Group Executive Vice President,
Chief HR & Security Officer

HARALD AARØ

Group Executive Vice President,
Business Development and
Strategy

EVEN AAS

Group Executive Vice President,
Public Affairs



BUSINESS AREAS

KONGSBERG is comprised of three business areas operating with autonomy in a strong corporate governance model. The organisation is connected through competence and technology synergies and a common culture of being determined, innovative, collaborative and reliable. We are highly innovative across the entire Group, dedicated to providing our customers with extreme performance for extreme conditions.

Kongsberg Defence & Aerospace

- Integrated Defence Systems
- Space & Surveillance
- Missile Systems
- Aerostructures
- Defence Communications
- Protech Systems
- Patria

Kongsberg Defence & Aerospace is a leading supplier of defence products and systems for command and control, surveillance, space, tactical communications, remote weapon stations and missiles, as well as advanced composites and engineering products for aircraft and helicopter. The activities span from underwater to surface, land and air to space.

Integrated Defence Systems
The Integrated Defence Systems division provides air defence systems, land-based command & control systems, surveillance systems and naval combat systems. The division has a strategic co-operation agreement with Raytheon, with KONGSBERG delivering decision support tools, launchers and command and control systems. In addition, the division has established kta Naval Systems, a Joint Venture company,

KONGSBERG is the world's only supplier of fifth-generation long-distance missiles with great precision and stealth capabilities.

together with the German thyssenkrupp Marine Systems (tkMS) and ATLAS ELEKTRONIK for exclusive deliveries of combat systems to tkMS submarines.

Space & Surveillance
The Space & Surveillance division delivers a broad spectrum of equipment, systems and services related to space and maritime surveillance to customers in more than 40 countries. The division is a world-leading supplier of satellite ground stations for downloading and processing satellite data. KONGSBERG is the largest supplier to the space industry in the Nordics.

Missile Systems
The Missile Systems division has more than 50 years' experience from a variety of missile programmes. Products include the Penguin missile, the Naval Strike Missile (NSM) and the Joint Strike Missile (JSM) launched from surface ships, helicopters and fighter aircrafts. KONGSBERG is the world's only supplier of 5th generation long-range precision strike missiles with stealth capabilities.

Aerostructures
The Aerostructures division is a Centre of Excellence for complex composite structures and metallic alloy assemblies and details. The core capabilities range from design, prototyping and industri-

"We are continuing to strengthen our position in important technology areas and markets. During the last year, we have taken new positions in the submarine and missile market through the cooperation with Germany, within the helicopter maintenance market, and we have signed new strategic space contracts, which all will have a strong impact on our business for decades."

Eirik Lie – President, Kongsberg Defence & Aerospace alisation, to large-volume manufacturing for aerospace and other high-performing markets. Activities range from the manufacture of parts for the F-35 and helicopters to the mechanical production and maintenance of helicopter gear boxes.

Defence Communications
The Defence Communications division designs and manufactures high-quality ruggedised radios and radio links used in advanced tactical communication systems. The tactical communication solutions are used in more than 30 countries.

Protech Systems
The Protech Systems division is a world leading supplier of remote weapon stations. The system allows the soldiers to operate from a protected position inside the vehicle. Protech Systems has since 2001 delivered more than 19,000 systems to 19 nations. In 2017, the deliveries of the MCT-30 started. MCT-30 is a medium caliber turret based on the same technologies as the PROCTOR RWS with highly accurate firepower.

Patria
Patria is Finland's premier provider of technology solutions and life-cycle support services within defence, security and aviation. The company has an international organisation with some 2,800 employees, and holds 50 per cent of the shares in Nammo. KONGSBERG holds 49,9 per cent of the shares in Patria.

In 2017, KONGSBERG established kta Naval Systems, a joint venture company with the German thyssenkrupp Marine Systems (tkMS) and ATLAS ELEKTRONIK, to supply exclusive combat systems for tKMS submarines.

Kongsberg Maritime

- Offshore
- Seaborne Transportation
- Subsea
- Emerging Business

Kongsberg Maritime (KM) is a world-leader in the development and delivery of integrated vessel concepts for traditional merchant vessels and fishing vessels, as well as offshore and research vessels and offshore installations. KM supplies products and systems for advanced mapping surveying, sonars, underwater communication, marine robotics (Unmanned Surface Vessel [USV] and Autonomous Underwater Vehicle [AUV]) and underwater cameras for, among other things, research, fishing and defence vessels, as well as aquaculture installations.

Offshore
Our offshore product and solution portfolio position KM as a market leader in advanced dynamic positioning technology, and offers a well-established and highly regarded range of integrated navigation and automation solutions. Other areas of expertise include information management

KM is a world leader in integrated vessel concepts within the offshore market.

solutions, cargo handling systems and process automation. KM's complete portfolio for the offshore market is designed with smart improvement and safe, profitable operations in mind. KM is positioned as a key supplier to all the major operators in all offshore and oil and gas markets globally.

Seaborne Transportation
To the merchant marine and passenger market KM delivers systems for integrated marine automation and navigation, cargo management and level sensors, temperature sensors and pressure transmitters. KM's bridge systems ensure safe, efficient passage for vessels globally, while the control and monitoring technology continues to introduce new efficiencies for ships, enabling smarter, more profitable operation through fuel reduction, hybrid solutions and process automation.

Subsea
Our subsea technology is applied predominantly in the offshore, oil and gas, surveying (seabed mapping, surveying and investiga-

"Kongsberg Maritime is now well adapted for the current market. The ocean space will become more important in the future in both a national and international context. Technology development is progressing quickly, particularly within autonomy and digitalisation. Kongsberg Maritime has adopted strong positions in both the short and long term. After a few difficult years in the offshore market, we are now well placed for future growth."

Egil Haugsdal – President, Kongsberg Maritime tions), defence, fisheries & aquaculture, subsea construction and oceanography industries. KM's products and systems are based on highly innovative, pioneering hydroacoustic technology and sensors, advanced signal processing and expert knowledge in underwater engineering. The extensive portfolio includes leading single and multibeam echo sounders, sonars, underwater vehicles and subsea transponders, in addition to advanced software for data processing, products for search and rescue, and defence applications.

Emerging Business
Always at the forefront of new technologies and applications, we are dedicated to supporting important emerging growth markets in maritime and offshore industry such as autonomy, satellite positioning, hybrid solutions and on-deck handling equipment. These areas, and other emerging interests, have significant synergies with KM's core profile and are generating major technology development and sales opportunities.

The underwater vessel HUGIN can map the seabed to a depth of 6,000 metres and report detailed mapping data to the surface.

Kongsberg Digital

- Kongsberg Digital Platform
- Energy Solutions
- Maritime Simulation

More than 500 highly qualified employees ensure that Kongsberg Digital is delivering next-generation software and digital solutions to customers within the maritime, oil and gas, renewable energy and power supply industries. We have leading expertise in the internet of things, smart data, artificial intelligence, digital twins and other areas supporting automation and autonomous operation. In Kongsberg Digital, Kongsberg Gruppen's long and extensive industrial experience combines with innovative digital skills.

Kongsberg Digital Platform
Kongsberg Gruppen currently has a significant number of software solutions that collect high quality data from more than 18,500 vessels and more than 10,000 oil wells. For a number of years we have been working on real-time data systems to enable automation and autonomous operations. We have chosen to consolidate our existing platforms (K-IMS,

Kognifai consolitdates our existing platforms making new functionality and new solutions available to our customers.

EmPower, Sitecom) into one digital platform — Kognifai — in order to make new functionality and solutions available to our customers.

Kognifai is our cloud-based digital platform. It is based on open standards and allows flexibility and scaling. In an open ecosystem, we give external and internal developers access to development frameworks to develop applications on the platform. Our existing applications are becoming available as services and, through a network of partners, this will contribute to innovation and digital transformation within our industries.

Some of the most important trends in industrial transformation are digital twins and digital threads. A digital twin is a digital representation, either in the form of single components, such as a diesel engine, or all the components in a device, such as a whole ship. A digital thread is a chain of information about components which extends throughout the life cycle, from design and production to maintenance. This information is then connected to the digital twin. Within digital twins, we are focusing on dynamic models that facilitate autonomous operations for oil and gas, renewable energy, and the maritime industry. Kognifai is specially designed to support these trends.

"Thanks to our core competence and solutions, we are a leading provider of industrial digital solutions. Together with our customers, we combine industrial expertise with new digital solutions for more efficient operation, both in existing and new industries."

Hege Skryseth – President, Kongsberg Digital

Energy Solutions
Within the energy market, Kongsberg Digital offers innovative technology and software solutions aimed at both the oil and gas industry and renewable energies.

Oil and gas
During drilling operations, we can combine data collection and visualisation in real time with

well safety and performance optimisation, as well as applications for operational analysis and decision support. We also have solutions that increase production efficiency using real-time simulators for design, multi-phase flow and training. These solutions have already been on the market for many years. During 2018, they will become available as applications on Kognifai.

Renewable energy and power supply
Kongsberg Gruppen has extensive experience in automation, analysis and sensors. This is how we can provide the energy industry with applications and features for smart data and decision support. Kognifai ensures the full integration of systems and sensors to provide wind farm owners with a comprehensive status-based maintenance system. The system includes real-time performance monitoring, maintenance forecasts and product optimisation, which will improve operational efficiency.

Maritime Simulation
Kongsberg Digital has market-leading simulator solutions that ensure the authentic and thorough training of personnel and students in the maritime, marine and offshore markets. This provides them with important skills and knowledge that make real-life operations safer and more cost-effective. These simulator solutions are also used for verification and decision support, for example, in preliminary studies and research projects within design, security and cost optimisation.

Training in a simulator contributes to increased competence, better fuel consumption and increased security at sea.

THE WORLD OF KONGSBERG

	Number of employees	Number of suppliers	Value added MNOK	Investments MNOK
Total	6 830	3 196	14 490	328
Europe	72.6%	83.9%	71.1%	89.0%
Asia	16.2%	2.4%	13.7%	2.8%
North America	9.6%	12.7%	13.9%	7.9%
Central and South America and the Antarctic	1.4%	0.4%	1.0%	0%
Oceania	0.1%	0.4%	0.2%	0%
Africa	0.1%	0.2%	0.1%	0.3%

In Kjeller in Norway, KDA do product development, testing and production, among other things.

Europe

NORWAY

Employees **4,421 (4,599)**
Number of suppliers[1] **2,050 (2,086)**
Value added[2] **MNOK 9,036 (8,892)**
Investments **MNOK 267 (357)**

The Group headquarters are located in Kongsberg.

Kongsberg Defence & Aerospace (KDA) constitutes the most significant part of the Group's defence business, with its main activities being in Kongsberg. In addition, we have operations in Horten, Asker, Kjeller and Bergen. Here, there are development, production, test, sales and service activities.

Kongsberg Spacetec and Kongsberg Satellite Services (where we own 50 per cent) have offices in Tromsø and both of them are part of KDA. Kongsberg Satellite Services has ground stations for satellite data in the Antarctic and on Svalbard.

Kongsberg Maritime (KM) has operations for development, production, testing, sales and service in Kongsberg, Horten, Ulsteinvik, Sandefjord and Trondheim.

Kongsberg Digital (KDI) is located in Asker, Horten, Kristiansand, Stavanger and Trondheim. Operations include sales and product development, project deliveries, service and production. KDI also owns 34.19 per cent of eSmart Systems AS. The company is located in Halden and develops digital intelligence for the energy industry and smart communities.

GREAT BRITAIN

Employees **140 (147)**
Number of suppliers[1] **135 (157)**
Value added[2] **MNOK 393 (386)**
Investments **MNOK 6 (17)**

Kongsberg Defence & Aerospace, through its subsidiary Kongsberg Norcontrol, has a sales and service office in Bristol.

Kongsberg Maritime's headquarters for offshore activities in the UK are located in Aberdeen. We also have offices in Wick, Waterlooville and Great Yarmouth. Opeartions include product development, manufacturing, sales and support. In addition, we have an office in the Bridge of Don for production of cameras.

POLAND

Employees **189 (155)**
Number of suppliers[1] **16 (17)**
Value added[2] **MNOK 105 (100)**
Investments **MNOK 9 (14)**

Kongsberg Defence & Aerospace, through the subsidiary Kongsberg Defence Sp. Zo.o, has a marketing office in Warsaw.

Kongsberg Maritime carries out service and project support in Szczecin.

REST OF EUROPE

Employees **206 (226)**
Number of suppliers[1] **481 (734)**
Value added[2] **MNOK 770 (943)**
Investments **MNOK 10 (11)**

Furthermore, the Group has sales, service and project support offices in Finland, Greece, Italy, the Netherlands, Russia, Spain, Germany and Hungary. We own 49.9 per cent of Patria Oyj, which has its headquarters in Finland. Patria is Finland's leading supplier of technology solutions and maintenance services within the defence, security and aviation sectors.

1. Number of suppliers that invoiced KONGSBERG for more than NOK 50,000 in 2017. Certain suppliers have been counted two or more times if they are suppliers for two or more of our business areas. The figures do not include all suppliers dealt with directly by our international locations.
2. Value added shows the operating revenues generated in the legal units per country.

KM has a major production unit in Zhenjiang, China.

Asia

CHINA	INDIA	SOUTH KOREA
Employees **500 (602)** Number of suppliers[1] **10 (172)** Value added[2] **MNOK 326 (457)** Investments **MNOK 2 (13)**	Employees **230 (187)** Number of suppliers[1] **5 (6)** Value added[2] **MNOK 93 (84)** Investments **MNOK 2 (1)**	Employees **167 (209)** Number of suppliers[1] **11 (106)** Value added[2] **MNOK 759 (1,242)** Investments **MNOK 4 (2)**

CHINA

Kongsberg Maritime has built up a significant business in China. The business area is a local supplier to the Chinese shipbuilding industry, with offices in Shanghai, Dalian, Guangzhou and Zhenjiang. In Zhenjiang, we have a production unit that includes an electromechanical assembly line where we manufacture consoles, cabinets and sensors. We also have a centre with CNC machines where we produce mechanical components and precision mechanics.

INDIA

Kongsberg Defence & Aerospace has, through its subsidiary Kongsberg Norcontrol, a sales and service office in Ahmedabad. In addition, it owns 49 per cent of Aatash Norcontrol, a company which is also located in the Ahmedabad.

Kongsberg Maritime has sales and service offices, software support and development activities in Mumbai.

Kongsberg Digital has operations both in Mumbai and Bangalore. In Mumbai they perform sales support and project support, while software development is the main activity in Bangalore.

SOUTH KOREA

Kongsberg Defence & Aerospace has a sales office in Seoul.

Kongsberg Maritime's main operations in South Korea are located in Jungkwan outside of Busan. For several years, we have been building up a local presence in the world's largest shipbuilding nation. The main activities are sales, engineering, installation, commissioning and service/support as well as local manufacturing. In addition, we have offices in Gohyeon, Okpo, Ulsan, Jellanam-do and Gyeongsangnamdo.

SINGAPORE	UNITED ARAB EMIRATES	REST OF ASIA
Employees **156 (173)** Number of suppliers[1] **12 (146)** Value added[2] **MNOK 616 (890)** Investments **MNOK 0 (67)**	Employees **41 (39)** Number of suppliers[1] **6 (38)** Value added[2] **MNOK 140 (123)** Investments **MNOK 1 (1)**	Employees **11 (8)** Number of suppliers[1] **33 (37** Value added[2] **MNOK 49 (42)** Investments **MNOK 0 (1)**

SINGAPORE

Kongsberg Defence & Aerospace , through the company Kongsberg Norcontrol IT, has major deliveries to Singapore's vessel traffic monitoring, where it also has a sales and service office.

Kongsberg Maritime's main activities in Singapore are sales, installation, engineering, commissioning, service/support and training. Singapore has one of the largest harbors in the world and is a significant shipowner and shipbuilding nation.

UNITED ARAB EMIRATES

Kongsberg Maritime has a service office in Dubai.

REST OF ASIA

Kongsberg Defence & Aerospace has offices in Kuwait and Saudi Arabia. The main tasks are operational and delivery of projects within tactical radio and communications systems. In addition, the company has an office in Malaysia for marketing and local project management.

Kongsberg Maritime has a sales and service office for fisheries in Kuala Lumpur, Malaysia.

North America

Manufacturing and maintenance of remote-controlled weapons stations take place in Johnstown.

USA

Employees **552 (566)**
Number of suppliers[1] **349 (367)**
Value added[2] **MNOK 1,644 (1,813)**
Investments **MNOK 26 (153)**

Kongsberg Defence & Aerospace has a marketing office in Alexandria (Virginia). In Johnstown (Pennsylvania), they manufacture and maintain the PROTECTOR Remote Weapon Station for the American market. The business unit has project office in Mount Arlington, New Jersey.

Kongsberg Geospatial has a sales and service office in Florida.

Kongsberg Maritime operates in Seattle (Washington), Houston (Texas), New Orleans (Louisiana), Pocasset Massachusetts), Long Beach (California) and Arlington (Virginia). In Pocasset operations include development, sales and support of autonomous underwater vehicles (AUV). The other units do sales and customer support. In Seattle they also work with technology development and adaptation of existing products to the US market.

Kongsberg Digital's has operations in Houston (Texas) for sales, support and project implementation. There is also an office in West Mystic Groton (CT) for sales and customer support.

CANADA

Employees **104 (137)**
Number of suppliers[1] **56 (41)**
Value added[2] **MNOK 371 (686)**
Investments **MNOK 0 (1)**

Kongsberg Defence & Aerospace is represented by Kongsberg Geospatial in Ottawa. The company is known for its geospatial visualisation tools for military command and control systems.

Kongsberg Maritime's main facility in Canada is located in Vancouver, where they perform product development and manufacturing. The activity in Vancouver is based on hydroacoustic technologies and is coordinated with Kongsberg Maritime's other subsea operations. The business area also has two sales and customer support offices on the east coast, in Nova Scotia and on Newfoundland.

Kongsberg Digital operates in St. Johns, where they do sales and customer support.

Central and South America and Antarctica

BRAZIL	MEXICO	REST OF CENTRAL AND SOUTH AMERICA
Employees **75 (73)** Number of suppliers[1)] **4 (41)** Value added[2)] **MNOK 112 (103)** Investments **MNOK 0 (2)**	Employees **19 (24)** Number of suppliers[1)] **0 (1)** Value added[2)] **MNOK 29 (38)** Investments **MNOK 0 (1)**	Employees **5 (4)** Number of suppliers[1)] **7 (12)** Value added[2)] **MNOK 10 (9)** Investments **MNOK 0 (0)**

Kongsberg Maritime's operations in Rio de Janeiro, Brazil, includes sales, service, engineering, commissioning of merchant marine systems and offshore vessels as well as operator training and simulator training.

Kongsberg Maritime has a service office in Veracruz, Mexico.

Kongsberg Defence & Aerospace has a sales office Santiago, Chile.

Kongsberg Maritime has a service office in Panama.

ANTARCTICA AND SVALBARD

Kongsberg Defence & Aerospace
Kongsberg Satellite Services is a 50 per cent owned subsidiary with ground stations for satellite data in Antarctica and on Svalbard.

A KM service engineer on board a vessel outside Brazil.

Oceania

AUSTRALIA

Employees **8 (8)**
Number of suppliers[1] **14 (18)**
Value added[2] **MNOK 29 (34)**
Investments **MNOK 0 (0)**

Kongsberg Defence & Aerospace has a marketing office in Canberra.

Kongsberg Maritime has sales and service operations in Perth.

KONGSBERG has an office in Perth – the oil capital of Australia.

Kongsberg Satellite Services has ground stations all over the world, including in South Africa.

Africa

ALGERIA AND SOUTH AFRICA

Employees **6 (4)**
Number of suppliers[1] **7 (9)**
Value added[2] **MNOK 8 (3)**
Investments **MNOK 1 (0)**

Kongsberg Defence & Aerospace's office in Algiers, Algeria works with operation and delivery of projects related to tactical radio and communications systems. Kongsberg Norcontrol owns about 35 per cent of a company in Cape Town, South Africa.

03

Sustainability

SUSTAINABILITY IN KONGSBERG

About the sustainability report

The report covers 2017, and addresses topics of importance to us and our stakeholders. Any significant events from 1 January 2018 to 15 March 2018 will also be mentioned. All figures are related to the 2017 financial year.

The purpose of this report is to give stakeholders who are affected by or interested in our activities information about how KONGSBERG approaches sustainability and social responsibility.

Changes to the reporting platform since the preceding report
In 2017, KONGSBERG started applying GRI Standards for our reporting and has therefore updated the materiality assessment.

In 2017, we decided to end reporting water consumption, as it is not seen as essential material for KONGSBERG in a reporting context. Otherwise, there were no major changes in the reporting platform from 2016 to 2017.

Limitations of the report
The report deals only with companies in which KONGSBERG owns 50 per cent or more. The environmental data includes all of our Norwegian units, as well as all our manufacturing units all over the world and the largest offices outside of Norway.

The information in the report is based on data obtained from different parts of the Group. Although importance is attached to ensuring that the data is complete and correct, some of the information will be based on estimates.

Process to define the content
The content of the report is largely defined based on what we have called "Focus areas". The areas of focus are a response to a "materiality assessment" conducted in 2015, which was updated and approved by the Board in 2017. Each area of focus has an overview of goals and activities. These are set by the corporate executive management and ultimately the Board.

In carrying out materiality assessment, we have also taken into account what our most important stakeholders have been concerned with in our dialogue with them. This includes our owners, investors and lenders, our employees, customers, suppliers, and regulatory and local authorities in the areas in which we are active.

Framework for the preparation of sustainability report

WHITE PAPER NO. 27 (2013-2014) – Diverse and value-creating ownership

The Norwegian state owns 50.001 per cent of the shares in the company. The State's ownership share is managed by the Ministry of Trade, Industry and Fisheries. We have defined the contents of the report to ensure compliance with the White Paper.

GLOBAL COMPACT

The Group acceded to the UN Global Compact initiative in 2006. It requires that we annually report our activities and results related to the human rights employee rights, environment and anti-corruption principles stated in the initiative. The Group's report on sustainability serves as such report – a COP (Communication on Progress). More information about Global Compact can be found at www.unglobalcompact.org

GLOBAL REPORTING INITIATIVE (GRI)

We use GRI Standards for voluntary reporting of sustainable development. The guidelines include financial, environmental and social dimensions related to the organisation and is the leading global initiative in this area.

In 2017 we carried out a materiality assessment to identify the main sustainability topics for KONGSBERG and for our most important stakeholders. This is described in detail on page 44.

Our reporting is in our opinion, on the whole, in accordance with the GRI Reporting Principles. GRI applies a classification that shows to what extent a company uses GRI's definitions and disclosure requirements, namely Core or Comprehensive. KONGSBERG has decided to report on Core level.

On our website, under kongsberg.com/en/kog/responsible business conduct/, there is an index showing the GRI standards and indicators that are reported and where the information is found in the company's Annual Report and Sustainability Report. More information about GRI can be found at www.globalreporting.org

THE NORWEGIAN ACCOUNTING ACT

The Norwegian Accounting Act requires that large enterprises report on corporate social responsibility in the Directors' report or in a separate report. The report must include information about human rights, employee rights and social conditions, the environment and anti-corruption work.

In our opinion, the Sustainability Report for 2017 fulfils these requirements.

DELIBERATIONS BY THE BOARD

The Group's report on sustainability is processed and approved by the corporate executive management and the Board.

EXTERNAL VERIFICATION

The Sustainability report is verified by a third party, the audit firm Deloitte. See auditor's statement on page 72.

Responsible business conduct

KONGSBERG has more than 200 years of tradition and history as a defence supplier and technology enterprise. It is fundamentally important for us to conduct our business in a responsible manner. It involves following the laws and regulations applicable in the countries where we operate, our corporate code of etichs and other national and international principles and frameworks for responsible business conduct.

We operate in industries and countries that can involve different types of risk. We conduct risk analysis and seek to prioritise and manage risk to prevent and mitigate to the greatest possible extent.

The defence industry
The Norwegian Armed Forces safeguard important societal functions both in peacetime, crisis situations, armed conflict and in war. A modern defence calls for state-of-the-art defence systems, and KONGSBERG's defence systems and products are an integral part of this. KONGSBERG's role as a supplier of defence products must be seen in the context of Norway's national security policy, and Norway's international obligations as a member of the United Nations and NATO. The Norwegian Armed Forces and KONGSBERG collaborate extensively to develop customised systems for the country's specific needs. KONGSBERG has developed high-tech defence systems that also play an important role on the international arena. In 2017, defence business represented about 44 per cent of our turnover.

Export of defence material
Norwegian rules for export of defence material are among the most restrictive in the world. The Norwegian parliament has sanctioned that defence products can only be sold to pre-approved countries. Transparency about export of defence material is an important principle in Norway. We consistently comply with all new requirements set by the Ministry of Foreign Affairs regarding the application process, reporting and statistics.

KONGSBERG also holds shares in companies, and have partner, suppliers and customers in other countries. Export control regulations in other countries must therefore also be complied with.

KONGSBERG has a comprehensive programme for internal control and training in connection with our export activities. Several employees are "Certified Export Control Managers" for both defence materials and dual use goods. This practise will be continued in 2018 to build further expertise.

Oil, gas and merchant marine
Almost half of our Group's activities are related to shipping, oil and gas. The world's needs for energy and transport are increasing. This provides commercial opportunities for the sustainable solutions we are developing together with our partners and customers. Read more about this in the chapter on sustainable innovation.

New technologies and renewable energy sources are rapidly entering the market, but oil and gas will still be important for many years to come. KONGSBERG's systems and products are to a large extent associated with optimisation, security, operation and control of machines, production processes and equipment. We deliver systems and services that contribute to better utilisation of resources, more efficient navigation and safer operation of complex vessels and installations.

DEFENCE PRODUCTS

The main part of our defence business delivers missiles, systems for weapons guidance and control, decision support and communications. KONGSBERG does not produce cluster bombs, land mines, nuclear weapons, chemical or biological weapons. We comply with all requirements and directions specified in the UN conventions on disarmament.

Responsible taxation

KONGSBERG's international presence and development of new markets mean that we must comply with a wide variety of tax systems in many countries. In our opinion, a responsible approach to taxation is decisive for our long-term activities in the countries in which we operate.

This includes identifying and complying with current tax legislation, disclosing all the necessary information to the relevant authorities, and taking prudent tax positions where tax legislation allows different interpretations or choices. The commercial aspects of KONGSBERG's business activities are paramount, and all tax assessment should be done with this in mind. A transaction shall only be made if it satisfies the requirements as well as content pursuant to the tax legislation of the countries in question. KONGSBERG does not utilise structures in tax havens to avoid paying tax.

At the same time, KONGSBERG has a responsibility to its owners to optimise and manage the income tax expenses from our business activities. Tax legislation may often be worded to stimulate a certain type of behaviour, e.g. to promote certain investments or create local jobs. In such situations, KONGSBERG can take advantage of the opportunities afforded by the rules for reducing its income tax expenses.

KONGSBERG is transparent in our approach to taxation and our tax positions. Tax reporting complies with applicable local tax legislation, as well as with current international reporting requirements.

Tax reporting complies with applicable local tax legislation, as well as with current international reporting requirements.

Organisation and management systems

KONGSBERG's governance model is closely linked to "the Norwegian Code of Practice for Corporate Governance". The following is an overview of the governance model and organisation linked to sustainability and corporate social responsibility.

THE ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) is the Group's supreme governing body. Here, the shareholders can influence how sustainability and corporate social responsibility are practised at KONGSBERG.

THE BOARD OF DIRECTORS

The Board decides in all significant matters and has overall responsibility for the strategy and management of the company. The Board adopts the Group's Code of Ethics and Policy for Sustainability and Corporate Social Responsibility, and the Sustainability Report is reviewed and approved by the Board.

CORPORATE EXECUTIVE MANAGEMENT

Corporate Executive Management holds the ultimate responsibility for the Group's strategy, development and operational management. The Chief Executive Officer is responsible for ensuring that the content of the Group's Policy for Sustainability and Corporate Social Responsibility is monitored, complied with and integrated into the Group's ordinary strategic planning.

Business areas
The business areas are responsible for follow-up and compliance with policy, goals and governance documents related to sustainability and corporate social responsibility. The practical aspects of the work are usually handled by the business areas, with support from the corporate staff.

Ethics Committee
The Group's Ethics Committee aims to help raise ethical awareness, ensuring good behaviour and KONGSBERG's good reputation. In the first instance, the Committee shall address matters of principle and questions related to policies and provisions. The composition of the Ethics Committee is subject to Board approval.

Forum for responsible business conduct
The Forum is a link between the business areas, the corporate staff and Corporate Executive Management on questions related to business ethics, compliance, sustainability and corporate social responsibility. Its main responsibility is to help promote, further develop and coordinate the Group's efforts in this field.

Quality management
KONGSBERG has a strong focus on quality management and control. Our quality management systems control all our activities in order to deliver products and services that meet customer's quality requirements. All business areas have integrated management systems that cover relevant topics such as quality, outer surroundings, health, safety and environment, compliance, sustainability, corporate social responsibility and information security.

Our quality management addresses both quality in projects and products and includes quality planning, quality assurance and quality control. KONGSBERG's management system ensures efficient operations and that products are delivered according to the goals and requirements concerning time, cost and performance. Systematic internal quality audits are carried out in the entire value chain.

Business areas have the following certifications
KDA is certified according to AS9100, ISO9001, AQAP2110, AQAP2210 and ISO14001. KM and KDI are certified according to ISO9001, ISO14001 and OHSAS18001.

In 2017, we have made preparations for certification of Information security management systems ISO 27001, as well as the compliance audit of Anti-bribery management systems ISO 37001.

FOCUS AREAS

Our focus areas describe key sustainability and corporate social responsibility areas and are an integral part of our business strategy.

Sustainability strategy and priority

KONGSBERG delivers high-tech products and services to our customers in an international market. Our business strategy provides the direction and principles that form the basis for our success in the future. Our sustainability strategy supports the mapping of risk and opportunities in the markets where we compete. KONGSBERG can make a difference through our technology and expertise to meet the needs of the world of tomorrow.

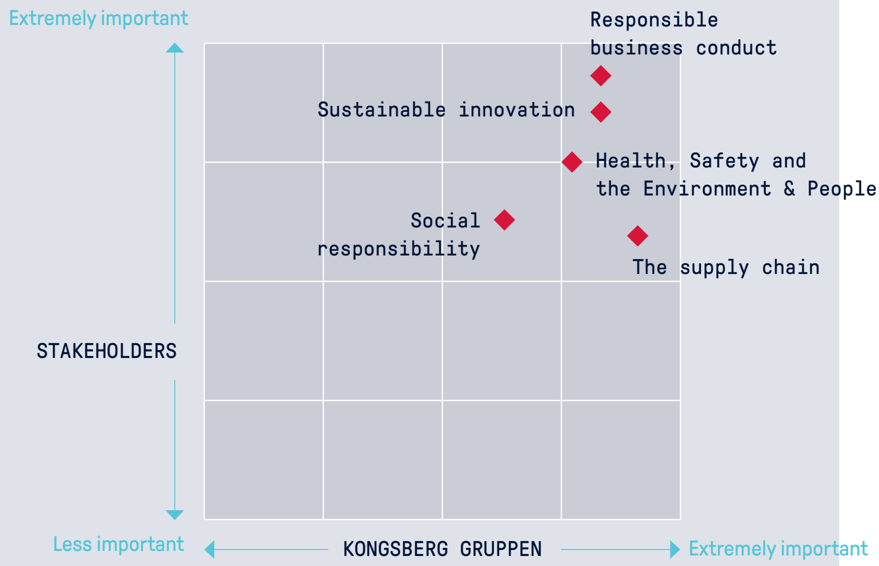
Our position

In 2015, our position was clarified through our new strategy *Technology for Global Challenges*. Our most important contribution to a greener footprint is through technology and solutions for our customers. Applying more sustainable thinking in our innovation also strengthened our global competitiveness.

KONGSBERG has a significant technology and expertise portfolio that includes solutions for aquaculture and food production, sustainable resource management, climate and environmental research, transport and

KONGSBERG supports the Sustainable Development Goals.

KONGSBERG'S MATERIALITY ASSESSMENT



renewable energy. Technology companies such as KONGSBERG are very important for sustainable ocean resource utilisation. Here we see significant opportunities and KONGSBERG the "ocean expert" should play an important role in exploiting this potential. Together, this contributes across all of the 17 sustainability goals.

Our challenges
Based our broad portfolio of products and services, our growth ambitions and current global challenges, we need to be ambitious, always deliver what our customers expect and adapt to the markets we operate in.

Our stakeholders play an important role in defining our most important priorities going forward. We gather input through our continuous contact with business partners, participation in various meeting arenas and in one-to-one meetings. Our materiality assessment focuses on 5 main topics:

- Responsible business conduct
- Sustainable innovation
- Health, Safety and the Environment & People
- The supply chain
- Social responsibility

On the following pages you can read more about these topics and why they are important for us.

The relationship between the five main topics in our materiality assessment and GRI Standards is described in more details on our website. Which of the GRI standards and disclosures we report on is described there.

kongsberg.com/en/kog/responsible business conduct

Business ethics & conduct

"KONGSBERG takes the prevention of corruption very seriously. We have zero tolerance for corruption among our employees, consultants or business associates. As a company with significant international activities, KONGSBERG has implemented a comprehensive anti-corruption programme, and high ethical standards are an integral part of our business."

Geir Håøy, President and CEO

Our position

Business Ethics

Our corporate Code of Ethics and Business Conduct is updated in-keeping with national and international advances and was last updated in 2016. It expresses our basic attitudes and indicates how we ought to relate to colleagues, customers and society at large.

Anti-corruption

KONGSBERG has zero tolerance for corruption. By that, we mean that we will never permit sales to be achieved through corruption. Meanwhile, we recognise that doing business in vulnerable parts of the world may involve greater risks for corruption. For our business partners, zero tolerance in practice means requiring that any historical situations are regularised, that an approved anti-corruption programme is

Etichal business conduct is fundamental for us. We have a strong and continous focus on this in our strategy and operations.

Our Business Code of Ethics and Business Conduct is the backbone for how we conduct our operations, and the code applies regardless of where, when and which of our employees is doing business.

implemented and complied with, and that corruption is clearly denounced through words and actions. Our attitude is expressed clearly through our Business Code of Ethics and Business Conduct, and our endorsement of the UN Global Compact, the OECD's Guidelines for Multinational Enterprises and our membership of Transparency International. The Board and corporate executive management devote considerable attention to this work.

Our Business Code of Ethics and Business Conduct is the backbone for how we conduct our operations, and the code applies regardless of where, when and which of our employees is doing business. This Code is communicated to and shall be understood by all employees, and as such shall contribute to a strong business culture, working in a preventive manner against the occurrence of errors and irregularities. Well-integrated values and the Code of Ethics make up an important element of our risk management.

Notification of alleged misconduct
The Group has special procedures for notification of any breach of the corporate Code of Ethics. Employees have always had the right to issue alerts about circumstances worthy of criticism, and are under a duty to do so if there is a question of a violation of laws, rules or our corporate Code of Ethics. KONGSBERG will not tolerate a whistleblower being subject to reprisals or negative reactions.

The Group has two ombudsmen who can provide advice and receive alerts from employees. Internal and external questions about ethics, whistleblowing, etc., can be directed to the Corporate Compliance Officer by sending an e-mail to: ethics@kongsberg.com or to our global web-based notification channel.

In 2017, we have processed seven cases concerning work environment and financial irregularities.

In-house training
All our new employees go through a training programme that deals with the Group's Code of Ethics. The programme is updated regularly, and it consists of e-learning courses and classroom courses for new employees and line supervisors. In addition, a complex training programme has been further developed in the field of ethics, business-related behaviour and special topics for susceptible target groups.

Our challenges
We perform risk assessments in all our business areas and facilitate action plans to reduce identified risk.

KONGSBERG operates in both the defence industry and the oil and gas industry, which, according to Transparency International, are two of the sectors most susceptible to corruption.

Our activities involve the use of market representatives. The use of third parties is generally known to imply a high risk of corruption, so we pay particular attention to that aspect of our anti-corruption programme. We have drawn up and implemented comprehensive in-house regulations for signing and following up agreements with market representatives. The regulations include assessments of a market representative's ethical standards and reputation. Further, risk is assessed based on industry, country and company, and approval procedures have been introduced for the use of standard terms of business and verification of payments, as well as for follow up during the agreement period and including training and audits.

We have completed an external compliance audit of Kongsberg Gruppen ASA's (parent company) anti-corruption system against the new ISO Standard 37001. The main result was satisfactory and a follow-up plan has been established for the identified improvement measures.

Sanctions in 2017
None of the companies in KONGSBERG were sanctioned due to law violations related to business ethics in 2017.

GOALS AND ACTIVITIES BUSINESS ETHICS & CONDUCTS

Every aspect of our business activities shall be conducted in an ethical and responsible manner

Goals for 2017 – what we said	Status for 2017 – what did we do?	Goals for 2018 – 1 year	Goals for 2019–2022 – 5 years
Carry out external compliance auditing against the ISO standard for "Anti-bribery management systems"	• Performed by external certification company, with satisfactory result • Improvement measures have been identified and a follow-up plan has been drawn up	• Carry out external compliance auditing against the ISO standard for "Anti-bribery management systems" • Assess certifications	• Follow up audits that have been carried out against the ISO standard for "Anti-bribery management systems"
Further develop and maintain internal policies and procedures	• Governance documents for Compliance Due Diligence of business partners as well as gifts and hospitality have been revised	• Revise Code of Ethics and Business Conduct • Further develop and maintain internal policies and procedures	• Further develop and maintain internal policies and procedures
Carry out risk analyses, internal controls and audits to confirm compliance with legislation, rules and internal procedures. Implement risk reduction measures as needed	• We carry out systematic risk analyses as the basis for risk mitigation measures and internal controls. Internal audits are conducted to confirm that internal control is working. This will be further developed and strengthened in the future	• Carry out risk analyses, internal controls and audits to confirm compliance with legislation, rules and internal procedures. Carry out risk reduction measures as needed	• Carry out risk analyses, internal controls and audits to confirm compliance with legislation, rules and internal procedures. Carry out risk reduction measures as needed
Further develop and carry out continuous training	• We have a comprehensive training plan. In 2017, we carried out training with some minor deviations from and delays to the plan. We will strengthen and develop our training in 2018	• Further develop and carry out continuous training	• Further develop and carry out continuous training

GOALS AND ACTIVITIES BUSINESS ETHICS & CONDUCTS

Every aspect of our business activities shall be conducted in an ethical and responsible manner

Goals for 2017 – what we said	Status for 2017 – what did we do?	Goals for 2018 – 1 year	Goals for 2019–2022 – 5 years
Further develop good forms of co-operation with business partners and other external parties	▪ We have established a basis for a common understanding of compliance requirements and the agreement with our business partners. This is followed up systematically during cooperation meetings. The cooperation with Patria is a good example of this, and also creates a pattern for other cooperation	▪ Maintain and further develop good forms of co-operation with business partners and other external parties	▪ Maintain and further develop good forms of co-operation with business partners and other external parties
Further develop and maintain incentives and KPIs for ethics and integrity, as well as internal rules and procedures for reactions and sanctions	▪ Ethics and integrity are part of our management evaluation systems. We have established internal rules and procedures for the follow-up of compliance and notification issues, as well as personal issues in general. We will develop this further in 2018	▪ Further develop and maintain incentives and KPIs for ethics and integrity, as well as internal rules and procedures for reactions and sanctions	▪ Maintain and further develop incentives and KPIs for ethics and integrity, as well as internal rules and procedures for reactions and sanctions
Continue to communicate a clear and distinct "Tone at the Top" to all managers at all levels	▪ Responsible business operations, including business ethics and compliance, is part of the CEO's presentations and leadership message	▪ Continue to communicate a clear and distinct "Tone at the Top" to all managers at all levels	▪ Continue to communicate a clear and distinct "Tone at the Top" to all managers at all levels

TRAINING FOR ALL EMPLOYEES

Comprehensive training is an important way of reducing risk related to compliance, anti-corruption, competition law and export

It is essential for our reputation and our brand that we behave professionally and with integrity. KONGSBERG has already had an ethics and compliance training programme running for a number of years.

All KONGSBERG employees must complete an e-learning course. People change jobs and new staff is recruited, so our employee training is a continuous process. Within three months after completing the e-learning course, all new employees will receive at least one hour of classroom teaching.

"The purpose of this training is to ensure proper conduct and a strong culture. Ethics is a key factor that characterises the way we carry out business activities. All KONGSBERG employees must be familiar with our ethical guidelines. All are expected to comply with rules and regulations. Training is the best way of preventing breaches and violations in important areas".

Line managers will have their own courses where they discuss possible scenarios involving ethical dilemmas. For group and divisional managers, courses will be held periodically in collaboration with the legal department. In addition, KONGSBERG has specific courses for exposed groups such as procurement and sales.

"We are all responsible for complying with our ethical guidelines in all our daily activities. We expect employees to be responsible and positive role models, so that we all deliver high quality in everything we do, including services, products and the way we conduct our business", concludes Corporate Compliance Officer Lene Svenne.

Sustainable innovation

KONGSBERG has a long-term commitment to the reduction of greenhouse gases and other negative environmental effects. Our most important contribution is to use our technology and expertise to develop even more climate-friendly solutions for our customers. This effort will often coincide with the desire to reduce costs and increase efficiency and security.
Our competitiveness will be strengthened as a result of these efforts.

Our position
We are known for providing leading technological solutions in our traditional business areas. Our competitiveness depends on having efficient and safe operations in all conditions. This also contributes to lower greenhouse gas emissions and other negative environmental effects. In the maritime segment, for example, some 18,000 ships that operate worldwide already carry our products. We provide sensor systems that make it possible to monitor on-board functions accurately, modern automation systems that are important for optimal power supply management on board and management systems that enable optimal vessel manoeuvrability.

In the last few years, we have also established activities in new areas which will give an even

The combination of advanced technology and high capacity for innovation give us a high potential for contributing to reduction of climate gas emissions and other negative environmental impacts.

stronger contribution to lowering climate gas emissions. Our investment in wind power is starting to have an impact in the market, we have engaged in ocean farming that provides climate friendly food production, and we are at the forefront of developing battery-powered autonomous ships. Several of these solutions are good examples of our capacity for innovation.

Our challenges

We already have a solid technology platform to build on, but a focused effort is needed to build this platform even stronger. Rapid technological development within a number of areas, such as artificial intelligence and other smart methods to improve efficiency, will reduce climate gas emissions and other negative environmental impacts. Such methods are often data-driven, and we must therefore be able to deliver even better sensors and at the same time ensure access to the data generated by these sensors.

In some of the markets where we operate, there is a greater focus on costs. There is often less willingness and capacity to invest in new technology than before. It is therefore important that our products and solutions can provide both operational savings and reduced emissions. An example of this is hybrid power supply solutions that make it possible to combine electrical and traditional solutions on vessels that are in operation. This challenge is not only related to the development of new products, but is also a case of highlighting the values they represent.

In some sectors, we face possible disruptive changes due to new technology or other substantial changes. Such situations are typically characterised by pervasive changes in the established value chains. This can be a threat within our well-established markets, but also an opportunity — especially in markets where our presence is not significant yet. We need to be aware of such changes in the value chains, have the capacity to be a leading player where they take place, and be capable of reacting quickly. An example of this is the development of autonomous electric ships. These give significant environmental gains through lower emissions but also represent markets for brand new concepts within maritime transport. Being active in these value chain transformations means that we can develop much more comprehensive solutions, for example within logistics, that give further reductions in climate gas emissions.

KONGSBERG is cooperating with the company Ocean Farming on the development of the world's first digital fish farm.

GOALS AND ACTIVITIES SUSTAINABLE INNOVATION

We will actively search for sustainable business opportunities that contribute to lower global climate gas emissions and other negative environmental impacts.

Goals for 2017 – what we said	Status for 2017 – what did we do?	Goals for 2018 – 1 year	Goals for 2019–2022 – 5 years
Follow up our long-term goals for reducing CO_2 emissions with regards to our sustainability strategy	▪ Solutions for autonomous ships in combination with full or part electrical propulsion were established and received significant support from Enova and Norsk forskningsråd (the Norwegian Research Council), among others	▪ Ensure concrete agreements regarding the delivery of autonomous ships with hybrid or electrical propulsion, and plan the first physical deliveries of such solutions	▪ Develop the technology that enables autonomous ships and vessels with a focus on reduced use of fossil fuels within new segments. Also adopt the technology within traditional types of vessels to reduce CO_2 emissions. Take responsibility for a greater part of the logistics chain connected with maritime transport to develop more comprehensive and energy efficient solutions.
Sanction and operationalise ambitions for the measurement period related to CO_2 by clarifying these in relevant processes governing the development of products and solutions	▪ The work on clarifying our ambitions to reduce CO_2 emissions through more energy-efficient products and solutions has started, but these are long-term efforts that we will continue to work towards	▪ Continuation of the work started in 2017	▪ Develop new, energy efficient solutions based on the use of our technology platform
Carry out measures to stabilise our performances at level B in Carbon Disclosure Project (CDP) reporting	▪ Demonstrate the effect of digitalisation and machine learning ▪ Develop solutions for hybrid power supply on ships ▪ The status of our CDP reporting in 2017 was level C	▪ Contribute to reduce fuel consumption of ships by participation in relevant research projects ▪ KONGSBERG has decided to cease reporting to CDP from 2018	▪ Take new positions within emerging markets driven by the aim of reducing fossil energy consumption

SUSTAINABLE INNOVATION

Yara Birkeland – the world's first autonomous zero emission vessel

Up to 100 diesel powered truck loads are needed every day to transport products from Yara's fertiliser plant in Porsgrunn to Brevik and Larvik, where products are shipped worldwide from Norway.

In the course of the next few years, this transport will be handled by the Yara Birkeland, the world's first electric, autonomous and zero-emission container ship. In addition to reducing NOx and CO_2 emissions, Yara's new vessel will improve road safety by removing up to 40,000 truck loads per year from the roads in populated and urban areas.

KONGSBERG is responsible for the development and delivery of all key technology on board the Yara Birkeland. This includes control systems, sensors and necessary integration for remote and autonomous operation, as well as electric propulsion, battery and management systems. The Yara Birkeland will benefit from expertise and technology developed across KONGSBERG's business areas.

The new zero-emission vessel is ground breaking and will change the way in which international maritime transport is conducted. The ship entails the commercialisation of technology that will be an important contribution to the world's ability to meet the UN's sustainable development goals.

Health, Safety, the Environment & People

KONGSBERG is an enterprise based on knowledge and expertise, where the greatest asset is our employees. We must offer a secure, exciting, attractive and evolving workplace to attract a diversity of the right competences and ensure we manage this through our global operations.

Our position
KONGSBERG has a *Health, Safety and Environment* vision of zero injuries, accidents and environmental emissions in our global operations. To achieve this vision, KONGSBERG continuously works on building a strong culture with visible corporate management, a culture where we deal with risk and never compromise on security due to deliveries and deadlines. We all have a personal responsibility for making our joint HSE efforts preventive.

We will work systematically with HSE to ensure a good working environment, prevent injuries and accidents and work to reduce sickness absence. HSE data are collected from all companies in the Group and are reported to the corporate executive management and then to the Board each quarter. We are committed to prevent discrimination and prevent har-

Leadership at KONGSBERG is all about creating values and achieving results through people. The key to success lies in the combination of good management and dedicated employees.

KONGSBERG is a global company with employees located throughout the world. This leads to major variations within language, culture and ethnicity, and requires good and effective leadership.

assment. We have zero tolerance for unacceptable behaviour and motivate our employees to report such incidents.

Leadership at KONGSBERG is all about creating values and achieving results through people. The key to success lies in the combination of good management and dedicated employees. Managers shall exercise their leadership based on our values, the Corporate Code of Ethics and management principles. On the basis of this, we have implemented a management development programme, Leadership@ KONGSBERG, that will help clarify and provide quality assurance for goal setting, follow-up and evaluation.

Every other year, a *global job satisfaction survey* is conducted to provide feedback on how employees experience working conditions and the working environment.

We support and respect *international human rights and labour rights* that are set out in the UN's Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, ILO Core Conventions (International Labour Organisation) and the OECD Guidelines for Multinational Enterprises. With the exception of the most senior management levels in Norway, all employees are covered directly or indirectly by the collective pay negotiations. This is in combination with central negotiations and local pay negotiations. For our employees outside Norway, local agreements and guidelines apply.

Diversity and gender equality creates value and makes us more competitive. It expands the mind-set and has a positive influence on the company's strategy and management. Therefore, we work systematically and purposefully to recruit, develop and retain people of different age groups, ethnicity and gender. The focus on diversity must be implemented in promotion, recruitment and management development, with periodic measurement and follow-up. Our work with gender equality will continue in 2018, with a focus on operational positions and international operations. We want to broaden the concept of diversity to include other groups of people.

Our challenges

We operate in over 25 countries and security and emergency preparedness for our personnel is a primary focus. Our ethical guidelines provide a clear framework for how we work, regardless of country and region. They give us the license to operate and are essential for our very existence and reputation. Our international growth involves new partners and supplier chains, which means increased focus on matters related to human rights and labour rights.

A world of instability and many threats requires a higher degree of information and security of our intellectual property rights. We rely on having loyal employees who follow our standards of confidentiality and integrity. Risk management and vulnerability analysis are tools for applying the right level of security.

Due to digitalisation and accelerating technological development, our employees need to upgrade their skills continuously. Moreover, it will lead to new knowledge requirements in the future. KONGSBERG is a global company with employees located throughout the world. This leads to major variations within language, culture and ethnicity, and requires good and effective leadership. Knowledge sharing and collaboration through networks across the established structures provides added value for the company and is expected to become a more usual working method.

Individuals and teams who comply with our values and demonstrate good behaviour are to be appreciated. This culture will help us attract people with the right competence and behaviour to address the technical challenges of tomorrow in a sustainable manner.

We must communicate effectively and through appropriate channels both internally and externally. Both our social media profile and our 6,830 employees should reflect this in relation to the outside world.

GOALS AND ACTIVITIES HEALTH, SAFETY, THE ENVIRONMENT & PEOPLE

Further develop our global organisation and actively pursue diversity to foster an environment and a culture where everyone feels included

Goals for 2017 – what we said	Status for 2017 – what did we do?	Goals for 2018 – 1 year	Goals for 2019–2022 – 5 years
HUMAN RIGHTS AND EMPLOYEE RIGHTS ▪ Carry out due diligence ▪ Each business area must identify risk areas and draw up an audit plan on this basis ▪ Carry out initiatives where needed	▪ Risk evaluation and due diligence in the context of human rights and employee rights has been carried out at selected locations with minor deviations. ▪ No issues or violations related to the areas have been reported in 2017	▪ Carry out risk assessment related to human rights and employee rights and complete due diligence	▪ International growth and establishment in new countries leads to increased attention on human rights and employee rights
DIVERSITY AND GENDER EQUALITY ▪ Follow up established and new objectives in order to increase diversity ▪ Focus on female talent through our leadership development programmes ▪ Focus on the recruitment of women ▪ Increase the proportion of female succession candidates	▪ The number of female managers at levels 1–3, which includes 250 managers, has increased from 13 per cent in 2015 to 22 per cent in 2017 ▪ A mentoring programme has been established ▪ The proportion of women in the student internship programme has risen from 30 to 40 per cent. ▪ The proportion of female successors has increased from 19 to 30 per cent for executive levels 1–3	▪ We are extending the programme for diversity (gender, ethnicity, eg), gender equality and inclusion with the following 3 focus areas. 1. Increase the number of female managers in operational positions. 2. Increase the focus on diversity in all our international operations 3. Strengthen the focus on social exclusion	▪ Further develop our global organisation and actively pursue diversity to foster an environment and a culture where everyone feels included

GOALS AND ACTIVITIES HEALTH, SAFETY, THE ENVIRONMENT & PEOPLE

Increase personal engagement among managers and employees through Safe@KONGSBERG

Goals for 2017 – what we said	Status for 2017 – what did we do?	Goals for 2018 – 1 year	Goals for 2019–2022 – 5 years
HSE • Continue systematic HSE work • Follow up established goals • Maintain low absence due to illness • Work pro-actively to prevent injuries and accidents	• The HSE forum is the hub of our preventive work, in close cooperation with management and employees • Established management focus on the potential risk of "red events" • More training of managers and employees in connection with international travel	• Increased reporting of the number of near-accidents and HSE observations to prevent injuries and accidents • Increase the personal commitment of managers and employees through Safe@KONGSBERG	• Evaluate and follow up goals and processes in the continuous improvement work within the HSE area
ORGANISATIONAL DEVELOPMENT • Increasing completion rate of annual appraisal interviews • Define mandatory training • Draw up action plans based on completed global employee survey. • Follow-up of our diversity goals	• A large increase in the proportion of completed annual appraisal interviews • Defined, completed and measured mandatory training	• Continued focus on increasing the completion rate and the quality of the appraisal interviews • Carry out global employee survey	• Establish a strategy for continuous competence building among our employees, with a focus on digitalisation and increased globalisation

KONGSBERG has a *Health, Environment and Safety* vision of zero injuries, accidents and environmental emissions in our global operations.

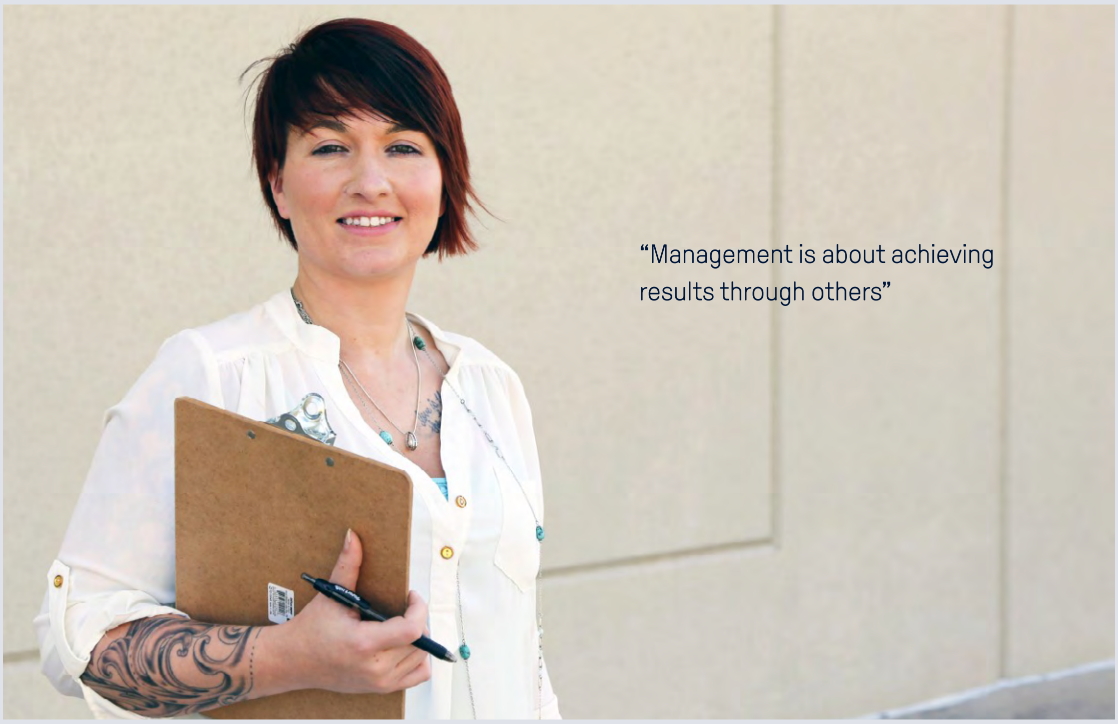
GENDER EQUALITY AND MANAGEMENT

Kelly Gomez was set in charge of million dollar assets at Kongsberg Maritime's inventories in the US

It is her responsibility to order goods and manage Kongsberg Maritime's inventories in New Orleans, Houston and California. She describes the change from being an employee to managing a team of three as an interesting but challenging journey.

"I am the type of person who likes to do everything myself. When I was appointed Team Leader, I had to learn how to delegate work to other people. It is important to let them prove they are up to the task and develop their skills. This was something I had to work on. KONGSBERG's management development training have been invaluable in this respect, helping me to think like a manager and achieve results through other people."

KONGSBERG has set a goal of at least 35 per cent female participants in our management development training. At the end of the fourth quarter of 2017, the percentage of female participants was 30. KONGSBERG organises management development training around the world where our management principles are highlighted.



AREA OF FOCUS
2017–2018

Sustainability and corporate social responsibility in the supply chain

Sustainability and corporate social responsibility in the supply chain covers suppliers' relationships with ethical guidelines, human rights, workers' rights, anti-corruption, the climate and the environment. Systematic and good collaboration on corporate social responsibility in the supply chain is part of our strategy for responsible business operations. This contributes to reduce risk and increase quality in the value chain.

Our position

KONGSBERG has 3,680 [1)] suppliers all over the world over, of which 2,050 [1)] are in Norway. This means we help to safeguard jobs and build competence, not only where we have proprietary operations, but also to a large extent where we use suppliers. The suppliers are an important part of our value creation, at the same time as we are important and in many cases essential to their value creation. We want to work with suppliers that share our values and requirements regarding responsible

1. Number of suppliers that invoiced KONGSBERG for more than NOK 50,000 in 2017. Certain suppliers have been counted two or more times if they are suppliers for two or more of our business areas. The figures do not include all suppliers dealt with directly by our international locations.

We see it as our ethical responsibility to ensure that the entire value chain relating to our products satisfies our requirements for sustainability and corporate social responsibility, although the legal responsibility rests with the individual supplier.

business conduct. This is specified in our "Supplier Conduct Principles" which are included in our supplier agreements.

The business areas have established processes and systems for carrying out risk assessments of all critical suppliers and suppliers with purchases above specified limits. The risk assessment covers existing and new suppliers and includes the assessment of environmental conditions, human rights and employee rights, HSE, business ethics and corruption. Based on the result of the initial risk assessment, the supplier is followed up with additional assessment and possible measures.

We see it as our ethical responsibility to ensure that the entire value chain relating to our products satisfies our requirements for sustainability and corporate social responsibility, although the legal responsibility rests with the individual supplier. We follow up our responsibility through clear requirements in our agreements with suppliers as well as risk-based follow-up and audits. Our suppliers are obliged to require the same standards of their subcontractors.

Our challenges

Making sure that all subcontractors throughout the value chain comply with our requirements is our main challenge.

GOALS AND ACTIVITIES SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY IN THE SUPPLY CHAIN

We will follow up annual action plans prepared by each individual business area

Goals for 2017 – what we said	Status for 2017 – what did we do?	Goals for 2018 – 1 year	Goals for 2019–2022 – 5 years
Follow up annual action plans prepared by each individual business area, including implementation of planned audits	• All business areas carry out risk-based follow-up of their supply chains. We will continue our work with subcontractors to ensure fulfilment and compliance with our requirements	• Revise management documents for the supply chain to increase efficiency and clarify requirements • Follow up annual action plans prepared by each individual business area, including implementation of planned audits.	• Evaluate and further develop work with a sustainable value chain • Streamline follow-up of the supply chain. Set effective KPIs

AREA OF FOCUS
2017-2018

Social responsibility

KONGSBERG contributes to value creation and economic development in the communities where we operate. Being an international technology group means that KONGSBERG also has a larger social responsibility. We have a particular focus on nurturing children's and young people's interest and skills in the natural sciences. Moreover, invest in our employees and their families by supporting sports, culture and social activities.

We support children and young people in their natural science education
The natural sciences are essential to solving some of the challenges the world is facing. Therefore, we want to motivate children and young people to study physics, maths and natural sciences through a variety of measures, all the way from kindergarten to college.

We therefore support the science centre Kongsberg Vitensenter, which is free to schools and kindergartens. Children are introduced to the natural sciences through play and experiments, as well as teaching modules in subject areas such as energy, mechanics, mathematics, technology and animation with more for the older ones.

We collaborate with a number of lower and upper secondary schools, colleges and universities

We want to motivate children and young people to study physics, maths and natural sciences through a variety of measures, all the way from kindergarten to college.

Students from the summer project *Starburst* during the launch of a high-altitude balloon on Andøya. *Starburst* was a collaboration between KONGSBERG and other Norwegian aerospace companies.

in Norway. Here we hold motivational lectures, invite people to visit the company, participate in career days and take on students for work placement. We support selected student projects where the students wish to write their master's degree in collaboration with KONGSBERG.

KONGSBERG has a strong focus on vocational education and we offer, along with other companies in the town of Kongsberg, a unique training programme for apprentices through the k-Tech training centre. An apprenticeship certificate programme in polymer composites has also been established at the composite factory in Kongsberg.

KONGSBERG collaborates with NTNU to establish the world's first professorship in Big Data Cybernetics, which combines the fields of chemometrics and cybernetics. The agreement involves a five-year endowed professorship sponsored by KONGSBERG.

KONGSBERG is the main sponsor for two multi-disciplinary student projects at NTNU where students get to set theory into practice. KONGSBERG has since 2014 been the main sponsor of Revolve NTNU. Every year a new team of students develops, designs and builds a racing car to compete with. Ascend is a project that participates in the annual International Aerial Robotics competition, where the goal is to push the limits of what autonomous drones are capable of doing.

In 2016 we opened the KONGSBERG Innovation Center, where our employees can bring their children and experiment with drones, robots and visualisation. The centre is also used in connection with visits from local school classes and educational institutions and students that we collaborate with.

From theory to practice — the summer job program

Every year, KONGSBERG takes on a large number of students who work in different departments and summer projects throughout the company. The projects are very popular, and many have been extended for several years. The oldest project is "LocalHawk", which started already in 2008. Through the summer jobs, students get to see what opportunities are available when they graduate, and we hope this will motivate them to study harder and complete their degrees. At the same time, it is a good recruitment arena for us where we get to know the students better.

Contributions to sports, culture and social activities

KONGSBERG's sponsor strategy focuses on activities and projects in Norway and internationally within the following areas:

- Sports — in particular local sports activities for young people in the local communities in which KONGSBERG operates.
- Culture — in particular local communities in which KONGSBERG operates.
- Social, humanitarian and/or environmental activities — locally, nationally and internationally — that aim at sustainability.

In 2017, 113 students out of 1,500 applicants got summer jobs with KONGSBERG.

Norway
In Norway we have concentrated on supporting organisations in the local communities where we are represented. KONGSBERG has chosen to support many different sports, especially for children and young people, and we always sponsor teams and not individuals. Our two biggest cultural sponsorships are with the Kongsberg Jazz Festival and Glogerfestpillene (classical music festival). Both festivals hold a very high professional level and have their own programmes for developing young talents.

Brazil
We support the Bola Pra Frente institute, which offers poor children school education and football training. The institute was started in 2000 and has since helped hundreds of children and young people to a better life. We are also a part of the project "Dream Learn Work" which offers young people from impoverished areas training and education that may qualify them to work in the companies that participate in the project.

Support is also given to the social project Karanba in Rio de Janeiro. With football as an instrument, Karanba helps a large number of children and young people from slum areas with personal development, education and giving them the means to express themselves. More than 1,000 children and adolescents, boys and girls from different areas of Rio de Janeiro, are today part of the Karanba project.

India
In India we support AARAMBH, which is a charity organisation that operates in Navi Mumbai. This is a service centre for the most disadvantaged families in the city's slum areas. In Bangalore we sponsor an English teacher at the Kanaka Vidya Mandir school, and we provide pupils with school uniforms and materials.

The Karanba project uses football as an instrument to help young people from slum areas with personal development, education and giving them the means to express themselves.

YOUR EXTREME 2017

"Plastic in the oceans"

Since 2013, KONGSBERG has collaborated with NTNU in arranging the student competition YOUR EXTREME. This is a 48 hour case competition, where groups of 2—5 students work on solving a hypothetical future scenario where sustainability and technology are at the core of the problem.

The purpose of the competition has been to motivate students to complete their degrees, due to the significant drop-out of first and second-year students in certain subjects, and to relate their theoretical knowledge to solving practical problems they may encounter in working life.

In 2017, the topic of the competition was "Plastic in the oceans". The students were challenged to describe how it could become more profitable to clean up the oceans than to not do it, the type of transport, how they found the solutions, the enabling technology and how the man-machine interaction and role distribution is in this context.

This year's winner was the team "We're extreme". They applied a historical perspective and focused on making the world a better place through a solution that addressed three criteria: Smart logistics, Global accountability and Handling plastic in the oceanic ecosystem.

The winner was named by a jury consisting of Geir Håøy, CEO and president at KONGSBERG, Pål André Eriksen, KONGSBERG's Technology Forum, Gunnar Bovim, rector at NTNU, Tormod Haugstad, editor at Teknisk Ukeblad and Alexandra Gjørv, CEO SINTEF.

"We're Extreme" presented their winning concept at KONGSBERG's executive management meeting in January 2018.

CLIMATE STATEMENT AND KEY FIGURES

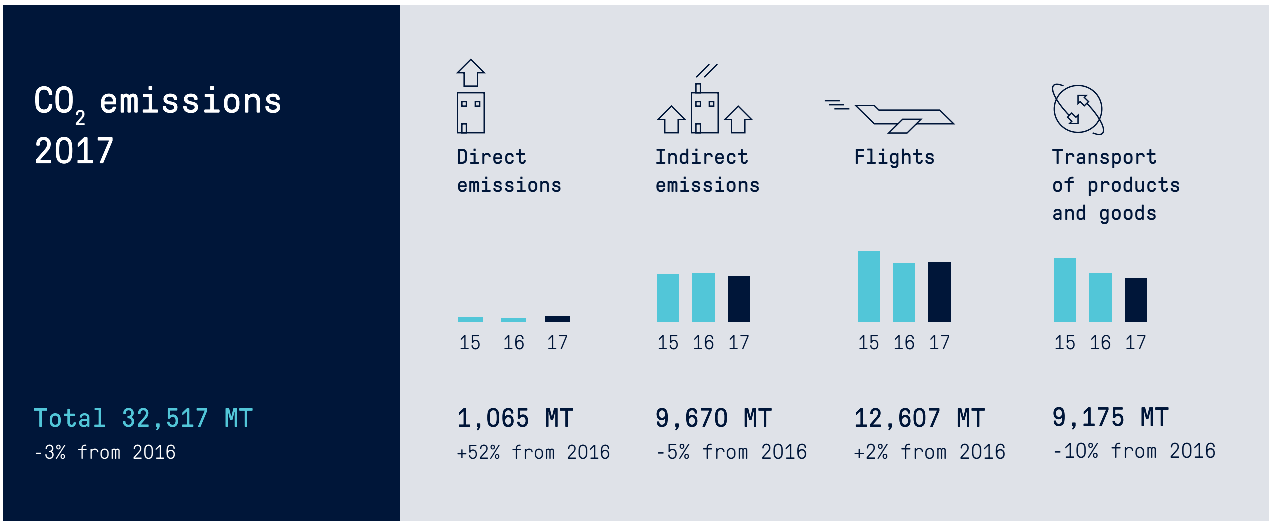
The climate and environmental statement provides an overview of KONGSBERG's consumption of energy, CO_2 emissions and waste processing. The statement includes all Norwegian units, all production units and major offices abroad. Within the key figures, in addition to the climate and environment, results within the fields of value creation, employee relations and health and safety are also included.

Climate and environmental accounts for 2017

The Group has adopted a target of reducing CO_2 greenhouse gas emissions by 20 per cent relative to turnover by the end of 2020, with the baseline in figures from 2015. The objectives do not include CO_2 emissions from the transport of products and goods.

CO_2 emissions in 2015 were just under 40,000 metric tonnes, with a solid reduction in 2016 to 33,500 metric tonnes. 2017 has seen a continued decrease, but a much smaller one than the previous year. The achieved reduction in CO_2 emissions from 2015 to 2017 was 17 per cent.

This reduction was primarily due to lower emissions from flights and transport. During the same period, CO_2 emissions measured relative to turnover decreased by 3 per cent. An equivalent measure, not including emissions from the transport of products and goods, shows an increase of 6 per cent.



Graphs: CO_2 emissions (metric tonnes) for KONGSBERG. Emissions from the consumption of fossil fuels for the production of district heating supplied by Kongsberg Technology Park are included in direct emissions. Indirect emissions include the consumption of electricity, district heating and cooling from external suppliers within the business areas, as well as the consumption of electricity for the production of district heating and cooling in Kongsberg Technology Park.

KONGSBERG's CO_2 emissions have been calculated in accordance with the recommendations of the "Greenhouse Gas Protocol" published by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI).

The environmental accounts includes the following sources of CO_2 emissions:

- **Direct emissions (Scope 1):** Emissions from the use of fuel oil and gas for heating and processes, as well as from the production of district heating at Kongsberg Technology Park.
- **Indirect emissions from electricity (Scope 2):** Emissions from electricity consumption and district heating or cooling from external suppliers. The CO_2 emission factors used for electricity are location-based and in accordance with GHG Protocol Scope 2 Guidance [1].
- **Emissions from flights and the transport of goods and products (Scope 3):** Emissions from flights and emissions associated with the transport of goods and merchandise [2].

Direct CO_2 emissions (scope 1) have increased by 52 per cent from 2016 to 2017, but still only account for 3 per cent of the total CO_2 emissions for KONGSBERG.

Indirect CO_2 emissions (scope 2) have not changed significantly since last year, and account for around 30 per cent of total emissions.

Other emissions (scope 3) make up two thirds of the total, divided into flights, with 39 per cent, and the transport of goods and merchandise, with 28 per cent of the total. There are some omissions in the reporting of flights ordered outside Norway.

CO_2 EMISSIONS

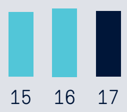
Metric tonnes	*Changes in the last year*	*2017*	*2016*	*2015*
Scope 1 (Direct emissions)	52%	1 065	702	943
Oil and gas (business area)		943	605	682
Oil and gas (Kongsberg Technology Park)		122	97	261
Scope 2 (Indirect emissions)	-5%	9 670	10 199	10 094
Electricity (business area)		8 007	8 432	8 064
Electricity (Kongsberg Technology Park)		1 656	1 761	1 624
District heating from external suppliers		7	6	247
District cooling from external suppliers		0	0	159
Scope 3 (Other emissions)	2%	12 607	12 328	14 896
Flights purchased in Norway		8 936	8 845	11 296
Flights purchased abroad		3 671	3 483	3 600
Total without shipping	0.5%	23 342	23 229	25 933
Transport of goods and products paid for in Norway	-10%	9 175	10 235	13 335
Sum including shipping	-3%	32 517	33 464	39 268

1) Source: 2015 data from the Department for Environment, Food & Rural Affairs, UK. http://www.ukconversionfactorscarbonsmart.co.uk/. For Norway, a location-based factor of 50t CO_2/GWh has been used (this emission factor for Norway has also been used in previous reporting years).
2) CO_2 emissions from transport are limited to import, export and domestic transport, payable in Norway.

Energy consumption 2017

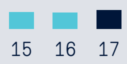
Total 124.40 GWh
+1% from 2016

Electricity



92.80 GWh
-4% from 2016

Heat recovery, district heating and district cooling



26.21 GWh
+16% from 2016

Oil and gas

5.40 GWh
+55% from 2016

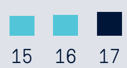
Graphs: Total energy consumption for KONGSBERG. The figures include electricity, oil and gas, as well as recycled energy used by Kongsberg Technology Park for the production of district heating, district cooling and compressed air also supplied to non-KONGSBERG companies.

KONGSBERG uses energy in the form of electricity, district heating, district cooling, gas and heating oil in its operations. Kongsberg Technology Park produces district heating, district cooling and compressed air for businesses based in the technology parks in Kongsberg. Approximately half is supplied to other businesses in the technology park. District heating and district cooling are produced using electricity, heating oil, gas and heat recovery. Efficient technology makes it possible to recover in the range of 20-25 GWh heat at the facility at Kongsberg Technology Park. The use of as much recovered heat as possible in the facility is desirable, as this helps reduce a similar consumption of oil, gas and electricity. In 2017, 26 GWh was recovered at the facility.

Waste 2017

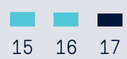
Total 1,884 MT
-5% from 2016

Residual waste



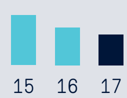
665 MT
+14% from 2016

Hazardous waste



353 MT
-9% from 2016

Recycled waste



866 MT
-15% from 2016

Graphs: Total waste production for KONGSBERG (metric tonnes).

Waste volumes are included in KONGSBERG's internal environmental reporting, where waste generated is divided into waste categories and waste for recycling divided into recycling fractions.

There were no major changes in waste volumes from 2016 to 2017.

Key sustainable figures

FINANCIAL VALUE CREATION

MNOK	2017	2016	2015	2014	2013	2012	2011
ADDED VALUE							
Salaries	4 402	4 649	4 725	4 537	4 304	3 894	3 515
Dividends	450	450	510	1 110	630	450	450
Dividends – % of earnings (new reporting)	81%	69%					
Interest to lenders	110	63	24	30	43	37	35
Retained earnings	109	201	245	(230)	595	854	980
OTHER FINANCIAL KEY FIGURES							
Costs related to the purchase of goods and services	7 610	8 722	9 143	8 497	8 439	8 107	8 195
Financial support received from authorities	59	35	18	21	14	16	17
INCOME TAX EXPENSE							
Norway	(15)	(40)	85	291	332	416	513
Rest of Europe	13	17	9	27	11	14	17
North and South America	33	48	49	50	55	32	24
Asia	64	53	46	37	21	43	24
Total	**95**	**78**	**189**	**405**	**419**	**505**	**578**

SOCIAL INVESTMENTS

MNOK	2017	2016	2015	2014	2013	2012	2011
Financial support to organisations, etc. [1]	9.1	12.4	9.3	8.8	7.3	6.7	3

1) In addition, there are direct costs such as wages etc. for our own employees contributing in part-time positions at various colleges and educational institutions. See pages 61–63 for further information.

EMPLOYEES

	2017	2016	2015	2014	2013	2012	2011
LEVEL OF EDUCATION							
Master's degree (%)	29	29	28	28	29	28	26
– of which doctorates (PhD)	2	2	1	1	1	2	
Bachelor's degree (%)	35	35	37	36	34	36	35
Technicians (%)	12	12	15	14	14	14	14
Production workers (%)	11	11	11	11	11	10	12
Other (%)	13	13	10	11	11	12	12
NUMBER OF EMPLOYEES							
Number of employees, total	6 830	7 159	7 688	7 726	7 493	7 259	6 681
Number of full-time equivalents (FTEs)	6 728	7 027	7 571				
Number of full-time employees	6 636	6 963	7 364	7 470	7 171	7 003	6 393
Number of part-time employees	194	196	324	256	322	256	286
AGE							
Average age	43	42	41	41	41	40	42
Employees under age 30 (%)	14	15	19	21	21	22	21
Employees between ages 30 and 50 (%)	57	58	56	55	56	55	55
Employees over age 50 (%)	29	27	25	24	23	23	23
PERCENTAGE OF WOMEN							
Women as a % of the number of employees	21.5	21.2	21.0	20.9	21.4	21.2	20.9
Women in managerial positions as a % of total managerial positions	20	19	18	18	21	19	14
Shareholder-elected women on the Board (%)	60	40	40	40	40	40	40
TURNOVER							
Turnover (employees who have resigned)	357	477	430	516	587	459	424
Turnover (%)	5.2	6.7	5.6	6.7	7.8	6.3	6.4
– Men	4.2	6	4.2	5.5	5.9	5.2	4.4
– Turnover men, of total men	5.4	7.6	5.4	6.9	-	-	-
– Women	1.0	0.7	1.4	1.2	1.9	1.1	2.0
– Turnover women, of total women	4.7	3.3	6.4	5.8	-	-	-

HEALTH AND SAFETY

	2017	2016	2015	2014	2013	2012	2011
Sick leave as a % of hours worked	2.3	2.5	2.6	2.6	2.5	2.4	2.2
Sick leave for the Norwegian companies	2.8	2.8	2.8	3.0	3.1	2.8	2.8
Number of reported injuries per million hours worked (TRI)[1]	3.2	3.5	4.1	4.7	3.7	1.5	1.7
Number of lost time days per million hours worked (ISR)	16.2	32.0	14.2	45.3	15.6	13.6	1.1
Number of reported injuries leading to absence among employees	31	40	20	34	27	5	3
Total number of injuries among employees[2]	129	176	196	240	86	54	
Total number of near-accidents among employees	232	183	140	140	158	78	
Registered work-related fatalities	0	0	0	0	0	0	

1) Includes lost time injuries and injuries involving medical treatment.
2) Includes lost time injuries, injuries involving medical treatment and injuries treated with first-aid.

CLIMATE AND ENVIRONMENT

	2017	2016	2015	2014	2013	2012	2011
CO_2 EMISSIONS							
CO_2 emissions (metric tonnes) [3]	23 342	23 229	25 933	26 006	25 294	19 579	22 747
CO_2 emissions from transport (metric tonnes) (first reported in 2015)	9 175	10 235	13 335				
Total CO_2 emissions (metric tonnes)	**32 517**	**33 464**	**39 268**				
CO_2 emissions relative to sales (metric tonnes/MNOK)	2.2	2.1	2.4				
CO_2 emissions relative to man-years of labour (metric tonnes/ man-years of labour)	4.7	4.8	5.3				
ENERGY USE							
Electricity (MWh) [1]	92 795	96 734	91 582	91 340	94 802	79 218	77 625
Gas/oil (MWh)	5 397	3 471	4 400	4 123	4 601	6 092	13 257
Heat recovery (MWh) [1, 2]	26 208	22 591	23 366	26 733	20 342	20 844	20 041
Energy consumption (MWh) per employee	18.2	17.2	15.5	15.8	16.0	14.6	16.6
Energy consumption (MWh/MNOK)	8.6	7.7	7.0	7.4	7.3	6.8	7.3
WASTE (METRIC TONNES)							
Waste for recycling	866	1 016	1 410	1 048	1 100	1 100	1 191
Residual waste	665	583	560	604	550	200	131
Hazardous waste	353	387	398	136	285	484	300

1) From 2010, the reporting of the division of power between KTP and the business areas was changed, so the figures are not directly comparable with previous years.
2) Energy recovery at Kongsberg Technology Park, as well as purchased district heating and remote cooling from external companies. A change in the method of calculation from 2014 means that the figures for 2014 are not directly comparable with previous years.
3) Most of the flights ordered from our international locations are included in the CO_2 accounts for 2013, accounting for a significant share of the increase from 2012 to 2013.

Environmentally friendly complex of 40,000 m² in Pocasset, Massachusetts.

AUDITOR'S REPORT

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Norway

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To the management of Kongsberg Gruppen ASA

INDEPENDENT AUDITOR'S REPORT ON KONGSBERG – SUSTAINAIBILITY REPORT 2017

We have reviewed certain information presented in the KONGSBERG Sustainability Report 2017, presented on pages 36 – 72 in the KONGSBERG – Annual Report and Sustainability Report 2017, as well as information referred to from page 44 in the report (in total referred to as "the Report"). The Report is the responsibility of and has been approved by the management of the Company. Our responsibility is to draw a conclusion based on our review.

We have based our work on the international standard ISAE 3000 "Assurance Engagements other than Audits and Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board. The objective and scope of the engagement were agreed with the management of the Company and included the subject matters on which we provide our conclusion below.

Based on an assessment of materiality and risks, our work included analytical procedures and interviews as well as a review on a sample basis of evidence supporting the subject matters. We have conducted interviews of managers responsible for sustainability aspects at corporate as well as comparing reported data with source documentation for the reporting units KM Holland (the Netherlands), KM Hydroid (USA) and the subsidiary Norspace AS (Norway).

We believe that our work provides an appropriate basis for us to draw a conclusion with a limited level of assurance on the subject matters. In such an engagement, less assurance is obtained than would be the case had an audit-level engagement been performed.

Conclusions
Based on our review, nothing has come to our attention causing us not to believe that:

- Kongsberg Gruppen has applied procedures to collect, compile and validate sustainability information for 2017 from its reporting units to be included in the Report, as summarised on pages 37 – 38. Information presented for 2017 is consistent with data accumulated as a result of these procedures and appropriately presented in the Report.
- Data reported for 2017 from the reporting units specified above, has been reported according to the procedures noted above and is consistent with source documentation presented to us.
- The Report fulfils the content requirements for reporting in regards to sustainability as stated in the Norwegian Accounting Act, § 3-3c, article one.
- Kongsberg Gruppen applies a reporting practice for its sustainability reporting that is aligned with the Global Reporting Initiative (GRI) Standards' reporting principles and the reporting fulfils the in accordance level Core according to the GRI Standards. The GRI Index referred to from page 44 in the Report appropriately reflects where information on each of the reported standard and specific disclosures of the GRI Standards is presented.

Oslo, 15 March 2018
Deloitte AS

Eivind Skaug
Eivind Skaug
State Authorized Public Accountant (Norway)

Frank Dahl
Frank Dahl
Deloitte Sustainability

04

Corporate Governance

The Board's report on corporate governance

KONGSBERG's objective is to safeguard and enhance stakeholder value through profitable and growth-oriented industrial development in a long-term and international perspective.

Good corporate governance and corporate management will reduce business-related risk, while the company's resources will be utilised in an effective and sustainable manner. The Group will achieve its goals through further development of first-class competency centres, deliveries of market-leading systems, products and services in its international market segments, and by operating in an ethical, sustainable and socially responsible manner. KONGSBERG is listed on the Oslo Stock Exchange and is subject to Norwegian securities legislation and stock exchange regulations.

How KONGSBERG understands the concept

Corporate governance deals with issues and principles associated with the allocation of roles between the governing bodies in a company, and the responsibility and authority assigned to each body. Good corporate governance is distinguished by responsible interaction between owners, the Board and management, seen in a long-term productive and sustainable perspective. It calls for effective cooperation, a defined division of responsibilities and roles between the shareholders, the Board and management, respect for the Group's other stakeholders, and open, reliable communication with the world around us.

The Group's value platform and ethical guidelines are a fundamental premise for KONGSBERG's corporate governance.

Treatment of the topic in 2017

The topic of corporate governance is subject to annual evaluation and discussion by the Group Board. Amongst other things, the Group's management documents are reviewed and revised periodically.

KONGSBERG'S MODEL FOR CORPORATE GOVERNANCE

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

The Board decides in all significant matters and has overall responsibility for the strategy and management of the company. It provides advice and monitors management.

Strategy and operational management.

KONGSBERG

Policy

KONGSBERG is subject to reporting requirements regarding corporate governance according to the Norwegian Accounting Act section 3-3b and "The Norwegian Code of Practice for Corporate Governance", see ongoing obligations for stock exchange listed companies point no. 7. The Norwegian Accounting Act is available on www.lovdata.no. "The Norwegian Code of Practice for Corporate Governance", most recently revised on 30 October 2014, is available at www.nues.no.

In compliance with Section 5-4 of the Public Limited Liability Companies Act, this report will be dealt with at KONGSBERG's Annual General Meeting on 16 May 2018. The Group's compliance with and any deviations from the Code of Practice will be commented on and made available to the Group's stakeholders.

The Norwegian state, which owns 50.001 per cent of the Group, also assumes that all companies in which the State has a stake will comply with the "Norwegian recommendation for corporate governance".

As the Norwegian state holds an ownership share of 50.001 per cent, the Group also conducts its activities in accordance with the Storting White Paper no. 13 (2006—2007) — "Ownership report", White Paper no. 27 (2013—2014) — "A diverse and value-creating ownership", the Norwegian government's 10 ownership principles for good corporate governance and the OECD guidelines regarding state ownership and corporate governance. These guidelines are posted on the Group's website at www.kongsberg.com. The policy was adopted by the corporate Board.

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

- KONGSBERG shall maintain open, reliable and relevant communication with the public about its business activities and factors related to corporate governance.
- KONGSBERG's Board shall be autonomous and independent of the Group's management.
- Emphasis will be placed on avoiding conflicts of interest between the owners, the Board and the 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 work is considered an integral part of the principles of good corporate governance. This is in accordance with the government's view, as expressed in the 'Ownership Report'.

KONGSBERG GRUPPEN ASA

Articles of association

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

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

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

§ 4 The Company's share capital is NOK 150,000,000, divided among 120,000,000 shares with a nominal value of NOK 1.25. The Company's shares shall be registered in the Norwegian Registry of Securities.

§ 5 The Board shall have five to eight members (Directors). Up to five Directors and up to two Deputy Directors shall be elected at the Annual General Meeting. According to regulations laid down pursuant to the provisions of the Norwegian Companies Act regarding employee representation on the Board in public limited companies, three Directors and their Deputies shall be elected directly by and from among the employees.

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

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

§ 8 The Annual General Meeting shall:

1. Adopt the Financial Statements and the Directors' Report, including the payment of dividends.
2. Discuss other matters which, pursuant to legislation or the Articles of Association, are the province of the General Meeting.
3. Elect the shareholders' representatives and their deputies to the corporate Board.
4. Elect the members of the Nominating Committee.
5. Elect one or more auditors, based on nominations made by the General Meeting.
6. Stipulate the Board's compensation and approve compensation to the Auditor.
7. Deal with the Board's declaration regarding the stipulation of salary and other compensation to key management personnel.

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

§ 9 The Nominating Committee shall consist of three or four members who shall be shareholders or representatives of the shareholders. The members of the Nominating Committee, including the Chair, shall be elected by the General Meeting. The term of the Nominating Committee members is two years. If the Chair of the Nominating Committee resigns in an election period, the Nominating Committee can elect a new leader among the Nominating Committee members for the remaining portion of the new leader's term.

The Nominating Committee shall present to the Annual General Meeting its recommendations for the election of and remuneration of the Directors and Deputy Directors on the Board and the Nominating Committee. The General Meeting shall determine the guidelines for the Nominating Committee for the Election Committee.

KONGSBERG GRUPPEN ASA

Board of Directors

EIVIND REITEN

Chairman

IRENE WAAGE BASILI

Deputy chairman

MARTHA KOLD BAKKEVIG

Director

MORTEN HENRIKSEN

Director

ANNE-GRETE STRØM-ERICHSEN

Director

SIGMUND IVAR BAKKE

Director
(employee representative)

ELISABETH FOSSAN

Director
(employee representative)

HELGE LINTVEDT

Director
(employee representative)

The Board's report relating to "The Norwegian code of practice for corporate governance"

The Kongsberg Gruppen ASA Board actively supports the principles for good corporate governance and attaches importance to KONGSBERG's compliance with the Norwegian Code of Practice for Corporate Governance and to explaining any deviations.

The following is a detailed discussion of each individual section of the Norwegian Code of Practice. The review is based on the latest version of the Code, from 30 October 2014.

The information that KONGSBERG is required to disclose pursuant to Section 3—3b of the Accounting Act regarding reporting on corporate governance has been taken into account in this report and follows the systematics of the Code of Practice where it is natural to do so.

For a complete overview of the recommendation with comments, see the Oslo Stock Exchange website: www.oslobors.no or NUES (the Norwegian Corporate Governance Committee): www.nues.no.

A detailed description of the location of the disclosures required by Section 3—3b of the Accounting Act follows below:

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

DEVIATIONS FROM THE CODE OF PRACTICE

According to the Group's own evaluation, KONGSBERG deviates from the code of practice on one major point:

Item 6 – General Meeting
There are two deviations on this point:

I. The entire Board has not usually attended the General Meeting. Thus far, the items on the agenda of the General Meeting have not required this. The Chair of the Board is always present to respond to questions. Other Board members participate on an ad hoc basis. From the Group's perspective, this is considered to be sufficient.

II. Article 8 of the Articles of Association specifies that the General Meetings are to be chaired by the Chair of the Board. If the Chair is absent, the General Meeting is chaired by the Board's Deputy Chair. In the absence of both, the Chair shall be elected by the General Meeting. This is a departure from the recommendation regarding an independent chair. The arrangement has been adopted by the shareholders through a unanimous resolution of the General Meeting and has worked satisfactorily thus far.

1 REPORT ON CORPORATE GOVERNANCE

The description of the main features is generally structured like the Code of Practice. As recommended, more details are provided on the individual points. Item 16, "Management and internal Procedures", is not covered by the recommendation. It has nonetheless been included because the Group considers it to be crucial to KONGSBERG's discussion of corporate governance.

KONGSBERG seeks to comply with international best practice standards when drawing up governance documents. The Group feels that there is a close correlation between high-quality systems of governance and value creation in the company.

The topic of corporate governance is subject to annual evaluation and discussion by the Board. This report was adopted at the Board meeting on 15 March 2018.

Value platform
The Group's vision is "World Class — through people, technology and dedication". The values that support this vision are: Determined, Innovative, Collaborative and Reliable. These values are important for developing a strong, healthy corporate culture and also form a platform for good corporate governance. Further information about the Group's values can be found on the Group's website and in the Group's Annual Report and Sustainability Report for 2017.

Ethics and corporate social responsibility
The Group's current ethical guidelines were approved by the Board in February 2017. They are based largely on international initiatives and guidelines related to social responsibility which the Group has endorsed, including the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the ILO Conventions. The guidelines include the topics of human rights, workers' rights, climate and environment, anti-corruption, our relations with customers, supplier and market representatives, legal competence and confidentiality. They apply to the Group's directors, managers, employees, all contracted personnel, consultants, agents and lobbyists and others who act on behalf of KONGSBERG. See the detailed description in the Annual and Sustainability Report for 2017.

The Group's policy for sustainability and corporate social responsibility forms part of our governance model, which is adopted by the Board. Sustainability and corporate social responsibility is an integral part of the Group's strategic processes and is discussed in more detail in the Group's Annual and Sustainability Report and on the Group's website.

2 OPERATIONS

Kongsberg Gruppen ASA is a company whose objective is to engage in technological and industrial activities in the maritime, defence and related sectors. The Company may participate in and own other companies. The above-mentioned is stated in Section 3 of KONGSBERG's Articles of Association. The Articles of Association are available on the Group's website and on page 76 of this report.

The Group's objectives and main strategies are described in the Group's Annual and Sustainability Report and on the Group's website .

3 SHARE CAPITAL AND DIVIDENDS

Equity
At 31 December 2017, the Group's equity came to MNOK 7,365 (MNOK 6,725), which is equivalent to 35.4 (31.7) per cent of the total assets. The Board considers this satisfactory. At any given time, the company's need for financial strength is considered in the light of its objectives, strategy and risk profile.

Dividend policy
The company's current dividend policy was decided by the Board in 2013: "Dividends over time shall constitute between 40 and 50 per cent of the company's annual profit after tax. In determining the size of dividends, the expected future capital requirements shall be considered."

The General Meeting approves the annual dividend, based on the Board's recommendation. The proposal is the ceiling for what the General Meeting can approve.

For the accounting year 2016, a dividend of NOK 3.75 per share was paid.

For the accounting year 2017, the Board proposes to the Annual General Meeting a dividend of NOK 3.75 per share. The dividend represents 81.2 per cent of the ordinary annual profit.

Board authorisations
Capital increase
The Board has not been authorised to issue shares.

Purchase of treasury shares
The General Meeting can, according to the Public Limited Companies Act § 9-4, authorise the Board to repurchase their own shares if the total holding of treasury shares does not exceed ten per cent of the share capital (Public Limited Companies Act § 9-2).

At the Annual General Meeting on 26 April 2017, the Board was given authorisation to acquire treasury shares up to a maximum nominal value of MNOK 7.5, which is equivalent to 5 per cent of the share capital. The authorisation can be used several times and applies up until the next Annual General Meeting, but not later than 30 June 2018. The Board's acquisition of treasury shares pursuant to this authorisation can be exercised only between a minimum price of NOK 25 and a maximum of NOK 300 per share. As at 31 December 2017, the Group owned a total of 8,961 (1,049) treasury shares.

The shares were purchased for the share purchase programme for all employees, and in connection with the company's long-term incentive programme (LTI) for members of the Corporate Executive Management. Shares can also be used as full or partial payment in connection with business acquisitions, or they can be sold on the market. The shares included in the Group's share purchasing programme are offered to all employees at a discount (20 per cent), and they are subject to a one-year lock-in period from the date of acquisition. The LTI scheme is discussed in the annual financial statements Note 27 and Point 12 of this report.

4 EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS BETWEEN RELATED PARTIES

Class of shares
The Group's shares are all Class A shares. All shares carry the same rights in the company. At General Meetings, each share carries one vote. The nominal amount per share is NOK 1.25. The Articles of Association place no restrictions on voting rights.

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

Transactions with related parties
The Board is not aware of any transactions in 2017 between the company and shareholders, directors, executive personnel or parties closely related to such individuals that could be described as major transactions. If such a situation were to arise, the Board would ensure that an independent valuation was made by a third party. For further information, see Note 28 and Note 31 of the annual financial statements for 2017.

Guidelines for directors and executives
The Corporate Code of Ethics discusses this topic under conflicts of interest under item 5.9. Similarly, this applies to Item 9 of the Board's instructions — "Independence and disqualification". Here, it is emphasised that the Board shall act independently of special interests. Independence in this context is defined as follows:

- Board members shall normally not receive any remuneration from the company other than their directors' fee and remuneration for work on Board committees. Any departure from this general rule requires the approval of the entire Board and shall be recorded in the minutes. When material

transactions take place between the company and a director or the CEO, an independent valuation shall be obtained from a third party.
- Board members shall inform the Board of any relationships with KONGSBERG's significant business associates or interests in its transactions.
- The directors' fee shall not be linked to the financial performance of the Group and options shall not be allocated to Board members.
- Cross-relationships between directors, the CEO and other executives shall be avoided.
- Board members shall not have or represent significant business relations with the Group.

If a director is in doubt about his/her legal competence, the question shall be discussed by the entire Board. The conclusion on the question of disqualification shall be recorded in the minutes.

The Norwegian Government as customer and shareholder
The Norwegian Government has a stake of 50.001 per cent in KONGSBERG, and at the same time is a major customer, particularly with regard to deliveries to the Norwegian Armed Forces. Relations with the Armed Forces are of a purely commercial nature and are not affected by the ownership structure.

The Group has quarterly meetings with the Norwegian state, as represented by the Ministry of Trade, Industry and Fisheries. The topics discussed at these meetings are first and foremost the Group's financial development, and there are briefings on strategic questions related to KONGSBERG. The Government's expectations regarding investment performance and yield are also communicated. These "one-to-one" meetings with the Government 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. A meeting on corporate social responsibility is held once a year.

The requirement regarding equal treatment of the shareholders limits the possibilities for exchanging data between the company and the Ministry. As a shareholder, the Government does not usually have access to more information than what is available to other shareholders. However, that does not preclude discussions on matters of importance to society. Under certain circumstances, i.e. when Government participation is imperative and the Government must obtain authorisation from the Storting (Norwegian parliament), from time to time it will occasionally be necessary to give the Ministry insider information. In such cases, the Government is subject to the general rules for dealing with such information.

5 FREELY NEGOTIABLE

The shares are freely negotiable, with the exception of shares purchased by employees at a discount, and shares allocated in connection with the company's long-term incentive (LTI) scheme, see Items 3 and 12. The Articles of Association place no restrictions on negotiability.

6 ANNUAL GENERAL MEETINGS

Through the General Meeting, shareholders are ensured participation in the Group's supreme governing body. The Articles of Association are adopted by this body. Shareholders representing at least five per cent of the shares can call for an Extraordinary General Meeting.

Notification
The Annual General Meeting is ordinarily held by 1 June each year. In 2018, the date is set for 16 May.
- Notification is usually distributed 21 days in advance of the Annual General Meeting at the latest. The relevant documents, including the Nominating Committee's approved list of nominees, are available at www.kongsberg.com.
- It is important that the documents contain all the information required for the shareholders to take a position on all items on the agenda. The company's Articles of Association stipulate that the deadline for registration can expire no earlier than five days prior to the date of the Annual General Meeting. Efforts are made to set the deadline as close to the meeting date as possible.

All shareholders registered in the Norwegian Central Securities Depository (VPS) receive the notice and are entitled to submit motions and to vote directly or by proxy. The Financial Calendar is published both via a stock exchange announcement and on the Group's website.

Registration and proxies
Registration can be done by written notice in letters, e-mails or online. The Board would like to

make it possible for as many shareholders as possible to participate. Shareholders who are unable to attend the meeting will be encouraged to authorise a proxy. A special proxy form has been drawn up to facilitate the use of proxies for each individual item on the agenda. One person is appointed to vote as a proxy for the shareholders. Representatives of the Board, at least one member of the Nominating Committee and the auditor will attend the General Meeting. Management is represented by the Chief Executive Officer and the Chief Financial Officer, at the very least.

In 2017, the Annual General Meeting was held on 26 April and 73.07 per cent (77.7) of the aggregate share capital was represented. A total of 92 (85) shareholders were present or represented by proxies.

Agenda and execution

The agenda is set by the Board, and the main items are specified in Article 8 of the Articles of Association. The same article stipulates that the Chair of the Board will chair the General Meeting. The CEO and other members of the corporate management board review the status of the Group.

All shareholders are entitled to have their cases dealt with at the General Meeting. Cases shall be submitted in writing to the Board at least seven days prior to the deadline for sending the notification of the General Meeting. The reason for wanting to have the case added to the agenda should also be specified. The minutes from the General Meeting will be posted on the Group's website.

7 NOMINATING COMMITTEE

Article 9 of the Group's Articles of Association specifies that the Group shall have a Nominating Committee. The Committee's work is regulated by special instructions adopted by the General Meeting. These instructions were last revised by the Annual General Meeting on 9 May 2016.

The main task is to make recommendations to the Company's General Meeting regarding the election of Board members and deputies. The nominations shall be substantiated and recommend a nominee for the Chair of the Board separately. In the work on finding candidates for the Board, the Committee is in contact with relevant shareholders, Board members and the CEO.

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

The Nominating Committee consists of three to four members who shall be shareholders or representatives of shareholders. The General Meeting shall elect all members of the Nominating Committee, including the Chair. The Nominating Committee itself proposes a list of Committee nominees to the General Meeting. The period of service is two years, and the election for the Committee's members will next be held in 2018. The Nominating Committee's remuneration is approved by the General Meeting based on the Nominating Committee's recommendation.

Composition

The current Committee was elected by the Annual General Meeting of 9 May 2016 and consists of:

- Morten S. Bergesen, managing director of Havfonn AS
- Morten Strømgren, department director in the Ministry of Trade, Industry and Fisheries
- Vigdis M. Almestad, senior portfolio manager in ODIN Forvaltning AS
- Jon Hindar, self-employed, Oslo

Bergesen was elected Chair of the Committee. The Nominating Committee is elected for a two-year term. All members of the Nominating Committee are up for election at the Annual General Meeting on 16 May 2018.

None of the Committee's members represents KONGSBERG's management or Board. The majority of the members are considered to be independent of the daily management and Board. Morten S. Bergesen is the managing director of Havfonn AS which, as at 31 December 2017 owned a 26.02 per cent share in Arendals Fossekompani ASA which, as at 31 December 2017 had a 7.96 per cent share in KONGSBERG. Morten S. Bergesen is also a Deputy Chair of the Board of Arendals Fossekompani ASA, where KONGSBERG's directors Morten Henriksen and Jarle Roth (retired from the Board on 26 April 2017) have leading positions. The Nominating Committee is considered to have a composition that reflects the common interests of the community of shareholders.

Information about the Nominating Committee, a form for nominating candidates for the Board / Nominating Committee and the deadlines are available on the Group's website.

8 COMPOSITION AND INDEPENDENCE OF THE BOARD

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

Composition of the Board
The Board consists of eight members and currently has the following composition: Eivind K. Reiten (Chair), Irene Waage Basili (Deputy Chair), Morten Henriksen, Martha Kold Bakkevig and Anne-Grete Strøm-Erichsen. Elisabeth Fossan, Helge Lintvedt and Sigmund Ivar Bakke are Board members elected by and among the employees. Detailed information on the individual directors can be found on the Group's website.

The Board held 14 meetings in total, of which eight were ordinary, three extraordinary and three were reviewed by the Board without a meeting.

It is important that the entire Board has the expertise required to deal with Board work and the Group's main business activities. In addition, the directors need to have the capacity to carry out their duties.

According to the Articles of Association, the Group shall have five to eight directors. The CEO is not a member of the Board.

The Board members are elected for two-year terms and elect their own Chair, based on a recommendation from the Nominating Committee. Eivind K. Reiten was elected Chair of the Board.

The Board's independence
All shareholder-elected directors are considered autonomous and independent of the Group's corporate executive management. The same applies relative to important business associates. In August 2016, Jarle Roth (retired from the Board on 26 April 2017) was appointed CEO of Arendal Fossekompani ASA which, at the year's end, had a share in Kongsberg Gruppen ASA of 7.96 (7.96) per cent. Morten Henriksen also has a leading position in the same company. The Board believes it is a positive thing that long-term shareholders are represented on the Board. It is important that there are no conflicts of interest between owners, the Board, management and the Company's other stakeholders.

Among the shareholder-elected directors, there are two men and three women, i.e. 60 per cent women.

Election of the Board
The General Meeting elects the five shareholder-elected representatives to the Board. The Nominating Committee draws up a recommended list of shareholders' nominees for the Board prior to the election. The recommendations will be available to the shareholders simultaneous with notification of the General Meeting. Decisions on the composition of the Board take place by simple majority. The Norwegian state owns 50.001 per cent of the shares in KONGSBERG, and could in principle exercise control over the election of the shareholder's directors. Three of the directors are elected by, and from, the Group's employees.

The directors are elected for two-year terms and are eligible for re-election. All Board members were up for election in 2017.

The directors' shareholdings
As at 31 December 2017, the shareholder-elected directors held the following portfolios of shares in the Group:

- Martha Kold Bakkevig (appointed 26 April) owns 1,400 (0) shares through her 50 per cent owned company Kold Invest AS.
- Finn Jebsen, Chair of the Board (retired on 26 April), owns 20,000 (20,000) shares through his wholly-owned company Fateburet AS.

The employee-elected board members hold the following

PARTICIPATION IN BOARD AND COMMITTEE MEETINGS IN 2017

Participation in meetings	*Board*	*Audit Committee*	*Compensation Committee*
Eivind K. Reiten (appointed 26 April)	8		2
Irene Waage Basili	11		
Morten Henriksen	14	6	
Anne-Grete Strøm-Erichsen	13		4
Martha Kold Bakkevig (appointed 26 April)	7	3	
Helge Lintvedt	14	6	
Elisabeth Fossan (appointed 26 April)	8		2
Sigmund Ivar Bakke (appointed 26 April)	7		
Ole Magnus Svarva (deputy board member)	1		
Finn Jebsen (retired 26 April)	6		2
Jarle Roth (retired 26 April)	6	2	
Rune Sundt Larsen (retired 26 April)	6		
Roar Marthiniussen (retired 26 April)	6		2

portfolios of shares in KONGSBERG as at 31 December 2017:

- Elisabeth Fossan (appointed 26 April) owns 3,024 (2,735) shares.
- Sigmund Ivar Bakke (appointed 26 April) owns 2,862 (2,573) shares.
- Roar Marthiniussen (retired 26 April) owns 3,103 (5,814) shares.

9 THE BOARD'S WORK

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

The Board's main responsibilities are to contribute to corporate competitiveness, and to ensure that the Group develops and creates value. Furthermore, the Board is to participate in the framing and adoption of the Group's strategy, exercising the requisite control functions and ensuring that the Group is managed and organised in a satisfactory manner. The Board sets the objectives for financial structure and adopts the Group's plans and budgets. The Board also handles items of major strategic or financial importance to the Group. In important cases where the Chair or other Board members have been actively engaged, this will be disclosed in the proceedings and managed by the Board on a case-by-case basis. These tasks are not constant and the focus will depend on the Group's needs at any given time. The Board appoints the CEO, defines the work instructions and authority, and determines his or her wages.

Board instructions
The Board's instructions are subject to review every second year by the Board and are revised as needed. The current instructions were presented to the Board in February 2017. The instructions cover the following items: the notification of Board meetings, notification deadlines, administrative preparations, Board meetings, Board decisions, the keeping of minutes, the Board's competency and items on the Board's agenda, segregation of duties between the Board and the CEO, relations between subsidiaries and the parent company, independence and disqualification, main principles for the work of the Board in connection with a possible corporate take-over, confidentiality and professional secrecy, relations to legislation, the Articles of Association and instructions. Rules of procedure for the Board of directors can be read on the Group's website.

The Board may decide to deviate from the instructions in individual cases.

Instructions for the CEO
There is a clear segregation of duties between the Board and executive management. The Chair is responsible for ensuring that the Board's work is conducted in an efficient, correct manner and in compliance with the Board's responsibilities.

The CEO is responsible for the Group's operational management. The Board has prepared a separate instruction for the CEO. Instruction will be reviewed by the Board every other year and will be revised as required. The current instructions were presented to the Board in February 2017.

Financial reporting
The Board receives financial reports ten times per year where the Group's economic and financial status is discussed. The reports are financial presentations that describe what has happened in the Group's operative and administrative functions during the reporting period. The financial report forms the basis for internal control and communication on status and necessary measures. Quarterly financial reports are compiled that form the basis for the external financial report. This report is dealt with in the Group's audit committee before being submitted to and reviewed by the Board. The report is made public after approval from the Board.

Notice of meetings and discussion of items
The Board schedules regular Board meetings each year. Ordinarily, eight meetings are held each year. Additional meetings are held on an ad hoc basis. In 2017, 14 (15) meetings were held of which six were extraordinary, three of which were reviewed by the Board without a meeting. The Board meetings had 96 (98) per cent attendance in 2017.

All directors receive regular information about the Group's operational and financial progress well in advance of the scheduled Board meetings. The Company's business plan, strategy and risk are regularly reviewed and evaluated by the Board. The directors are free to consult the Group's senior executives as needed. The Board draws up and adopts an annual plan, including set topics for the Board meetings. Ordinarily, the CEO proposes the agenda for each individual 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, other EVPs as needed, and the General Counsel (secretary of the Board). Other participants are called in on an ad hoc basis.

The Board adopts decisions of material importance to the Group. This involves, amongst other things, the approval of the annual and quarterly accounts, strategies and strategic plans, the approval of investments, contracts, as well as acquisitions and divestitures of businesses where the Group's authority matrix or the Group's directive concerning significant offers, contracts or framework agreements require this.

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

Duty of confidentiality — communication between the Board and shareholders

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

Competence

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

Disqualification

The Board is bound by the rules regarding disqualification as they appear in Section 6—27 of the Public Limited Companies Act and in the instructions to the Board.

Use of board committees

The Board has two subcommittees: an Audit Committee and a Compensation Committee. Both committees act as preparatory bodies for the Board; they are accountable only to the assembled Board and have only recommending authority. In addition, special committees are formed as needed, such as appointment committees.

The Board's Audit Committee

The Audit Committee shall support the Board in its responsibilities related to financial reporting, audits, internal control and overall risk management. The Audit Committee is also a preparatory body in terms of non-financial compliance. The Committee consists of two shareholder-elected directors and one employee-elected director. The Group's CFO and its elected accountant normally participate in the meetings. The CEO and the other directors are entitled to attend if they so desire. Six (seven) meetings were held in 2017.

Members: Morten Henriksen (Chair), Jarle Roth (until 26 April 2017), Martha Kold Bakkevig (from 26 April 2017) and Helge Lintvedt. The instructions for the Audit Committee are published on the Group's website.

The Board's Compensation Committee

The committee shall prepare issues for Board discussion related to remuneration, management development and diversity. This includes, among others, discussion of issues associated with the remuneration for the CEO, and questions of principle relating to salary levels, bonus systems, pension schemes/terms, employment contracts, etc. for leading employees. The committee also prepares issues regarding other conditions associated with remuneration that the committee considers of particular significance to the company's competitive position, profile, recruitment ability, reputation, etc. In addition, the committee prepares for discussion of the Group's management development plans, performance reviews and succession plans for managers, with particular emphasis on ensuring diversity.

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 if they so desire, except when their own situation is under discussion. Four (six) meetings were held in 2017.

Members: Finn Jebsen (Chair, until 26 April 2017), Eivind K. Reiten (Chair, from 26 April 2017), Anne-Grete Strøm-Erichsen, Roar Marthiniussen (until 26 April 2017) and Elisabeth Fossan (from 26 April 2017). The instructions for the Compensation Committee are published on the Group's website.

The Board's own evaluation

The Board has one extended meeting each year to evaluate the work done by the Board and the CEO. In this connection, the Board also holds its own activities up for comparison with the Norwegian Code of Practice for Corporate Governance. The Board's evaluation is made available to the Nominating Committee. Individual performance interviews are conducted each year between the Chair of the Board and the other directors.

10 RISK MANAGEMENT AND INTERNAL CONTROL

The Board's responsibilities and the purpose of internal control
KONGSBERG's internal control and risk management system for financial reporting are based on the internationally recognised COSO framework.

The Group has established a decentralised management model featuring delegated responsibility for profits. As a result, the control function follows the Group's management model, and it is the individual unit's responsibility to make sure that it has the capacity and expertise required to carry out responsible internal control. Corporate executive management and the individual technological fields are responsible for controlling that the business areas have implemented the appropriate internal controls.

The management prepares operating reports ten times per year that are sent to the directors. In addition, quarterly financial reports are published for the financial market. The Audit Committee reviews the Group's quarterly report ahead of the Board meeting. The auditor takes part in the Audit Committee's meetings and meets with the entire Board in connection with the presentation of the interim annual financial statements and as otherwise required.

Follow-up by the Board
The Board follows up risk management and internal controls through its annual cycle and agenda. This includes a quarterly review of strategic and operational risks, central discretionary items related to financial reporting and non-financial compliance. The Board processes and approves major customer quotations according to the Group's authority matrix. The Board is also involved in the Group's strategy processes on an ongoing basis.

The Group's financial position and risks are thoroughly described in the Directors' Report.

The Board conducts an annual review of the Group's key governance documents to ensure that these are updated and cover the relevant topics.

Compliance with values, ethics and corporate social responsibilities
KONGSBERG stresses that the values and Code of Ethics are to be an integral part of operations. KONGSBERG expects employees and partners to demonstrate high ethical standards and compliance with applicable rules and regulations.

KONGSBERG continued the work on systematic development and follow-up of important areas for compliance with regulations, rules and internal guidelines in 2017. The Group still has a special focus on the anti-corruption programme, where employee training, cooperation with business partners on anti-corruption measures as well as training and review of market representatives have been the key elements. There is also a particular focus on export control and sanctions. The Group has compliance functions at both corporate level and in the business areas. In the same way as the financial reporting, the internal control was established in accordance with a decentralised management model. The KONGSBERG compliance programme is coordinated and monitored from a corporate level.

Routines have been established for notification and follow-up on any alleged misconduct. The Group has further developed a whistleblower system with a web-based notification channel which became available to all employees globally in 2017, providing the opportunity for external notifications and anonymity for whistleblowers.

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

11 REMUNERATION OF THE BOARD

The Annual General Meeting approves the remuneration paid to the Board each year. The proposal for remuneration is made by the Chair of the Nominating Committee. From the Annual General Meeting in 2017 until the next Annual General Meeting, the total remuneration to the Board members will amount to NOK 2,227,000 (NOK 2,028,000).

The remuneration breaks down as follows:

- Board Chairperson NOK 489,000 (NOK 445,000)
- Deputy Chair NOK 262,000 (NOK 239,000)
- Other Board members NOK 246,000 (NOK 224,000)

In addition, the members of the Audit Committee receive NOK 10,100 (NOK 9,900) per meeting, and a maximum of NOK 101,000 (NOK 48,000) per year. The Committee's chair receives NOK 11,500 (NOK 11,200) per meeting, and a maximum of NOK 115,000 (NOK 54,500) per year.

The members of the Compensation Committee receive NOK 9,400 (NOK 9,200) per meeting, and a maximum of NOK 47,000 (NOK 44,500) per year. The Committee's chair receives NOK 10,600 (NOK 10,400) per meeting, and a maximum of

NOK 53,000 (NOK 50,500) per year.

The directors' fees are not contingent on financial performance, option programmes or the like. No remuneration has been paid in allowances, apart from normal Board fees. None of the Board's shareholder-elected directors work for the company outside of their directorships, and there are no agreements regarding a pension plan or severance pay from the company.

12 REMUNERATION OF EXECUTIVE MANAGEMENT

Guidelines
The Board has drawn up special guidelines for the determination of salaries and other remuneration to executive management. The CEO's terms of employment are determined by the Board. Each year, the Board undertakes a thorough review of salary and other remuneration to the CEO. The evaluation is based on market surveys of comparable positions.

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

The Board's attitude to executive management's salaries is that they should be competitive and provide incentive, but not be at the very top end of the scale. The incentive system consists of basic wages, bonuses, pensions, long-term incentives (LTI), severance arrangements and other benefits in kind.

The guidelines for determining salaries and other remuneration to executive management are presented in the General Meeting. The guidelines are binding for the LTI scheme and serve as guidelines for the rest.

Performance-based part of salary
In 2006, the Board introduced a new bonus system for executive management. The scheme was adjusted slightly in 2016 and continued in 2017. Performance-based compensation is linked to profit growth, profit margin and individual goals. The payment of performance-based salary has a ceiling of 50 per cent of the basic salary. A more detailed description of the scheme is given in Note 27, "Declaration regarding the determination of salaries and other remuneration to senior executives" in the Annual Report for 2017. In 2017, the group had 82 managers who were covered by an incentive plan that included an individual performance element.

The Bonus System meets guidelines for salaries and other remuneration to senior employees of enterprises and companies with a state shareholding. The main changes from 2016 are a downward revision of the maximum accrual percentage as well as direct payments of margin and individual components. The progress component goes into the bonus bank. Previously, all bonus accrual went into the bonus bank before payment. The scheme continues in 2018, with some adjustments.

Long-term incentive (LTI)
In 2012, the Board decided to introduce a (LTI) scheme as part of the regular remuneration for the CEO and other members of corporate executive management. The programme was changed to a variable performance system in 2016. Criteria were introduced for achievement, and the framework for remuneration was revised upwards to 30 per cent of the annual base salary for the CEO and 20–25 per cent for the other members of the Corporate Executive Management. The rationale is to be competitive with comparable companies. A more detailed description of the system is provided in Note 27 of the annual financial statements for 2017.

Conditions
Remuneration to corporate executive management and the Board is described in Note 27 and 28 to the consolidated financial statements for 2017.

13 INFORMATION AND COMMUNICATION

Annual Report and Directors' Report – interim reporting
The Group usually presents preliminary annual accounts in late February. "The Annual Report and Sustainability Report" are sent to shareholders and other stakeholders in March/April. Beyond this, the Group presents its accounts on a quarterly basis. Other information linked to sustainability and corporate social responsibility can be found on the Group's website. The Group's Financial Calendar is published via a stock exchange announcement, on the Group's website and in the Annual Report.

Other market information
Open investor presentations are conducted in connection with the Group's annual and quarterly reports. Here the CEO, assisted by the CFO, reviews the results and comments on markets and future prospects. Other members of the Group's management participate as needed. An annual Capital Markets Day will be held in which

business area directors will participate. The entire Group management is normally present at this Capital Markets Day.

The annual and quarterly reports will be available on www.newsweb.no and on the Group's website, along with presentation of the results. The annual and quarterly results are also available via webcasts. Beyond this, the Group conducts an ongoing dialogue with and makes presentations to analysts and investors.

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

The Group has directives concerning communication with the investor market and handling of insider information. Emphasis is given to equal treatment of all shareholders.

14 TAKE-OVERS

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

Where a bid is made for the company, the Board shall draw up a statement containing a justified evaluation of the bid and, if needed, provide an independent third-party assessment. The evaluation shall specify how, for example, a take-over would affect long-term value creation at KONGSBERG.

If a bid is made for the Company's shares, the Company will not limit others from presenting similar bids for the Company's shares, unless this is clearly justified as being in the Company's and shareholders' common interest. In the event of a bid for the Company's shares, the Company will publish the required disclosures pursuant to legislation and regulations for companies listed on the Oslo Stock Exchange.

15 AUDITOR

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

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

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

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

The auditor has presented a written declaration to the Board concerning the fulfilment of fixed independence requirements between the auditor and the Group pursuant to the Accountancy Act.

The Board has dealt with the guidelines for the business relationship between the auditor and the Group.

Ernst & Young AS is the Group auditor. Some smaller companies within the Group use other audit firms. Some foreign companies do not have auditors as this is not a part of the local requirements. In addition to ordinary auditing, the auditing company has provided consultancy services related to accounting. For further information, see Note 29 of the Group's financial statements.

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

16 MANAGEMENT AND INTERNAL PROCEDURES

This point is not covered by the Code of Practice.

Chief Executive Officer
The Board has adopted instructions for the CEO, ref. Item 9.

Corporate executive management
Corporate executive management currently consists of eight individuals. In addition to the CEO, corporate executive management consists of the CFO, the EVPs of the three areas Kongsberg Maritime, Kongsberg Defence & Aerospace and Kongsberg Digital, EVP Business Development and Strategy, EVP Public Affairs and EVP HR & Security. The CEO appoints members to corporate executive management.

Corporate executive management's main responsibility is the operational management of the Group, where KONGSBERG's overall situation is decisive for the decisions that are made. Corporate executive management's other responsibilities include strategic development of the Group, the evaluation and development of the Group's business areas, and issues of fundamental importance to the Group. Corporate executive management evaluates its own work and working methods annually.

The management team meets regularly and otherwise has regular contact on an operational basis. The management team carries out monthly follow-ups of results and budgets with the profit centre units in the Group. The Group subscribes to the general principle of making binding commitments to agreed targets, and thus practises a decentralised form of corporate governance that gives individual units considerable autonomy with the responsibility that this entails.

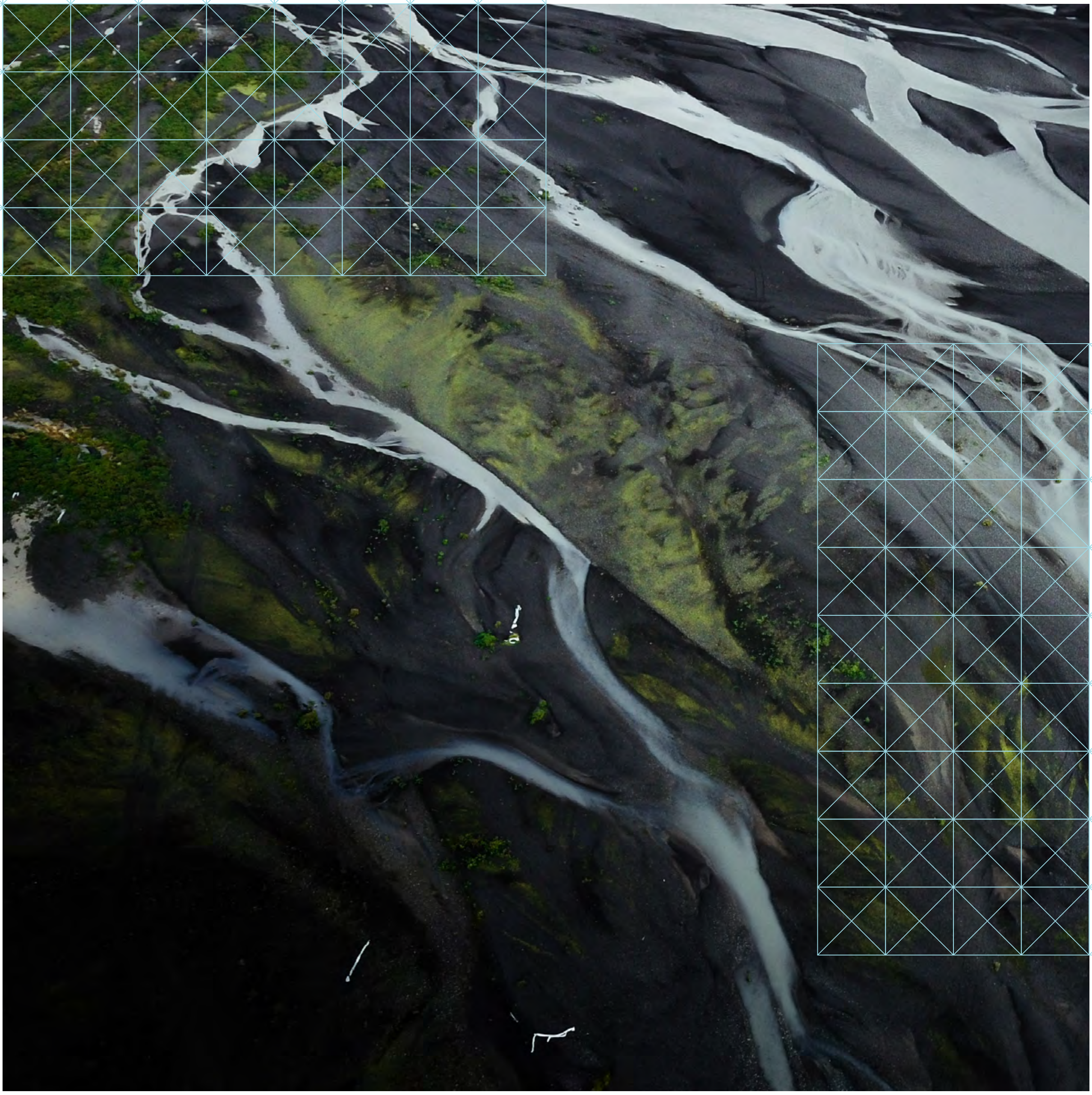
Executive Steering Group (ESG)
In 2013, the Group established an Executive Steering Group (ESG) for each business area. The aim is to improve procedures for decision-making and follow-up, among other things, by transferring several important decisions related to the individual business area to the relevant business area's ESG. The ESGs are chaired by the CEO. Other permanent members are the Group's CFO and EVP Business Development and Strategy. Participants in the ESGs include the head of the relevant business area as well as all or part of the business area's executive management.

Intra-Group Boards
The Group's subsidiaries have their own Boards, which are comprised of internal managers and employees. The managing director of the holding company or a person authorised by the managing director will chair the Board of the subsidiary. Appointment of the Board and the Boards' work in subsidiaries are handled pursuant to the Group's principles for good corporate governance.

Guidelines for share trading
The company has laid down internal guidelines, aimed primarily at the company's primary insiders, for trading in the company's shares. These guidelines are updated regularly to maintain compliance with the legislation and regulations that apply at any given time. The guidelines require primary insiders to secure internal clearance from the CEO before KONGSBERG shares are bought or sold.

05

Directors' Report and Financial Statements



Directors' Report 2017

Kongsberg Gruppen (KONGSBERG) is an international technology group that delivers advanced and reliable solutions that improve safety, security and performance in complex operations and under extreme conditions. KONGSBERG works with demanding customers in the global defence, maritime, oil and gas, fisheries and aerospace sectors.

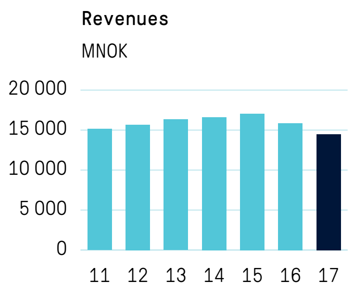
2017 has been a year with significant changes for KONGSBERG. Kongsberg Maritime has reorganised large parts of the organisation and the business areas KDS and KPS have been merged into one business area, Kongsberg Defence & Aerospace (KDA). At the same time, the company has delivered projects according to plan and taken important market positions. KDA has been chosen as a supplier of mobile air defence systems to the Norwegian Army and NASAMS to Australia, while NSM has been chosen for the German Navy. A joint venture has also been established with thyssenkrupp Marine Systems (tkMS) and ATLAS ELEKTRONIK for supplying combat systems on all future submarines from tkMS. KM has signed several contracts for delivery of integrated vessel solutions and has further strengthened its position within digitalisation of products and "remote services", and is also involved in several autonomy projects. Within autonomy, the "Yara Birkeland" project received considerable attention.

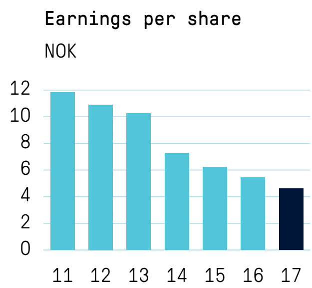
Revenues declined by 9 per cent to MNOK 14,490 compared to 2016. The reduction comes mainly from Kongsberg Maritime and is driven by reduced turnover in an offshore market that remains weak. Kongsberg Maritime also had a reduction in order intake that largely explains the 6 per cent decline in order intake for the Group. The order intake ended at MNOK 13,430 for 2017. EBITDA increased by MNOK 62 from 2016 to MNOK 1,279 in 2017.

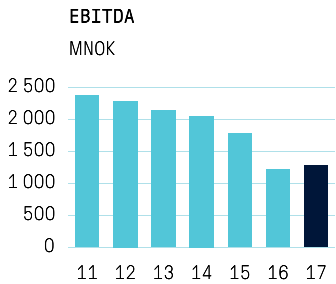
Profit for the year after tax amounted to MNOK 559 (MNOK 651), corresponding to NOK 4.62 per share (NOK 5.44). The Group had a positive cash flow of MNOK 1,068 in 2017 (MNOK 81) and has a net interest-bearing debt of MNOK 384 (MNOK 2,195) at the end of the year. The Group's equity is MNOK 7 365 (MNOK 6 725). On this basis, the Board proposes to the General Meeting a dividend for the accounting year 2017 of NOK 3.75 per share (NOK 3.75). The dividend represents 81.2 per cent (68,9 per cent) of profit for the year.

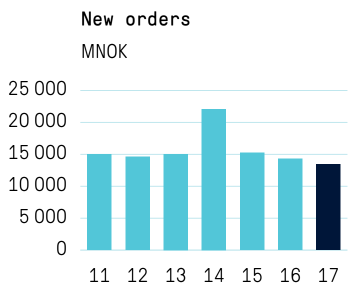
KONGSBERG

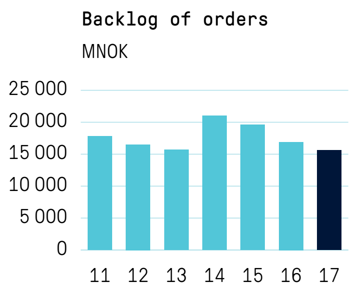
Headquarter	Kongsberg
Number of employees	6 830
Share of employees outside Norway	35%
Number of locations, countries	25
Share of revenues outside Norway	81%











BUSINESS AREAS

Kongsberg Defence & Aerospace

Amounts in MNOK	*2017*	*2016*
Operating revenues	6 333	6 316
EBITDA	702	928
EBITDA margin	11.1%	14.7%
New orders	5 376	5 426
Order backlog	9 956	10 910

There is a large international interest for both KONGSBERG's missiles, air protection systems, weapon control systems and other command and control systems in addition to the remote-controlled weapons stations.

Kongsberg Defence Systems and Kongsberg Protech Systems were merged to Kongsberg Defence & Aerospace (KDA) on 1 October 2017. KDA was reported as one unit from Q4 2017. The merger is supposed to focus our defence operations and is expected to give annual cost savings of MNOK 100 from 2018.

In 2017, Kongsberg Defence & Aerospace had operating revenues of MNOK 6,333, which is at the same level as last year. The EBITDA margin is reduced by 3.6 per cent to 11.1 per cent, and this is mainly due to restructuring costs and a lower share of net income from Patria. In 2017, Patria had operating revenues of MEUR 468 and an EBITDA margin of 11.8 per cent (18.3 per cent). The share of net income from Patria was MNOK 75 (MNOK 143) in 2017. The reduction from 2016 is mainly due to lower revenues and margins from Patria's vehicle business. The order backlog was reduced from

MNOK 10,910 by the end of 2016 to MNOK 9,956 by the end of 2017, but it increased in Q4 2017 mainly due to sale of the NASAMS air defence system to Lithuania and Indonesia.

The business area has in 2017 strengthened its possibilities to get new significant contracts into several areas. KONGSBERG was chosen as a supplier of combat air defence to the Norwegian Army and NASAMS to Australia. A joint venture was established with thyssenkrupp Marine Systems (tkMS) and ATLAS ELEKTRONIK for supplying combat systems on all future submarines from tkMS. KONGSBERG's NSM has also been chosen for the German Navy. None of these events are currently reflected in the Group's order backlog, but they represent concrete opportunities that might have a positive influence the business area's future earnings.

KDA signed in 2017 several important contracts:

- NASAMS to Lithuania and Indonesia, valued at MNOK 1,000 and MNOK 600 million respectively.
- Contract with the Australian Department of Defence worth MNOK 150 for the integration of a new sensor capability on the Joint Strike Missile (JSM). This gives JSM a further lift and confirms the great interest for the missile also outside of Norway. The development process concerning JSM integration in the F-35 is on schedule.
- Weapon stations (RWS) to both the Swiss Armed Forces and the American CROWS programme.
- Contract with the US Army for test firing of NSM coastal artillery during the RIMPAC exercise in 2018.

KDA has several product portfolios that are well positioned to meet future needs and expected market developments. There is a large international interest for both KONGSBERG's missiles, air protection systems, weapon control systems and other command and control systems in addition to the remote-controlled weapons stations. At the same time, there is high market activity related to several large programs in Europe, USA, Asia and Australia. KONGSBERG is the largest aerospace industry company in the Nordic region, and the activity within this segment is increasing.

KONGSBERG has during the last 15 years grown to become the world's leading supplier of remote-controlled weapons systems. More than 19,000 systems have been sold to customers in 19 countries. In 2016, KONGSBERG signed the first contract for delivery of the new MCT-30 medium calibre solution. The deliveries have been ongoing through large parts of 2017, and the system is considered to have great potential in both the US and in other countries.

The defence market is characterised by relatively few but large contracts. Hence, fluctuations in order intake are regarded to be normal. The order intake in 2017 also shows this, where Q4 represents 59 per cent of this year's order intake in KDA. KONGSBERG expects a good order intake in the next few years as a result of the strong market position KDA has within its segments.

KONGSBERG has, over time and in cooperation with the Norwegian Armed Forces and the Norwegian Defence and Research Establishment, developed systems for Norway that have proved to be competitive internationally. It is of great importance to the Group that this national partnership continues. The cooperation provides the Norwegian Armed Forces with the possibility to develop and deploy technology that is particularly suitable for Norwegian conditions as well as maintaining a quality and cost that allows it to succeed in the international competition.

> A joint venture was established with thyssenkrupp Marine Systems (tkMS) and ATLAS ELEKTRONIK for supplying combat systems on all future submarines from tkMS. KONGSBERG's NSM has also been chosen for the German Navy.

The investment process in defence programmes is often slow. The customers of large defence systems are the defence authorities in the respective countries. These customers consider national security and domestic economic development as significant factors, in addition to product price and performance, when purchasing defence equipment. National budgets and policies will therefore have a strong impact on whether and when any contract can be entered into with KONGSBERG. The market is not subject to international free trade agreements and is often characterised by more national protectionism than is to be seen in most other industries. Predictability in the export regulations with respect to defence material and the application of the regulations is therefore an important framework condition for KONGSBERG.

It is important for the Norwegian defence industry that the Norwegian authorities' emphasis is on repurchase agreements and agreements that secure market access in connection with purchase of defence equipment from abroad. When the Norwegian Armed Forces make significant investments through foreign

In 2017, KM has also established itself with important contracts in the four technological areas of focus the Group sees in the marine market: Integrated solutions, Digitisation, Remote Services and Autonomy.

suppliers, this ties up a significant part of the defence budget, and purchases from domestic suppliers may be negatively affected. To ensure that military supplies are well adapted to Norwegian conditions and to guarantee a sustainable and competitive Norwegian defence industry, we emphasise the importance of Norwegian participation in such programmes. Both the Government and the Parliament have stressed the importance of industrial participation for Norwegian industry, and that this is in line with international practice. KONGSBERG will continue to emphasise partnerships with major defence contractors and continue to support the local industry in the business area's markets further. KONGSBERG's position as an attractive defence supplier in the international market will continue to be based on close cooperation with the Norwegian Armed Forces. This cooperation is the platform for developing leading products that are necessary for a modern military defence. Such participation for KONGSBERG also means increased activity for many of the business area's approximately 1,000 Norwegian subcontractors.

Kongsberg Maritime

Amounts in MNOK	*2017*	*2016*
Operating revenues	7 429	8 597
EBITDA	642	280
EBITDA margin	8.6%	3.3%
New orders	7 336	7 940
Order backlog	4 820	5 137

Kongsberg Maritime's (KM) turnover in 2017 was reduced by 13.6 per cent, while the EBITDA margin was 8.6 per cent compared to 3.3 per cent in 2016. EBITDA in 2017 was affected by MNOK 93 million in restructuring costs. 2016 was negatively affected by MNOK 481 related to restructuring and impairments of inventories, currency hedges and other items, including receivables.

In the period from Q2 2015 to the summer of 2017, significant cost reduction measures have been implemented in KM to adjust the cost base to the weak oil and gas market. The number of employees and hired personnel during this period was reduced by over 1,000 people. Some of the core markets are very challenging, but considerable investments are still being made in development of new high-priority products and solutions in the existing and new markets. KM has, among others, spent resources on developing its own vessel energy solution.

The total new orders in 2017 was MNOK 7,336. The order intake in 2017 was strong in Subsea, but somewhat lower for traditional vessel solutions compared to 2016.

KM is exposed to several markets. The traditional offshore market, which includes drilling and offshore supply, has been weak in recent years and the new orders from these markets has therefore been very low. However, KM is also exposed to several markets that have shown positive developments. Examples are fisheries, research- and passenger-ferries. New regulatory requirements for vessel emissions, in addition to attractive shipbuilding prices, gives a positive development for new low-emission and energy efficient solutions within several vessel segments. There has also been a positive development for autonomous underwater vehicles throughout the year.

For several years, KM's strategy has been to expand the scope beyond the traditional deliveries. The establishment of a separate engineering department, as well as the concept for integrated vessel solutions which was launched in 2016, is meant to underline this strategy. KM is now a supplier of complete concepts for a wide range of vessel classes, to an even greater extent than previously. Vessels that previously could involve contracts in the order of a few "tens of millions" gave KM single delivery contracts above MNOK 100 in 2017, for example Ro-Pax and research vessels.

Some of the core markets are very challenging, but considerable investments are still being made in development of new high-priority products and solutions in the existing and new markets.

In 2017, KM has also established itself with important contracts in the four technological areas the Group sees in the marine market:

- *Integrated solutions:* Four contracts were won for the new concept that integrates and coordinates vessel operation (such as control of an offshore gangway) along with vessel control (Dynamic Positioning) and energy distribution. All in all, this provides a concept that optimises the vessel operation to a different extent than previously.
- *Digitisation:* Over 100 LNG vessels now have KONGSBERG Information Management System installed. This allows a significant increase in efficiency through improved qualitative utilisation of data from the many thousand sensors found aboard such vessels.
- *Remote Services:* Over 700 vessels are now equipped to allow remote service. By the end of 2016, the corresponding figure was approx. 100. This enables significant efficiency gains for both KM and for shipowners through more efficient service.
- *Autonomy:* KM is involved in several commercial autonomy projects, including "Yara Birkeland" which is one of the world's first autonomous, electric and emission-free container ships. KONGSBERG is responsible for developing and supplying all key technology on board the ship, including control systems, sensors and necessary integration for remote and autonomous operations.

KM's after-market revenues are not included in the business area's order backlog. KM has a well-established after-market network that supports more than 18,000 vessels fitted with KM-equipment, and after-market activity represents about one third of KM's turnover.

From 1 January 2017, a new function-based organisation came into force. Here, product development and product ownership are consolidated and projects are sorted into basic product and system deliveries, larger complex projects and after-market activities, independently of market. This will contribute to better prioritisation of development resources and fewer parallel products and systems compared to the former market-based organisation. Subsea remains more or less the same as before.

The Norwegian maritime and offshore industry is important for the export industry. The Board therefore emphasises the need for a governmental industrial policy promoting growth and development in this sector, including competitive conditions and financing solutions.

Other activities
Other activities consists of Kongsberg Digital (KDI), external revenues from the real estate business, corporate functions and eliminations between the business areas.

KDI was established in 2016 as an important step for development of the next generation of digitalised products and services within our core areas. In 2017, the area has focused on taking new and strengthening existing positions related to digitalisation within the oil and gas, wind and merchant marine markets.

COMMENTS TO THE FINANCIAL STATEMENTS

Operating revenues
The Group's operating revenues in 2017 were MNOK 14.490, which is down 8.6 per cent from MNOK 15.845 in 2016. KDA's operating revenues were on the same level as in 2016, while KM had a reduction in operating revenues of 13.6 per cent.

EBITDA development
EBITDA totalled MNOK 1,279 (MNOK 1,217) in 2017, resulting in an EBITDA margin of 8.8 per cent (7.7 per cent). The 2017 EBITDA is negatively affected by restructuring costs, pay back of forward exchange contracts and reversals of provisions amounting to

MNOK 256. KDA has reduced its EBITDA from MNOK 928 to MNOK 702 from 2016 to 2017, while KM increased from MNOK 280 to MNOK 642.

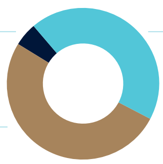
Profit
Profit before tax was MNOK 654 (MNOK 729). The profit after tax was MNOK 559 (MNOK 651), corresponding to NOK 4.62 (NOK 5.44) per share. Return on average capital employed (ROACE) was 9.1 per cent in 2017 (8.2 per cent). KONGSBERG's dividend policy states that dividend over time shall constitute between 40 per cent and 50 per cent of the company's profit for the year. The Board proposes an ordinary dividend for the accounting year 2017 of NOK 3.75 per share (3.75). The dividend represents 81.2 per cent (68,9 per cent) of the profit for the year.

Cash flow
In 2017, KONGSBERG had a positive cash flow from operational activities of MNOK 2,899 (MNOK 809). This primarily consists of a MNOK 1,279 EBITDA, net of taxes and adjusted for changes in net current assets, current liabilities, net changes in investments in associated companies and joint ventures and other accruals. At the beginning of 2017, the Group's capitalised temporary cash effects related to currency hedges amounted to approx. NOK 1.5 billion. These were reduced by approx. MNOK 900 in the course of the year.

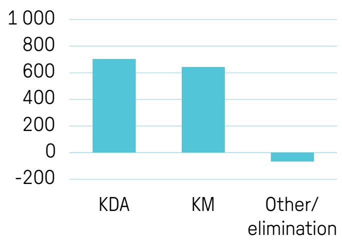
In 2017, there was a negative cash flow related to investment activities of MNOK 528 (MNOK 3,343). Of these, MNOK 328 was paid for the net purchase/sale of property, plant and equipment, and MNOK 187 is related to capitalised research and development. This is a lower level than in 2016. In 2017, the Group disbursed MNOK 11 for the purchase of subsidiaries and associated companies. In 2016, the figure was MNOK 2,786, of which MNOK 2,664 was for the acquisition of 49,9 per cent of Finnish Patria. The cash flow from financing activities is minus MNOK 1,319, primarily related to the repayment of loans (MNOK 740), payment of dividends (MNOK 450) and paid interest (MNOK 110).

Net change in cash and cash equivalents, after the effect of exchange rate changes in 2017, was MNOK 1,068 (MNOK 81).

Distribution of revenue
Per cent



Distribution of EBITDA
MNOK



MNOK		*KONGSBERG consolidated*	*Kongsberg Defence & Aerospace*	*Kongsberg Maritime*	*Other/ eliminations*
Operating revenues	2017	14 490	6 333	7 429	728
	2016	15 845	6 316	8 597	932
	Change in per cent	(8.6%)	0.3%	(13.6%)	(21.9%)
EBITDA	2017	1 279	702	642	(65)
	2016	1 217	928	280	9
	Change in per cent	5.1%	(24.4%)	129.3%	(822.2%)
EBITDA margin	2017	8.8%	11.1%	8.6%	(8.9%)
	2016	7.7%	14.7%	3.3%	1.0%
New orders	2017	13 430	5 376	7 336	
	2016	14 319	5 426	7 940	
	Change in per cent	(6.2%)	(0.9%)	(7.6%)	

Capital structure
The Group's equity at 31 December 2017 was MNOK 7,365, which is 35.4 per cent of total assets. The equity book value increased by MNOK 640 in 2017, in part as a result of profit after tax, a positive development in the fair value of the Group's currency portfolio and a positive development in translation differences related to investments abroad, reduced for gains/losses related to pensions and dividends paid. The Group's net interest-bearing debt (cash less interest-bearing debt) at 31 December 2017 was MNOK -384 (MNOK -2,195). Long-term interest-bearing debt mainly consists of five long-term bond loans totalling MNOK 3,250.

The Group also has an undrawn syndicated loan facility of NOK 2.3 billion which matures on 15 March 2022, with an option of 1+1 years. The credit facility requires that net interest-bearing debt shall not exceed four times the EBITDA, but can be up to 4.5 times the EBITDA for four quarters at the most, of which three may be consecutive quarters.

KONGSBERG's business requires a long-term perspective in both performance and strategy. At the same time, the need for working capital may vary substantially. This calls for sound liquidity and predictable access to capital over time. Accordingly, one of the Group's goals is to maintain a good credit rating with its lenders and investors.

Foreign currency
KONGSBERG has a policy of hedging all contractual currency flows (fair value hedges). In addition, the Group hedges a portion of the expected new orders according to the established policy (cash flow hedges).

At the end of 2017, the balance of forward contracts related to fair value hedges was MNOK 7,868 measured at the hedged rates. At 31 December 2017, these forward contracts had a net negative fair value of MNOK 413. The Group also had MNOK 2,374 in cash flow hedges measured at hedged rates, constituting forward contracts. At 31 December 2017, these forward contracts had a net positive fair value of MNOK 26.

KONGSBERG has united its defence operations
As a result of the merger of the Group's two defence areas and with effect from 1 October 2017, Kongsberg Protech Systems (KPS) and Kongsberg Defence Systems (KDS) are being reported together as one segment in the annual report for 2017. The comparison figures have been restated.

CHANGES IN CORPORATE EXECUTIVE MANAGEMENT

New CFO in KONGSBERG as of 1 November
Gyrid Skalleberg Ingerø took on the position as CFO on 1 November 2017. Harald Aarø was acting CFO until Ingerø replaced him. He continues in the position as Group Executive Vice President, Business Development.

New group executive vice president with responsibility for HR and Security
From 1 March 2018, Hans Petter Blokkum has been appointed as the new group executive vice president with responsibility for HR and Security. Blokkum's previous position was as Chief HR Officer. Former Group Executive Vice President, Corporate Functions with responsibility for HR and Security, among other things, Wenche Helgesen Andersen, has been appointed as the new manager of Kongsberg Maritime Operations in China from 1 March 2018.

The Group took important positions both within the civilian and defence-related areas in 2017. This gives good prospects for the order intake, especially within the defence segment, and it is a good basis for long-term growth.

OUTLOOK FOR 2018

The Group secured important positions both in the civilian and defence related areas in 2017. The potential is good regarding order intake, especially in the defence segment, and represent a good foundation for future growth. The major restructurings that have been carried out are expected to contribute to increased profitability for the Group as a whole.

The defence segments are well positioned for winning new contracts in the time to come. In the autumn of 2017, KDS and KPS were merged into Kongsberg Defence & Aerospace (KDA). This was done to further strengthen the Group's market power. KDA reinforced its positions in 2017 and a rise in order intake is therefore expected in 2018. For the KPS part of KDA, lower operating revenues are expected due to weak order coverage, especially in the last three quarters of 2018. The areas that previously belonged to KDS are expecting a good order intake going forward. Profitability is expected to remain at a good level.

KM has established a solid position as a supplier of complex, integrated solutions. This strengthens the business area's position in a vessel market where contracting in high volume markets are low. KM has a diversified exposure, and we see increased demand in markets such as fisheries, research, RO-PAX and marine robotics. There are also positive signals in the aftermarket. Operating revenues are expected to stabilize in 2018, with some growth towards the end of the year. As in 2017, the underlying earning levels will depend on the project composition and market conditions. However, the restructurings that have been carried out in the business area are expected to continue to improve profitability in KM.

In 2018, Kongsberg Digital will focus on securing new positions and strengthening existing ones related to digitalisation of core areas, such as oil and gas, wind energy and merchant marine markets. KDI will continue to invest substantially in product development.

FUTURE STRATEGY AND PRIORITIES IN 2018

KONGSBERG's focus is to ensure increased competitiveness while also laying the foundation for profitable growth. Growth will come through a combination of organic growth and acquisitions. Organic growth is based on development and expansion of existing products, services and market positions as well as developing or putting together new products for new markets. KONGSBERG is continuously investing in product development and aims to maintain a leading position with regards to innovation and technology development within the Group's core areas. Acquisitions will be a means to supplement the Group's deliveries, but also to expand the extent of deliveries and further develop the industrial portfolio within the main segments.

KONGSBERG has world leading products and systems in the international defence market and is well prepared to meet future demands and developments in this market. Missiles, air defence systems, remote-controlled weapon stations and other command and control systems receive international attention. The main focus within the defence organisations is to achieve growth in selected geographical areas both through its own activity, and together with partners, in order to strengthen its presence. KONGSBERG has a successful and long cooperation with the Norwegian Armed Forces. This is important for continued international success. KONGSBERG's acquisition of Patria in 2016 was a proactive step to address the ongoing consolidation in the defence industry. Patria's strong position in the Finnish market for maintenance of defence materials and KONGSBERG's strong global alliances and position in Norway, are advantages in an expanding global defence market. 2017 saw a joint venture being established with thyssenkrupp Marine Systems (tkMS) and ATLAS ELEKTRONIK for supplying combat systems on all future submarines from tkMS. This strengthens KONGSBERG's position in the submarine market and will be an important contributor to the Group's future growth.

KONGSBERG has leading positions in the marine market. KM's strategy is to expand deliveries and after-market activities through continued innovation and acquisitions. 2015—2017 has been a period with extensive restructurings and reorganisations of the value chain within the offshore and merchant marine markets. Significant investments in new concepts and solutions have also been made in recent years. The marine market is changing and KM has identified four key areas: (I) integrated solutions, (ii) digitalisation, (iii) remote services and (iv) autonomy. KM won contracts, signed coopera-

KONGSBERG is continuously investing in product development and aims to maintain a leading position with regards to innovation and technology development within the Group's core areas.

tion agreements and took important positions within these areas in 2017.

There are significant opportunities in the current technology shift, both in Norway and internationally. Kongsberg Digital was established in 2016 as part of the group's strategy for next-generation digitalised products and services. Kongsberg Digital is well positioned to become a key player within the digital transformation. Kongsberg Digital is a center of expertise for development of digital products and solutions. The digital cloud-based platform Kognifai and important application areas such as digital twins, production optimisation, condition monitoring and lifecycle optimisation will secure new positions and strengthen existing ones relating to digitalisation within core areas such as oil and gas, renewable energy and marine operations.

The Group's growth shall generate satisfactory return for the company as well as our owners, and the targeted corporate EBITA margin is above ten per cent. Changes in the main markets in combination with intensified strategic and self-financed ventures in specific technology areas and markets have had a negative impact on the Group's aggregate margin in recent years. 2017 marked a positive change. The Group and the business areas have a continuous focus on improvements and will seek to adjust cost levels to the current market situations. Special areas of focus are process innovation, sourcing and sharing of "best practices" internally.

KONGSBERG's returns on capital employed have been on a high level historically. In recent years, the returns have been at a lower level as a result of reduced profits and increased tie-up of capital. The Group has had a continuous focus on increasing returns on capital through improved results relative to the capital employed within all of our main segments. All new initiatives and investments in the Group are assessed against set goals for return on average capital

THE BUSINESS AREAS' PRIORITIES IN 2018

Kongsberg Defence & Aerospace

- Ensure continued satisfactory completion of the large, ongoing programmes in missiles, air defence systems, weapon stations, aerostructure parts for F-35 and other delivery projects
- Further develop the partnership with Patria
- Ensure international market opportunities and industrial co-operation related to Norwegian defence investments
- Ensure strategic contracts
- Maintain high market activity related to the entire defence portfolio

Kongsberg Maritime

- 2017 has been a challenging year where we have carried out efficiency and productivity improvements for different markets throughout the value chain. This gives us a good starting point for new strategic positioning going forward
- Secure and take new market positions, both within new and established main segments.
- Contribute to secure and efficient maritime operations for our customers through extended deliveries of new, future-oriented products and solutions
- Strong global presence for our customers through efficient customer support and aftermarket activities

Kongsberg Digital

- Cooperation with small and large partners on our cloud-based platform Kognifai to nurture innovation and digital transformation
- Use hybrid analytics solutions to provide our customers with cost effective maintenance, logistics and operations
- Digital twin for enabling autonomous operations from real-time operations centres
- Combine our industrial expertise with our expertise in advanced data analysis, including machine learning, to provide attractive digital solutions

The price of the KONGSBERG share increased from NOK 124.50 at the end of 2016 to NOK 151.00 at the end of 2017. This gives a market value at the end of 2017 amounting to MNOK 18,120.

employed (RoACE). RoACE is targeted to lie between 10—15 per cent for the Group.

KONGSBERG SHARES AND SHAREHOLDERS

KONGSBERG shall provide the equity market with relevant, comprehensive information as the basis for a balanced, correct valuation of the share. The Group emphasises maintaining an open dialogue with the equity market and media.

The price of the KONGSBERG share increased from NOK 124.50 at the end of 2016 to NOK 151.00 at the end of 2017. This gives a market value at the end of 2017 amounting to MNOK 18,120. Including a dividend of NOK 3.75 per share, the return in 2017 amounted to 24.3 per cent. In the same period, the main index (OSEBX) on the Oslo Stock Exchange saw an increase of 19.1 per cent. As of 31 December 2016, KONGSBERG had 9,247 shareholders (9,288). The Group had 820 (984) foreign shareholders who collectively owned 14.28 per cent (10.59 per cent) of the shares. The Norwegian State, represented by the Ministry of Trade, Industry and Fisheries, is the largest shareholder with 50.001 per cent of the shares. At the end of the year, the 10 largest shareholders held a total of 75.88 per cent (75.32) of the shares. The number of shares outstanding is 120 million, each with a nominal value of NOK 1.25. By the end of 2017, KONGSBERG held a total of 8,961 treasury shares.

KONGSBERG has paid dividends to its shareholders in every year since the company was listed in 1993, except for in 2000 and 2001. The dividend policy stipulates that dividend over time shall constitute between 40 per cent and 50 per cent of the company's profit for the year. In determining the size of dividends, the expected future capital requirements shall be considered.

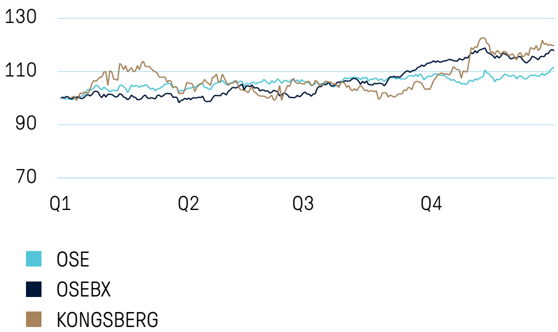
At the Annual General Meeting on 26 April 2017, an ordinary dividend of NOK 3.75 per share (2016) was agreed upon.

For the accounting year 2017, the Board proposes to pay an ordinary dividend of NOK 3.75 per share (3.75). The dividend represents 81.2 per cent of the ordinary profit.

In 2017, a total of 17.9 million (14.3 million) KONGSBERG shares were traded in 65,354 (44,397) transactions. The company works actively to promote interest in the share through activities within the investor markets. KONGSBERG is regularly represented at road shows, meetings and conferences both in Norway and abroad. The goal for 2018 is to maintain the high activity against the investor market. Investor presentations are held in connection with the

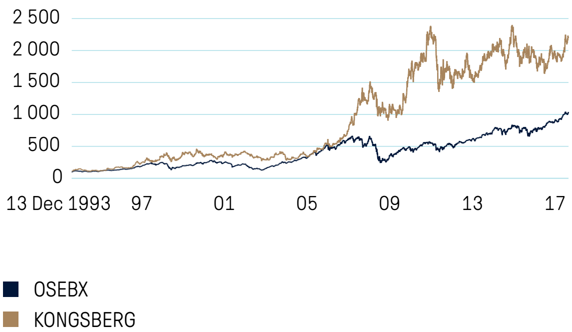
Share price development in 2017

NOK (Indexed at NOK 100 per 1 January 2017)



Share price development since listing on the Oslo Stock Exchange

NOK (Indexed at NOK 100 – 13 December 1993)



quarterly reports, as well as an annual Capital Markets Day.

The Board believes that employee share ownership is positive. Employees can buy shares in the company through the annual share programme. During the spring of 2017, the Group's annual share programme for employees was carried out for the 21st time. Shares are sold to employees with a 20 per cent discount on the market price. In 2017, employees were offered shares for up to NOK 30,000 after discount. A total of 550,951 (571,896) shares were sold at a price of NOK 103.60 (20 per cent discount on the market price). 2,132 (2,244) employees took advantage of the offer.

RISK FACTORS AND RISK MANAGEMENT

KONGSBERG is exposed to different types of risks, and the Board closely monitors trends in the various risk areas. The Board is of the opinion that there is a healthy balance between the overall risk and the Group's capacity to deal with risk. The administration prepares monthly operating reports and quarterly risk reports which are reviewed by the Board. The administration also carries out annual risk analyses of more general nature. In addition, the administration (and the Board) perform risk analyses when considering major investments, customer contracts, ventures and acquisitions. The Board has an Audit Committee to support the Board to deal with the financial statements and relevant judgement issues, and to follow up internal control, compliance and risk management within the Group. The Audit Committee meets, as a minimum, in connection with the issue of annual and interim financial statements. The Group's activities are international with delivery of high-tech systems and solutions, primarily to customers in the offshore market, merchant marine and defence. Market risk could therefore vary somewhat within these different segments.

The offshore market comprises exploration, development, production and transport of oil and gas. There are also support functions such as supply services, operational support, as well as maintenance and service on platforms and vessels. KONGSBERG is a supplier of products and services for all these segments. The demand for energy and oil price development will impact the willingness to invest in this market. The investment levels could also vary between the various geographical areas depending on e.g. oil reserves and the level of exploration and production activities. The negative trends in the oil and offshore market have increased corporate risk and affected the corporate activity level, and this has in particular affected KM in 2016 and 2017. Lower shipbuilding activity has led to increased competition and this involves a risk for KM to be marginalised. More challenging oil and gas fields and increased focus on costs in the industry in general create new niches in the market, which in turn creates the need for new technological solutions.

The merchant marine market includes all types of vessels from simple cargo ships to advanced tankers. Passenger ships in cruise and ferry traffic are also an important part of the market. Contracting of new ships is closely linked with the expected development in transport demand. Global economy development influences the demand for water transport of people, energy, raw materials and manufactured products. The type of ship and geographical areas also influence the market.

Products and systems are delivered for land-based, air-based and sea-based defence in the defence market. Due to strict security requirements and protection of various countries' own defence industry, it is often difficult for defence suppliers to win defence contracts outside their home country. There is a significant degree of protectionism in both the US and Europe. However, there are still opportunities through long-term relationships and niche products. This is partially safeguarded through KONGSBERG's relationships with major foreign defence companies.

Generally speaking, KONGSBERG operates in markets that are highly susceptible to technological developments, ones

KONGSBERG is exposed to different types of risks, and the Board closely monitors trends in the various risk areas. The Board is of the opinion that there is a healthy balance between the overall risk and the Group's capacity to deal with risk.

that may affect KONGSBERG's leading position with regards to technology. Cyclical fluctuations will also influence these markets to various degrees and at different points in time.

The Group's value creation primarily comprises delivery of systems and solutions of high technological complexity, and the deliveries are typically organised as projects. Effective project management is therefore a key success factor in reducing operating risk. KONGSBERG has established project management goals based on internal and external "best practices", and project managers attend an internal training programme. The projects' revenues are based on contracts, and the uncertainty is largely related to estimating the remaining costs and determining the percentage of completion, but also counterparty risk and warranty obligations. The Group has established principles for categorising projects in terms of technological complexity and development content. This forms the basis for an assessment of implementation risk and recognition of revenue in the projects.

KONGSBERG is exposed to various financial risks, and aims to balance the financial risk elements in order to promote predictability in the Group. KONGSBERG's financial risk is managed centrally by guidelines for financial risk management adopted by the Board and included in the Group's financial policy. The Group's financial risk management is described in detail in Note 5 — Management of capital and financial risks.

KONGSBERG has a diversified customer base mainly comprising public institutions and larger private companies in a number of countries. Historically, the Group has had minor losses on receivables. Measures to limit the risk exposure are implemented continuously where necessary. The Group's liquidity risk is managed centrally by requiring loans to be renewed well in advance of maturity as well as the use of liquidity prognoses.

With a large portion of foreign customers and contracts in foreign currency, the Group's revenues are affected by fluctuations in exchange rates. KONGSBERG's currency policy implies that the contractual currency cash flows are hedged mainly by using forward contracts. In addition, a share of the expected order intake is hedged in accordance with the prescribed guidelines that govern how large a share of the expected order intake should be hedged, depending on the time to the expected order intake.

KONGSBERG has for several years established and developed compliance functions. Regulations, as well as monitoring and reporting systems are established for managing risks related to areas such as anti-corruption, supply chains and whistle-blowing. Training within the area of ethics and compliance is carried out in the entire organisation, both in Norway and abroad. An extensive external evaluation of KONGSBERG's anti-corruption programme was carried out in 2014. The evaluation confirmed that the programme satisfies both national and international regulations, as well as requirements for sound routines, training, etc. The Board considers KONGSBERG's compliance program to hold good international level.

As a high-tech company, KONGSBERG is constantly exposed to external threats associated with data security and is under constant pressure from different external players. In essence, it is at risk of virus attacks, attempts at hacking, social manipulation and phishing scams. Executive management prioritises and focuses on monitoring and measures to prevent attacks. The main focus with regards to cyberattacks is on monitoring and preventive measures, where advanced technology is used. This, together with providing employees with information and training, helps to ensure that the Group continuously improves its ability to withstand these threats.

TECHNOLOGY, RESEARCH AND DEVELOPMENT

A significant portion of the value created by KONGSBERG consists of developing high-tech solutions for domestic and international markets. KONGSBERG's technology platform has been systematically built up through many years and is an important factor for our competitiveness. Technology transfer between the different parts of the Group is significant. Future-oriented technology competence within digitalisation is being built in Kongsberg Digital. We are also working with our main technology partners to further develop our technology platform. KONGSBERG continuously invests in product development, both internally financed and through customer-funded programmes. Over time, the total costs of product development account for about 10 per cent of operating revenues.

CORPORATE SOCIAL RESPONSIBILITY

KONGSBERG shall represent a sustainable development characterised by a sound balance between economic performance, The Groups' most significant positive contribution to the climate challenges is that an increasing number of our products and solutions are contributing in various ways to reduced emissions.

creating value and social responsibility. Sustainability and corporate social responsibility are integrated into the Group's strategy processes. Sustainable technological innovation is a central element in contributing towards solving the major global challenges the world faces. For KONGSBERG, this means business opportunities in several markets viewed in the light of our broad technological and skills platform. We are aware of the risk that comes with our "License to operate" — both with regard to compliance with laws and regulations and to shortage of resources, global political unrest and global mega trends etc. In 2018, KONGSBERG will continue to focus on anti-corruption, corporate social responsibility in the supply chain and following up regulations relating to human and employee rights — both internally and with our business partners. Reference is made to the chapter on corporate responsibility for a more detailed description of the Group's corporate social responsibility efforts. The report has been evaluated and approved by the Board.

HEALTH, SAFETY AND THE ENVIRONMENT

The Board is of the opinion that health, safety and environment is handled in a manner that promotes job satisfaction and a sound working environment. Health, safety and environment is just as important for KONGSBERG as other business activities. One basic principle is that HSE work should be preventive. The Board is closely monitoring the work by reviewing HSE reports quarterly. Various campaigns and training measures have been carried out in 2017, especially concerning security in relation to business travels. Such measures contribute to and promote a good HSE culture. Risk analyses are carried out regularly and form an important part of the preventive HSE work.

The decline in the number of work-related events with and without absence (TRI) has continued, from 3.5 in 2016 to 3.2 in 2017. The number of events involving absence has dropped from 40 to 31. Absence due to sickness is still low, with 2.3 per cent for the Group as a whole (2.5 per cent in 2016), and in Norway it remains at the same level as in 2016 with 2.8 per cent. There is systematic follow-up of employees on sick leave, with particular focus on getting long term long-term absentees back to work. Further details about key sustainable figures for HSE are found in the Group's report on sustainability, page 70.

All employees in Norway have access to company health services. This varies in accordance with local practices and legislation in our foreign business activities. KONGSBERG has many employees outside Norway, 35 per cent at the end of 2017. This requires additional attention and insight with respect to HSE issues in the countries in which we operate.

CLIMATE AND ENVIRONMENT

The climate and environmental statement provides an overview of KONGSBERG's consumption of energy, CO_2 emissions and waste processing. The Groups' most significant positive contribution to the climate challenges is that an increasing number of our products and solutions are contributing in various ways to reduced emissions for our customers. This is a key topic of the new sustainability strategy that was prepared in 2016.

According to the climate statement, our total CO_2 emissions increased by 3 per cent from 2016 to 2017 (15 per cent from 2015 to 2016), but remains relatively stable in proportion to turnover and number of employees.

A detailed overview of the climate and environmental statement for 2017 can be found in the Group's report on sustainability for 2017, pages 65—71.

The Group has adopted a target of reducing CO_2 greenhouse gas emissions by 20 per cent relative to turnover by the end of 2020, with the baseline in figures as of 31 December 2015. No serious incidents related to environmental pollution were reported in 2017.

PERSONNEL AND ORGANISATION

Number of employees	*31 Dec 17*	*31 Dec 16*
Kongsberg Defence & Aerospace	2 421	2 437
Kongsberg Maritime	3 819	4 157
Other	590	565
Total in the Group	**6 830**	**7 159**
Proportion outside Norway	35%	36%

KONGSBERG has a unique and strong culture that has been developed over many years.

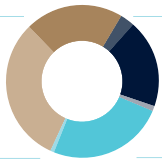
Leadership in KONGSBERG is about creating value and achieving results through people. The key to success lies in the combination of good management and dedicated employees. Managers shall exercise their leadership based on our values, the Corporate Code of Ethics and management principles. On the basis of this, we have implemented a management development programme, Leadership@KONGSBERG, that will contribute to clarifying and quality assuring processes for goal setting, follow-up and evaluation.

An important condition for long-term success is that KONGSBERG properly manages employee competencies. The Group is aiming to increase the exchange of knowledge and staff between the business areas. Good work processes and development opportunities are important incentives in recruiting and retaining good employees. KONGSBERG emphasises to strengthen competence and is continuously working to develop our employees. 64 per cent of KONGSBERG's employees have college or university level education.

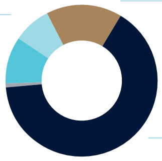
The Group educates skilled workers within several disciplines in cooperation with the education company Kongsberg Technology Training Centre AS, partly owned by KONGSBERG. During 2017, there were 33 apprentices in total. In addition, the company facilitates and stimulates employees to acquire apprenticeship completion certificates as private candidates, known as practice candidates.

Cooperation with employee unions and organisations through established cooperation and representation arrangements are well functioning and constitutes valuable contributions in meeting the Group's challenges in a constructive manner.

Geographical distribution of revenues



Geographical distribution of employees



DIVERSITY

Diversity and gender equality adds value and increased competitiveness. This helps to increase the ability for renewal and provides for better decisions. We are therefore working systematically to recruit, develop and keep people of different ethnicity, national origin, skin colour, language, religion, life stance, age or gender.

A total of 1,468 (21.5 per cent) of the employees are women, and three of five shareholder-elected directors on the Board are women. At 31 December 2017, the corporate management team included three women. The company considers it important to promote gender equality and prevent discrimination in conflict with the Gender Equality Act. Long and short-term goals have been established to help increase the percentage of women in the Group, both in terms of employment and in terms of management positions. As far as is possible, KONGSBERG tries to adapt working conditions so that individuals with diminished functional abilities can work for the Group. The Board Compensation Committee has a particular responsibility for follow-up on diversity. In the opinion of the Board, the Group complies with current regulations.

CORPORATE GOVERNANCE

KONGSBERG's objective is to secure and increase the stakeholders' values through a profitable and growth oriented industrial development in a long-term and international perspective. Good corporate governance shall reduce business-related risk, while the company's resources shall be utilised in an effective and sustainable manner. Values created should benefit shareholders, employees, customers and society in general.

The Board considers it important to review and update the Group's corporate governance documents annually to comply with the "Norwegian Code of Practice for Corporate Governance".

According to Section 3-3b of the Accounting Act, the company shall prepare a statement on corporate governance. The statement will, pursuant to Section 5-6 of the Public Limited Companies Act, be discussed at the Annual General Meeting. The description on pages 78—89 is based on the latest revised version of the Norwegian Code of Practice for Corporate Governance of 30 October 2014.

REMUNERATION TO EXECUTIVE MANAGEMENT

The Board has a separate Compensation Committee which deals with all significant matters related to remuneration for Executive Management before the formal discussion and decision by the Board. In line with the Norwegian Companies Act, the Board has also prepared a statement on the remuneration of the Group CEO and Executive Management included in Note 27 to the consolidated financial statements.

PROFIT FOR THE YEAR AND ALLOCATION

The parent company Kongsberg Gruppen ASA made a net profit of MNOK 638 in 2017. The Board proposes the following allocation of profit for the year in Kongsberg Gruppen ASA:

Dividends	MNOK	450
To other equity	MNOK	188
Total allocated	MNOK	638

The proposed dividend constitutes 81.2 per cent of the Group's ordinary profit for the year.

GOING CONCERN

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

Kongsberg, 15 March 2018

Eivind Reiten *Chairman*	Irene Waage Basili *Deputy chairman*	Martha Kold Bakkevig *Director*	Morten Henriksen *Director*
Anne-Grete Strøm-Erichsen *Director*	Sigmund Ivar Bakke *Director*	Elisabeth Fossan *Director*	Helge Lintvedt *Director*
			Geir Håøy *President and CEO*

Financial Statements and Notes

Page

KONGSBERG (GROUP)

KONGSBERG GRUPPEN ASA

Consolidated income statement 1 January–31 December

KONGSBERG (GROUP)

MNOK	*Note*	*2017*	*2016*
Operating revenues	6, 8	14 490	15 845
Total revenues		**14 490**	**15 845**
Material cost	9	(4 417)	(5 260)
Personnel expenses	10, 11	(5 788)	(6 136)
Other operating expenses	29	(3 193)	(3 462)
Share of net income from joint arrangements and associated companies	7	187	230
Operating profit before depreciation and amortisation (EBITDA)	6, 32	**1 279**	**1 217**
Depreciation	6, 12	(353)	(360)
Impairment of property, plant and equipment	6, 12	(40)	(22)
Operating profit before amortisation (EBITA)	6, 32	**886**	**835**
Amortisation	6, 13	(114)	(143)
Operating profit (EBIT)	6, 32	**772**	**692**
Financial income	15	47	197
Financial expenses	15	(165)	(160)
Profit before tax		**654**	**729**
Income tax expense	16	(95)	(78)
Profit for the year		**559**	**651**
Attributable to			
Equity holders of the parent		554	653
Non-controlling interests		5	(2)
Earnings per share in NOK			
- ordinary earnings per share / diluted earnings per share	17	4.62	5.44

Consolidated statement of comprehensive income for the period 1 January–31 December

KONGSBERG (GROUP)

MNOK	*Note*	*2017*	*2016*
Profit for the year		**559**	**651**
Specification of other comprehensive income			
Items to be reclassified to profit or loss in subsequent periods			
Change in fair value:			
– Cash flow hedges, currency	20C	598	1 029
– Interest rate swap / basis swaps	20C	(89)	34
– Available-for-sale shares		-	(104)
Income tax effect in cash flow hedges and interest rate swaps	16	(124)	(273)
Translation differences, currency		211	(266)
Total items to be reclassified to profit or loss in subsequent periods		**596**	**420**
Items not to be reclassified to profit or loss			
Actuarial gain/loss on pension expense	11	(76)	20
Tax effect on actuarial gain/loss on pension	16	18	(5)
Total items not to be reclassified to profit or loss		**(58)**	**15**
Other comprehensive income for the period		**538**	**435**
Comprehensive income for the period[1]		**1 097**	**1 086**
Attributable to			
Equity holders of the parent		1 092	1 088
Non-controlling interests		5	(2)

1) Total comprehensive income for the period is the sum of the period's ordinary income (profit for the year) and other comprehensive income. The other comprehensive income is the sum of the changes to items recognised directly in equity in the period.

Consolidated statement of financial position at 31 December

KONGSBERG (GROUP)

MNOK	*Note*	*2017*	*2016*
Assets			
Fixed assets			
Property, plant and equipment	12	2 658	2 723
Goodwill	13, 14	1 981	1 998
Other intangible assets	13	822	748
Shares in joint arrangements and associated companies	7	3 358	3 174
Available-for-sale shares		29	35
Other non-current assets	18	175	229
Total non-current assets		**9 023**	**8 907**
Current assets			
Inventories	9	3 961	4 666
Receivables	19	2 672	3 354
Construction contracts in progress, asset	8	2 018	2 049
Derivatives	20A	213	332
Cash and cash equivalents	21	2 956	1 888
Total current assets		**11 820**	**12 289**
Total assets		**20 843**	**21 196**
Equity, liabilities and provisions			
Equity			
Issued capital		982	982
Other reserves		435	(160)
Retained earnings		5 914	5 869
Equity attributable to owners of the parent		**7 331**	**6 691**
Non-controlling interests		34	34
Total equity	22	**7 365**	**6 725**
Non-current liabilities and provisions			
Long-term interest-bearing loans	20D	3 340	3 820
Pension liabilities	11	647	467
Provisions	23	140	165
Deferred tax liability	16	1 272	1 174
Other non-current liabilities		21	24
Total non-current liabilities and provisions		**5 420**	**5 650**
Current liabilities and provisions			
Construction contracts in progress, liability	8	3 389	2 848
Derivatives	20A	645	1 277
Provisions	23	543	803
Short-term interest-bearing loans		-	263
Other current liabilities	24	3 481	3 630
Total current liabilities and provisions		**8 058**	**8 821**
Total liabilities and provisions		**13 478**	**14 471**
Total equity, liabilities and provisions		**20 843**	**21 196**

Kongsberg, 15 March 2018

Eivind Reiten
Chairman

Irene Waage Basili
Deputy chairman

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Director

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
Chief Executive Officer

Consolidated statement of changes in equity 1 January–31 December

KONGSBERG (GROUP)

		Equity holders of the parent							Non-controlling interests	Total equity
		Issued capital		Other reserves			Retained earnings	Total		
MNOK	*Note*	*Share capital*	*Other issued capital*	*Hedging reserve*	*Available-for-sale reserve*	*Translation differences*				
Equity at 1 Jan 2016		150	832	(1 299)	104	615	5 684	6 086	41	6 127
Profit for the year							653	653	(2)	651
Other comprehensive income				790	(104)	(266)	15	435		435
Transactions with treasury shares							5	5		5
Dividends paid	22						(510)	(510)		(510)
Reversal of previous years' impairment							22	22		22
Dividends, non-controlling interests									(3)	(3)
Translation differences, non-controlling interests									(2)	(2)
Equity at 31 December 2016		150	832	(509)	-	349	5 869	6 691	34	6 725
Equity at 1 January 2017		150	832	(509)	-	349	5 869	6 691	34	6 725
Profit for the year							554	554	5	559
Other comprehensive income				385	-	211	(58)	538		538
Transactions with treasury shares							(2)	(2)		(2)
Dividends paid	22						(450)	(450)		(450)
Dividends, non-controlling interests									(3)	(3)
Translation differences, non-controlling interests									(2)	(2)
Equity at 31 December 2017		150	832	(124)	-	560	5 913	7 331	34	7 365

Consolidated statement of cash flow 1 January–31 December

KONGSBERG (GROUP)

MNOK	*Note*	*2017*	*2016*
Profit for the year		**559**	**651**
Depreciation/impairment of property, plant and equipment	12	393	382
Amortisation/impairment of intangible assets	13	114	143
Net finance items	15	118	(37)
Income tax expense	16	95	78
Operating profit before depreciation and amortisation		**1 279**	**1 217**
Adjusted for			
Changes in construction contracts in progress, asset		48	516
Changes in construction contracts in progress, liability		541	112
Changes in other current liabilities		240	(664)
Changes in inventories		705	(530)
Changes in receivables		303	716
Changes in provisions and other accruals		(114)	(440)
Income tax paid		(103)	(118)
Net cash flows from operating activities		**2 899**	**809**
Cash flow from investing activities			
Proceeds from property, plant and equipment	12	11	28
Purchase of property, plant and equipment	12	(339)	(641)
Capitalised internal developed intangible assets (R&D)	13	(187)	(266)
Proceeds of sale/purchase of intangible assets	13	(2)	5
Proceeds from acquiring subsidiaries and associated companies		(11)	(2 786)
Sale of shares held for sale	23		317
Net cash flow used in investing activities		**(528)**	**(3 343)**
Cash flow from financing activities			
Proceeds from interest bearing loans	20D	-	3 252
Repayment of interest bearing loans	20D	(740)	-
Interest paid		(110)	(60)
Transactions with treasury shares	22	(18)	(12)
Transactions with non-controlling interests		(3)	(3)
Dividends paid	22	(448)	(509)
Net cash flow from financing activities		**(1 319)**	**2 668**
Total cash flow		1 052	134
Effect of changes in exchange rates on cash and cash equivalents		**16**	**(53)**
Net change in cash and cash equivalents		**1 068**	**81**
Cash and cash equivalents at the beginning of the period		**1 888**	**1 807**
Cash and cash equivalents at the end of the period	21	**2 956**	**1 888**

Notes

KONGSBERG (GROUP)

1 GENERAL INFORMATION

Kongsberg Gruppen ASA is a public limited company headquartered in Kongsberg, Norway. The company's shares are traded on the Oslo Stock Exchange. The Board approved KONGSBERG's consolidated financial statements for the accounting year 2017 at its meeting on 15 March 2018. The consolidated financial statements for 2017 include the parent company and subsidiaries (collectively referred to as "KONGSBERG" or "the Group"), as well as the Group's investments in associates and jointly arrangements.

2 BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and their interpretations, as well as the Norwegian disclosure requirements pursuant to the Accounting Act applicable. The consolidated financial statements have been prepared on a historical cost basis except for the following assets and liabilities:

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

Significant accounting judgements, estimates and assumptions

During the preparation of the financial statements, the company's management has applied its best estimates and assumptions considered to be realistic based on experience and market conditions. Situations can arise which alter the estimates and assumptions, which will affect the company's assets, liabilities, revenues and expenses. The estimates are reviewed on an ongoing basis and are recognised in the period in which they occur. In the preparation of the consolidated financial statements, management has made some significant judgements relating to the application of accounting policies.
For more detailed information about estimation uncertainty and areas for application of judgement that could have a significant impact on the amounts recognised in the following financial period, please see the following notes:

- Note 3 C "Summary of significant accounting policies – Revenue recognition"
- Note 3 F "Summary of significant accounting policies – Intangible assets" and Note 13 "Intangible assets"
- Note 3 H "Summary of significant accounting policies – Leases, sale and leaseback"
- Note 3 J "Summary of significant accounting policies – Financial Instruments" and Note 20 "Financial Instruments"
- Note 8 "Construction contracts in progress"
- Note 11 "Pensions"
- Note 14 "Impairment testing of goodwill"
- Note 19 "Receivables and credit risk"
- Note 23 "Provisions"

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Basis of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its influence on the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group, and de-consolidated when control ceases.

On initial recognition, subsidiaries are measured at their fair value on the date of acquisition. Fair value is allocated to the identified assets, liabilities and contingent liabilities. Added value that cannot be allocated to identified assets is recognised as goodwill. When new subsidiaries are purchased, the results, assets and liabilities in the consolidated accounts are recognised from the time of purchase. The date of acquisition is the date when KONGSBERG obtains control of the acquired company. Normally, control will be achieved when all the terms of the agreement are satisfied. Examples of terms include approval of the Board, the General Meeting or approval from the competition authorities. For business combinations achieved in stages, the financial statements are based on the values at the time when the Group obtained control. Goodwill is calculated at the date control is obtained. When enterprises are acquired and there are non-controlling interests, goodwil mainly is limited to KONGSBERG's proportionate share.

Contingent considerations to be disbursed at a later date when certain conditions of the acquisition are met are recognised at fair value on the date of the acquisition. Subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised according to IAS 39 in the income statement. Transaction costs incurred in connection with the business combination are recognised as expenses on an ongoing basis.

Entities that constitute the Group are listed in Note 30 "List of Group Companies".

Joint arrangements

According to IFRS 11 investments in joint arrangements should be classified as either joint operational arrangements or joint ventures, depending on the contractual rights and obligations of each investor. KONGSBERG has assessed its joint arrangements and concluded that they are joint ventures. Joint ventures are entered in the accounts using the equity method.

Associates

Associates are entities in which the Group has significant influence, but not control over financial and operating policies (typically a stake from 20 to 50 per cent). Significant influence is the power to participate in the financial and operating policy decisions of the 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.

Elimination of transactions

All intra-group purchases, sales, balances and unrealised gains between Group and associated entities are eliminated in full. Unrealised losses are eliminated correspondingly, unless they are related to impairment requiring recognition in the consolidated financial statements.

Non-controlling interests

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

B) Foreign currency

The Group's consolidated financial statements are presented in NOK (Norwegian kroner), which is also the parent company's functional currency. Each entity in the Group determines its own functional currency, and all transactions in the accounts of the individual entities are measured at their functional currency. Foreign currency transactions are measured in the functional currency on the date of the transaction. Construction contracts are hedged and recognised on the basis of the hedged exchange rate. Trade receivables, other receivables, accounts payable and other liabilities in foreign currencies are translated at the exchange rate at the balance sheet date, and currency differences are recognised in the income statement. Differences that arise at the translation of cash flow hedges and meet the criteria for hedge accounting are recognised as a change in fair value on cash flow hedges in the statement of comprehensive income (OCI). The effect is reflected in the annual result upon realisation of the cash flow hedges. See also 3J "Financial instruments".

Gains and losses related to foreign exchange items in the normal operating cycle are included in the operating profit before depreciation and amortisation. Other gains and losses related to items in foreign currency are classified as financial income or costs.

Translation – foreign subsidiaries

Assets and liabilities in foreign operations applying functional currencies other than NOK are translated into NOK at the rate of exchange prevailing at the balance sheet date. Revenues and expenses in foreign currencies are translated into NOK at the average exchange rates on a monthly basis. Foreign currency translation differences are recognised in other comprehensive income. When a foreign entity is disposed of with the result that KONGSBERG no longer has control, the accumulated translation differences are recognised in the income statement and reversed at the same time in other comprehensive income. Translation differences are not recognised in the income statement in connection with partial disposals of subsidiaries, provided that the Group has continued control.

C) Revenue recognition

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

Construction contracts/system deliveries
A significant part of KONGSBERG's operations is to develop and manufacture products and systems on the basis of signed contracts. A construction contract is a contract negotiated with the view to manufacture an asset or a combination of assets that are closely related or interdependent. KONGSBERG has applied the following criteria to define a construction contract:

1. A binding contract negotiated individually which takes a customer's special requirements into account
2. Construction based on the customer's specifications which entail individual design and/or development
3. The contract is enforceable, and cancellation will require the customer at a minimum to cover the expenses incurred in connection with the construction
4. The production takes place over several accounting periods

Contracts that do not meet the definition of a construction contract are recognised at the time of delivery.

Recognition of project revenues and expected contract profit is calculated in the financial statements according to the individual project's percentage of completion. The percentage of completion is normally determined on the basis of costs incurred compared to total expected costs or incurred hours measured against the total expected time consumption. In some cases, other progress measures can be used if these provide a better estimate of the actual progress and value added in the project.

The accumulated value of contracts in progress is included in revenues. In the statement of financial position, accumulated value not invoiced is reported as "Construction contracts in progress, assets". Accumulated value is based on the per cent of completion and determined as incurred production costs in addition to a proportion of earned contract profit. Production costs include direct wages, direct materials and a proportionate share of indirect costs, distributable to the contracts. General development costs, sales costs and common administrative costs are not included in production costs.

Recognised accrued contract profit is a proportional share of the estimated total contract profit based on the percentage of completion. If the profit on a contract cannot be estimated reliably, the project will be recognised without a profit until reliable estimates are available. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately. A construction contract is expected to result in a loss when expected costs exceed expected revenues in the contract.

The carrying value of construction contracts in the statement of financial position is based on an assessment of the financial status of each individual contract. The classification is determined on a contract-to-contract basis unless netting has been agreed. If this is the case, the contracts can be considered together. In the consolidated financial statement, all balances are netted for each construction contract in the Group accounts and presented on one line in the statement of financial position. Each contract is presented as either "Construction contracts in progress, asset" or as "Construction contracts in progress, liability". Trade receivable related to construction contracts are netted against balance sheet items to the extent that the construction contract has recorded prepayments (billing exceeds accumulated revenue), with the consequence that the balance items only contain actual advances received.

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

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

In addition to assuming the control and risk, it must be probable that the consideration can be collected, and that the revenue can be measured reliably. The amount recognised is measured as the fair value of the consideration or receivable. Services that are delivered, but not part of a construction contract or licensed sale, are recognised as revenue incrementally as the service is provided.

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

If the sale of the licence depends on customer acceptance, licence revenues will not be recognised until the customer has accepted. In cases that involve adaptations or additional work, the total contract amount, including consideration for the licences, is recognised as revenue at the same stage of completion as 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 licence sales
The recognition criteria are applied separately for each transaction. In case of combined deliveries with different recognition criteria, the various elements are identified and recognised as revenue separately. Regarding the sale of goods with accompanying maintenance services, the goods are recognised as revenue upon delivery, while the maintenance services are recognised as revenue over the period in which the services are delivered.

When market prices can be obtained for the various elements to be delivered, the revenue is based on these prices. Revenue for 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 delivered.

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

- Identification of the various elements for delivery, e.g., licence, service, maintenance and consultancy services.
  - Expected costs are estimated for service, maintenance and consultancy services. A reasonable profit margin is also estimated on the various elements, and the assumptions for

the estimation must be consistent from one period to the next. The contract amount is estimated as licence revenue less estimated revenue from service, maintenance and consultancy services.
- The estimated cost plus the profit margin constitutes deferred revenue and is recognised on a straight-line basis throughout the period in which the services are delivered.
- The contract amount is recognised upon delivery.

D) Taxes

Income tax expense in the financial statements includes tax payable and the change in deferred tax for the period. Assets and liabilities from deferred tax are calculated by taking a starting point in the temporary differences between the accounting and tax balance sheet values at period end (debt method). Deferred tax is calculated on net tax-increasing temporary differences between the values used for accounting purposes and those used for taxation purposes, adjusted for deductible temporary tax-reducing differences and tax losses carried forward if this satisfies the requirements in IAS 12.71.

Revenue from long-term construction contracts is not recognised for tax purposes until the control and risk have been transferred to the customer, and KONGSBERG is entitled to complete payment. Due to KONGSBERG's volume of large, long-term contracts, there are considerable temporary differences.

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

E) Financial income and expenses

Financial income consists of interest income, yield, currency gains, gain on realisation of "Available-for-sale shares" and other financial income. Interest income is recognised as it accrues using the effective interest method, while dividends are recognised on the date when the Annual General Meeting approves them.

Financial expenses comprise interest expense, foreign currency losses, impairments on "Available-for-sale shares" and losses on sales of "Shares available for sale" and other financial costs. Interest expenses are recognised as they accrue using the effective interest method.

F) Intangible assets

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

Goodwill is tested for impairment by estimating the recoverable amount for the individual cash-generating unit or group of cash-generating units that are allocated goodwill and followed up by management. The group of cash-generating units is nevertheless not larger than an operating segment as defined by IFRS 8 Operating segments.

Impairment is calculated by comparing the recoverable amount with the individual cash-generating unit's carrying amount. The recoverable amount is the higher of the value in use or net realisable value. The Group uses the value in use to determine the recoverable amount of the cash-generating units. In determining the value in use, the expected future cash flows are discounted to net present value using a discount rate before tax that reflects the market's target for a return on investments for the cash-generating unit in question. If the value in use of the cash-generating unit is less than the carrying amount, impairment reduces the carrying value of goodwill and then the carrying value of the unit's other assets on a pro rata basis, based on the carrying value of the individual assets. Impairment on goodwill is not reversed in a subsequent reporting period even if the recoverable amount of the cash-generating unit increases. Any impairment will be recognised through profit and loss in the financial statements. Impairment of goodwill is described in Note 14 "Impairment testing of goodwill".

See also Note 3 I "Summary of significant accounting policies – Impairment of non-financial assets".

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

When the criteria for balance sheet recognition are met, accrued costs are recognised in the balance sheet. Costs include raw materials, direct payroll expenses and a portion of indirect costs that are directly attributable to the development.

Capitalised development costs are recognised at cost less accumulated amortisation and impairment losses in the statement of financial position. Amortisation is based on the expected useful life. The principle is linear amortisation. The remaining expected useful life and expected residual value are reviewed annually.

The calculation of financial benefits is based on the same principles and methods as for the impairment testing. The calculation is based on long-term budgets approved by the Board. Note 14 "Impairment testing" has more details on the calculation.

Assessments of the fulfilment of the criteria for capitalising development costs are made on an ongoing basis throughout the completion of the development projects. Based on technical success and market assessments, a decision is made whether to complete development and start recognition in the statement of financial position.

Maintenance
Maintenance is the work that must be performed on products or systems to secure their expected useful life. If a significant improvement is made on the product or system that could result in a prolonged life cycle, or if the customer is willing to pay more for the improvement, this is to be considered as development and must be included in the presentation of financial position. Costs related to maintenance are expensed as incurred.

Technology and other intangible assets
Technology and other purchased intangible assets with determined useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is based on the expected useful life, according to the principle of linear amortisation. The expected useful life and the determination of the amortisation rate are reviewed during each period.

G) Property, plant and equipment

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

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

H) Leases, sale and leaseback

Leases or sales with leaseback contracts, in which KONGSBERG generally takes over all risk and all benefits related to ownership, are classified as financial leases. At the time of initial recognition, the value of the agreement is measured at the lower of the fair value and the net present value of the agreed minimum rent, and value is recognised as an asset in the statement of financial position. At the same time, the rent commitment is recognised as a loan in the statement of financial position. After the time of first incorporation, the asset is treated under the same accounting principle as other assets in the balance sheet in the same category, and the commitment is depreciated over the length of the contract.

Other leases are operating leasing agreements and are not recognised in the Group's statement of financial position. The results from a sale and leaseback transaction that lead to operating leasing agreements are recognised immediately by derecognising the asset and recognising gains or losses. When a sale and leaseback agreement is defined as an onerous contract, the present value of the expected loss is recognised. KONGSBERG's sale and leaseback agreements are considered to satisfy the criteria for operating leasing agreements.

I) Impairment of non-financial assets

All non-financial assets are reviewed for each reporting period to determine whether there are any indications of impairment. If this is the case, recoverable amounts are calculated.

The recoverable amount of an asset or cash-generating unit is the higher of its value in use or fair value less net costs to sell. Value in use is calculated as the net present value of future cash flows.

The calculation of net present value is based on a discount rate before tax and reflects current market assessments of the time value of money and the risks specific to the asset. The pre-tax discount rate has been calculated using an iterative method.

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

Non-financial assets 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 previous impairment are limited to the carrying value the asset would have had after depreciation and amortisation, if no impairment loss had been recognised.

J) Financial instruments

Financial assets and liabilities
Financial assets and liabilities consist of derivatives, investments in shares, accounts receivable and other receivables, cash and cash equivalents, financial liabilities, accounts payable and other liabilities. A financial instrument is recognised when the Group becomes party to the instrument's contractual provisions. Upon initial recognition, financial assets and liabilities are assessed at fair value plus directly attributable expenses. The exception is financial instruments, where changes in fair value are recognised through profit and loss, and directly attributable costs are expensed. An ordinary purchase or sale of financial assets is 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 transfers all risks and rewards associated with the asset. Financial liabilities are derecognised when the Group's contractual obligation has been satisfied, discharged or cancelled.

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

i. fair value through profit and loss
ii. loans and receivables
iii. financial assets available for sale
iv. financial liabilities

Financial derivatives are included in the category fair value in the profit and loss statement. Derivatives with positive value are classified as receivables and derivatives with negative value are classified as liabilities, unless they can be offset.

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

Except for investments in subsidiaries, joint ventures or associates in the statement of financial position, all shares are defined as financial instruments available for sale. Available-for-sale financial assets are measured at fair value at the balance sheet date. Changes in value for financial assets available for sale are incorporated as other revenue and costs in other comprehensive income. Note 4 "Fair value" has a more detailed description of how fair value is measured for financial assets and liabilities.

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

Impairment of financial assets

When there is objective evidence that a financial asset's value is lower than its carrying amount, the asset shall be written down through profit and loss. Impairment in the value of assets measured at amortised cost is calculated as the difference between the carrying amount and the net present value of the estimated future cash flow discounted at the original effective interest rate. Assets available for sale are impaired when their present fair value is lower than the acquisition cost, and the impairment is considered to be significant and not temporary.

Accumulated losses for impaired assets that have previously been included in other comprehensive income is transferred to the annual results at the time of impairment. In case of a significant increase in the value of the asset, which is not temporary, impairment will be reversed. For financial assets measured at amortised cost, any reversal is recognised through profit and loss. If financial assets that are "Available-for-sale shares" are reversed, the change in value is recognised in other comprehensive income (OCI).

Derivatives

Derivatives in KONGSBERG comprise forward currency exchange contracts, currency options and interest swap agreements. Upon initial recognition, derivatives are measured at fair value, and identifiable transaction costs are recognised through profit and loss as incurred. KONGSBERG applies the rules for hedge accounting to the extent that the requirements of IAS 39 are fulfilled. Changes in the fair value of derivatives are recognised through profit and loss if they do not qualify for hedge accounting.

Hedging

KONGSBERG has a policy to limit currency risks, while taking a pro-active attitude to the importance of a currency as a competitive parameter. KONGSBERG's policy is to hedge all contractual foreign currency cash flows. Additionally, parts of future projected currency cash flows are hedged in accordance with an established strategy. KONGSBERG has hedged parts of its loans with interest rate swaps.

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

i. hedge the fair value of a firm commitment not recognised (fair value/project hedges)
ii. hedge a future cash flow of a recognised asset or liability, or an identified highly probable future transaction (cash flow hedges)

(i) Fair value hedges

The change in fair value of fair value hedges is recognised against the hedged items. For currency hedges of future contractual transactions, this implies that the changes in value of the future transaction due to changes in the exchange rate are recognised in the statement of the financial position. Since the hedging instrument is also recognised at fair value, this entails symmetrical recognition of the hedged item and the hedging instrument. For construction contracts, this implies that revenue is recognised at the hedged exchange rate.

Hedge accounting is ended in the event that:

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

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

(ii) Cash flow hedges

By hedging highly probable future cash flows, the effective part of the change in fair value of the hedging instrument is recognised in other comprehensive income.

When a hedged transaction occurs, the accumulated change in value of the hedging instrument is transferred from other comprehensive income to profit for the year.

If hedging a highly probable future transaction subsequently leads to the recognition of an asset or liability, the associated gain or loss is reclassified from other comprehensive income to profit and loss during the same period(s) in which the asset or liability affects profit or loss.

In connection with hedges where the future transaction becomes a construction contract, the hedges are allocated to contracts at the signing and are rolled forward from cash flow hedges to fair value hedges. Gains and losses that have previously been included in other comprehensive income are recognised in the profit and loss statement in line with the contract progress. This means that construction contracts that are hedged before signing are recognised at the originally hedged exchange rate.

At cash flow hedging of financial liabilities, the change in value is transferred from other comprehensive income (OCI) to profit and loss over the term of the liability.

If a hedging instrument expires without having been rolled forward or if the hedge relationship is discontinued, the accumulated gains and losses are recognised directly through profit and loss when the hedged transaction takes place. In the event that the hedged transaction is no longer expected to occur, the accumulated unrealised gains or losses on the hedging instrument previously recognised in other comprehensive income (OCI) will be transferred to profit and loss.

(iii) Hedging of a net investment in a foreign entity (equity hedging)

Hedging of a net investment in a foreign entity is entered in an equivalent way as cash flow hedges. Profit or loss on the hedging instrument related to the effective share of the hedging that has been recognised against the comprehensive income as a part of the translation difference, shall be included in the result by realisation of the foreign entity.

(iv) Interest hedging

KONGSBERG also hedges parts of its liabilities with interest swap agreements. Both interest swap agreements from fixed to floating interest (fair value hedges) and from floating to fixed interest (cash flow hedges) have been entered into.

Reference is made to Note 20 "Financial instruments" for further information.

Follow-up of hedging effectiveness
The forward exchange contracts are expected to be effective throughout the entire period. KONGSBERG rolls forward exchange contracts from cash flow to fair value hedges at the time of the contract entry. In addition, forward exchange contracts are rolled forward in cases where receipts/payments occur later than originally anticipated. At shorter time differences between the maturity of the forward contracts and the receipts/payments, KONGSBERG uses bank accounts in foreign currency. As a result, the exchange of foreign currency from the foreign currency bank account takes place in the same period as the final maturity of the forward contract or the receipts/payments. Hedging effectiveness will therefore be very high throughout the entire contractual period.

K) Classification

Assets related to normal operating cycles for goods and services or are due within 12 months are classified as current assets. Other assets are classified as non-current. Correspondingly, liabilities related to normal operating cycles for goods and services or that are due within 12 months are classified as current liabilities. Other liabilities are classified as non-current. Derivatives that are used to ensure currency flows according to Group policy, see point J, Financial instruments – hedging, are related to the Group's operating cycles and are therefore classified as short-term assets and liabilities even if the derivatives mature more than 12 months forward in time.

L) Inventories

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

M) Receivables

Trade receivables and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are measured at amortised cost using the effective interest method, but due to the brief term to maturity, accounts receivable and other receivables will in practice be recognised at their nominal values less impairment. Trade receivable in foreign currencies are recognised at the exchange rates at the balance sheet date.

N) Cash and cash equivalents

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

O) Equity

i. Treasury shares
When treasury shares are reacquired, the cost including direct attributable costs is recognised as changes in equity. Treasury shares are presented as a reduction in equity. Any gain or loss on treasury share transactions is not recognised in profit and loss.

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

iii. Hedge reserves
Hedge reserves include accumulated net changes in fair value for financial instruments used as cash flow hedges, which are recognised in other comprehensive income on an ongoing basis.

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

v. Translation differences
Foreign currency translation differences are recognised in other comprehensive income. Upon the disposal of all or part of a foreign entity resulting in discontinued control, the accumulated translation differences are recognised in other comprehensive income, including the accompanying reversal.

See also Note 3 B "Summary of significant accounting policies – Foreign currency".

P) Provisions

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

Warranty provisions
Provisions for warranty costs are recognised upon delivery of the underlying products or services. The provisions are based on historical data on warranties when available, and on a weighting of possible outcomes against the probability that they will occur. Warranty costs are expensed concurrently with the percentage of completion of the projects, and reclassified as provisions for warranty upon delivery.

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

Onerous contracts
Provisions for loss on a contract are included in their entirety at the time that KONGSBERG's expected revenues from a contract are lower than the unavoidable expenses of meeting the obligations under the contract.

Q) Employee benefits

Defined contribution pension schemes
The Group introduced a defined contribution pension scheme for all employees in Norway under the age of 52 as of 1 January 2008. Employees with defined benefit plans, aged 52 or older at the time of the transition, stayed with that plan. Most of KONGSBERG's companies abroad have defined contribution pension schemes. Contributions are recognised as expenses as they occur and are shown in the personnel expenses in the profit and loss statement.

Defined benefit pension plans
Pension benefits depend on the number of years of service and salary level when reaching retirement age. There are also early retirement plans for some executives. To ensure a uniform calculation of KONGSBERG's pension liabilities, all corporate entities have used the same actuary for the calculations. In the income statement, the year's net pension expenses, after a deduction for the net interest cost of the liability and the expected return on pension plan assets, have been recognised as "personnel expenses". The statement of financial position shows net pension liabilities including social security contributions. The financial and actuarial assumptions are subject to annual review. The discount rate is stipulated on the basis of the covered bond interest rate (OMF), plus a supplement that reflects the duration of the pension liability. Risk coverage is described in Note 11 "Pension". Actuarial gains or losses related to changes in the basis data, estimates and changes in assumptions are recognised in other comprehensive income (OCI).

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 discounted price. Discounts on shares are recognised as payroll expenses. The Group also has a share programme for leading employees. See the description in Note 27 "Statement on remuneration of the Group CEO and Executive Management".

Compensation to employees as selling shareholders in connection with acquisitions
When enterprises are acquired, the compensation to selling shareholders that are also employed in the acquired company shall be recognised as salary if one of the conditions for the payment is to maintain the employment. In such instances, the compensation shall be accrued as a salary expense over the required period.

R) Earnings per share

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

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

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

Standards and interpretations that are issued up to the date of the issuance of the consolidated financial statements, but not yet effective, are disclosed below. The Group's intention is to implement the relevant amendments when they come into effect.

IFRS 9 Financial instruments
IFRS 9, Financial instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities, as well as hedge accounting. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39.

The Group currently considers that the standard will not have any major accounting consequences, but can to a certain extent, affect the Group's currency policy and the practical implementation of hedging. KONGSBERG has an annual follow-up of the relevant currency policy and its hedging strategy and will continue to assess developments in the strategy regarding IFRS 9.

KONGSBERG recognises non-current liabilities at amortised cost and will therefore not be affected by the new standard's regulations for recognising non-current liabilities at fair value.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. KONGSBERG will not avail themselves of the opportunity for early usage.

IFRS 15 Revenue from contracts with customers
The standard requires that the customer contracts are divided into individual performance obligations. A performance obligation may be goods or a service. Following IFRS 15, revenue is recognised when a customer obtains control of goods or services, and a five step model is introduced to assess dating of revenue. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations.

KONGSBERG has carried out extensive assessments of our customer contracts for how the standard will affect the consolidated financial statements and concluded with the following:

- The Group mainly applies the percentage of completion method for revenue recognition of customer contracts per IAS 11. Costs incurred compared to expected total cost are used as the main measure of progress. We will continue with the same practice under IFRS 15.
- According to IFRS 15, customer contracts that apply to the delivery of several almost equal units (serial delivery) are considered as one delivery commitment. The Group has some customer contracts of this kind, which in 2017 are considered as separate deliveries and recognised at delivery per IAS 18. The change will have no significant impact on contracts delivered in 2017, but may influence revenue recognition of customer contracts with serial deliveries in the future.
- IFRS 15 in principle only regulates revenue recognition, and to a lesser extent costs related to contracts. The costs related to contracts will largely depend on evaluations according to other standards such as IAS 2 inventories and IAS 37 Provisions, Contingent Liabilities and Contingent Assets. This will not affect the consolidated financial statements to any degree.
- IFRS 15 contains more detailed provisions than IAS 11 and IAS 18. This includes recognition of the variable considerations, cost of tenders, waste cost, financing items in contracts and contract fulfilment costs. These provisions will only affect KONGSBERG to a small degree.
- The Group does not expect this standard to have any important impact on the income statement or the statement of financial position for 2017. However, in connection with the implementation of the IFRS 15, we will assess our definitions of the individual accounting lines in working capital (see definition in Note 32). We expect to make some reclassifications that may affect inventories,

trade receivables and construction contracts in progress, but not the overall working capital.
- The standard includes new requirements concerning disclosures which will be implemented in the 2018 financial statements.
- The standard will come into effect from 1 January 2018. There is the possibility for early adoption. KONGSBERG will adopt the standard from 1 January 2018.

IFRS 16 Leases

IFRS 16 sets principles for recognition of rental agreements. The standard requires the tenant to recognise assets and liabilities for rental agreements that exceed 12 months, and that rent related to recognised rental agreements are reclassified as depreciation and interest expense.

Hire of property and buildings is substantial for KONGSBERG. In addition, there is some hire of production facilities and vehicles. According to IAS 17, these are classified as operational lease agreements. According to IFRS 16, these will be recognised as financial lease agreements, and rent will be reclassified as depreciation and interest expense. Preliminary calculations show that KONGSBERG's overall balance sheet will increase by approx. NOK 2 billion with the introduction of the standard.

The standard will come into effect on 1 January 2019. There is the possibility for early adoption. KONGSBERG will adopt the standard from 1 January 2019

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

4 FAIR VALUE

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

Intangible assets

The fair value of intangible assets, e.g., technology, software and customer relations acquired through acquisitions, is calculated at the net present value of the estimated future cash flow from the asset, discounted by a risk-adjusted discount rate.

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

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

Property, plant and equipment

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

Inventories

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

Investments in equity instruments

The fair value of available-for-sale financial assets is measured at the quoted price on the balance sheet date. Listed shares consist either of those listed on the Oslo Stock Exchange, London Stock Exchange, or on the Norwegian Securities Dealers Association's OTC list. For unlisted investments, the most recent price of a share transaction or share issue will be used to estimate fair value. When there has been no trading in shares for a longer period of time, it will be considered whether the last quoted price provides a correct picture of the fair value. The alternative is to use the last traded share price and adjust it for significant events during the period from the last transaction and up to the balance sheet date.

Derivatives

The fair value of forward exchange contracts is based on observable data. KONGSBERG uses Reuters' prices for the foreign exchange forwards, options and basis swaps. Reuters' prices are based on several market players. Where no listed price is available, fair value is calculated by discounting the difference between the agreed forward contract price and the current forward contract price for the remainder of the contract using the risk-free interest rate based on government bonds. The fair values of interest swap agreements, basis swaps and currency options are assessed on the basis of the observed market value.

Non-current liabilities

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

5 MANAGEMENT OF CAPITAL AND FINANCIAL RISKS

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

Funding and capital management

KONGSBERG's operations are characterised by long-term contracts that may extend for several years, while the Group in all business areas has a long-term marketing strategy. This requires reliable access to capital over time, and KONGSBERG aspires to be considered by its lenders and investors to have a good credit rating. The Group has satisfactory access to capital in the NOK market, and has therefore concluded that there is no need to be subject to official rating from global credit rating companies.

Since 2013, the Group has practised a dividend policy that, over time, will make up between 40 and 50 per cent of the company's ordinary profit for the year after tax. In determining the size of the dividend, the expected future capital requirements shall be considered.

KONGSBERG emphasises financial flexibility in order to carry out capital-intensive growth initiatives.

Loans are to be renegotiated well in advance of their due date, and the aim of the Group is that the average term to maturity for current loans is to be at least two years.

KONGSBERG aims to have a diversified selection of funding sources and a balanced maturity structure. This implies the use of banks based on syndicated credit facilities and the issue of debt instruments on the Norwegian capital market. Please refer to Note 20D "Financial instruments – Interest rate risk associated with loans".

Due to covenants on existing loans, KONGSBERG shall have a moderate gearing ratio (net interest-bearing liabilities/EBITDA). Net interest-bearing liabilities should not exceed four times the EBITDA, but can be up to 4.5 times the EBITDA for a maximum of four quarters, of which three are consecutive ones. KONGSBERG has a NOK 2.3 billion credit facility, with a 5 year term to maturity and an option of 1+1 years. The credit facility is undrawn.

Liquidity risk

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

Short-term liquidity needs are normally covered by bank deposits and the balance on the group cash pool systems. Any further liquidity needs may be covered by short-term loans within the framework of the syndicated credit facility. KONGSBERG has Group bank account schemes to which all subsidiaries are connected. These schemes optimise availability and flexibility in terms of liquidity management. The Group's liquidity trend is routinely monitored through monthly carry-forwards of liquidity forecasts from the most material units, as well as budgets and reporting by segment for major investments. Please also refer to 20E "Financial instruments – Liquidity risk".

Currency risk

A large share of KONGSBERG's revenue is related to export contracts, and there is a relatively small percentage of purchasing in the same currency, which involves a considerable foreign currency exposure. The business areas identify exposure to each contract, whilst the central financial function offers instruments that reduce currency risk.

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

According to policy, a part of anticipated new orders are also hedged (cash flow hedges). The Group's foreign currency policy is evaluated annually and presented to the Board for approval.

The hedging instruments that are used are mainly forward contracts. Options are used only to a limited extent. Bank accounts within the group account schemes are used to hedge small amounts with a short term to maturity. In addition to financial instruments, actions such as ensuring that costs incurred are in the same currency as the sales contract, are used to reduce foreign currency exposure. KONGSBERG uses a financial system that handles all foreign exchange transactions.

In addition, a separate risk management function has been set up to monitor all financial transactions according to policy.

Note 20 B "Financial instruments – Foreign currency risk and the hedging of foreign currency" has more information.

Interest rate risk

As of 31 December 2017, KONGSBERG had six bond loans totalling NOK 3.3 billion and an undrawn syndicated credit facility of NOK 2.3 billion. The bond loan KOG07, has a fixed interest rate, and an interest rate swap agreement from fixed to floating interest in relation to this loan, whilst the bond loan KOG09 has a fixed interest rate. The loans KOG06, KOG08 and KOG10 have a floating interest rate.

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

Credit/counterparty risk

Counterparty risk is the risk that KONGSBERG's contractual counterparty will not meet its obligations to KONGSBERG or settle its forward currency contracts, interest rate contracts and monetary investments. KONGSBERG's financial policy requires financial institutions to have a certain credit rating before KONGSBERG can engage in financial contracts with them.

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

Historically, the Group has had a relatively low percentage of bad debts. Kongsberg Defence & Aerospace has mostly government customers and is therefore not that exposed to credit risk. Kongsberg Maritime generally serves customers from the private sector, and is more exposed to credit risk. Unrest in the shipyard and shipping industry increases the credit risk in the markets addressed by Kongsberg Maritime. Kongsberg Maritime has made provisions to take this into account. Kongsberg Maritime has its own credit manual and dedicated employees to monitor and reduce the credit risk. Credit insurance is used only to a limited extent, but is considered in certain cases.

The Group has a policy decision of maintaining a responsible balance between increasing sales at good margins and the risk of losses. In addition, large parts of the Group operate on the basis of specially adapted credit manuals including routines for debt collection. Concerning credit risk, KONGSBERG has strict requirements for creditworthiness.

Note 19 "Receivables and credit risk" has more information.

Market risk arising from financial investments

KONGSBERG's investments in other companies are based on strategic considerations. The value of the Group's financial investments is exposed to fluctuations in the equity market. Investments are evaluated and followed up centrally. The Group regularly reports on trends in the value of financial investments.

6 OPERATING SEGMENTS

For management purposes, the Group is organised into business areas based on the industries in which the Group operates.
As at 31 December 2017, reporting requirements apply to the following two operating segments:

Kongsberg Maritime develops and delivers systems for positioning, monitoring, navigation and automation for merchant vessels and the offshore industry. The business area is a market leader in dynamic positioning, automation and surveillance systems, process automation, fisheries, satellite navigation and hydroacoustics, as well as back-deck handling equipment for use on offshore vessels. Countries with significant offshore and shipbuilding industries are important markets. 27 per cent of Kongsberg Maritime's operating revenues comes from Global Customer Support, 27 per cent from Subsea, 24 per cent from Solutions and 22 per cent from Vessel Systems.

Kongsberg Defence Systems and Kongsberg Protech Systems were merged to **Kongsberg Defence & Aerospace (KDA)** on 1 October 2017. The merger was carried out to become more competitive in the defence market. The comparison figures have been restated.

Kongsberg Defence & Aerospace is a leading supplier of defence and space-related systems and products. The business area supplies products and systems for command and control, weapon control systems and surveillance, communications solutions, remote weapon stations and missiles. The business area has expertise and production equipment to make advanced composite and engineering products for the aircraft, offshore and helicopter markets. One key element of the market strategy is to form alliances with major international defence enterprises. For Kongsberg Defence & Aerospace, 10 per cent of the operating revenues are related to Missile Systems, 28 per cent to Integrated Defence Systems, 30 per cent to Protech Systems, 10 per cent to Space and Surveillance, 11 per cent to Aerostructures and 11 per cent to Defence Communications.

Other

Other activities consists of Kongsberg Digital (KDI), external revenues from the real estate business, corporate functions and eliminations between the business areas.

KDI was established in 2016 as an important step for development of the next generation of digitalised products and services within our core areas. In 2017, the area has focused on taking new and strengthening existing positions related to digitalisation within the oil and gas, wind and merchant marine markets.

The funding of the Group is based on evaluations for the Group as a whole. Consequently, financial items, net interest-bearing debt and cash are not assigned to segments. The same applies to tax expenses and balance sheet items associated with tax, as these items are influenced by tax-related transfers between the business areas.

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

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

Operating segment data

MNOK	*Kongsberg Maritime*	*Kongsberg Defence & Aerospace*	*Other*	*Eliminations*	*Consolidated*
2017					
Operating revenue from external customers	7 411	6 307	772	-	14 490
Revenue from group companies	18	26	479	(523)	-
Total revenues	**7 429**	**6 333**	**1 251**	**(523)**	**14 490**
Operating profit before depreciation and amortisation (EBITDA)	**642**	**702**	**(65)**	**-**	**1 279**
Depreciation	(167)	(177)	(9)	-	(353)
Impairment of property, plant and equipment	(40)	-	-	-	(40)
Operating profit before amortisation (EBITA)	**435**	**525**	**(74)**	**-**	**886**
Amortisation	(32)	(57)	(25)	-	(114)
Operating profit (EBIT)	**403**	**468**	**(99)**	**-**	**772**
Segment assets[1]	6 715	6 599	667	(147)	13 834
Segment investments[2]	141	340	44	-	525
Current segment liabilities and provisions[3]	2 533	4 423	560	(119)	7 397
2016					
Operating revenue from external customers	8 588	6 297	960	-	15 845
Revenue from group companies	9	19	478	(506)	-
Total revenues	**8 597**	**6 316**	**1 438**	**(506)**	**15 845**
Operating profit before depreciation and amortisation (EBITDA)	**280**	**928**	**9**	**-**	**1 217**
Depreciation	(178)	(169)	(13)	-	(360)
Impairment of property, plant and equipment	(7)	-	(15)	-	(22)
Operating profit before amortisation (EBITA)	**95**	**759**	**(19)**	**-**	**835**
Amortisation	(43)	(62)	(38)	-	(143)
Operating profit (EBIT)	**52**	**697**	**(57)**	**-**	**692**
Segment assets [1]	7 477	6 874	714	(167)	14 898
Segment investments [2]	364	521	24	-	909
Current segment liabilities and provisions [3]	2 711	3 803	540	(168)	6 886

1) Segment assets do not include available-for-sale shares, other non-current assets, derivatives and cash and cash equivalents, as these assets are controlled by the Group's corporate treasury unit.
2) Investments comprise acquired property, plant and equipment, intangible assets and goodwill.
3) Segment liabilities do not include deferred tax liabilities, taxes payable, interest-bearing liabilities, other non-current liabilities or provisions and derivatives, as these liabilities are controlled by the Group's corporate treasury unit.

There are no differences between the measurement methods used at the segment level and those applied to the consolidated financial statements. The different operating segments' EBITAs include income and expenses from transactions with other operating segments within the Group. Transactions between the segments are based on market prices. Intra-group transactions between the different segments are eliminated upon consolidation.

Reconciliation of assets

MNOK	2017	2016
Segment assets	**13 834**	**14 898**
Available-for-sale shares	29	35
Shares in joint arrangements and associated companies [1]	3 358	3 174
Other non-current assets	175	229
Derivatives	213	332
Fair value adjustments related to financial instruments	278	640
Cash and cash equivalents	2 956	1 888
Total assets	**20 843**	**21 196**

1) See Note 7 "Shares in joint arrangements and associated companies"

Reconciliation of current liabilities and provisions

MNOK	2017	2016
Current segment liabilities and provisions	**7 397**	**6 886**
Short-term interest-bearing debt	-	263
Derivatives	645	1 277
Fair value adjustments related to financial instruments	(4)	366
Calculated income tax payable	20	29
Total current liabilities and provisions	**8 058**	**8 821**

Geographical information

In presenting information by geographical segments, earnings are distributed based on the customers' geographical location, while the data on fixed assets are based on the location of the physical investment or relationship to the relevant acquisition. The Group's activities are generally divided into Norway, the rest of Europe, America and Asia. Fixed assets include property, plant and equipment, intangible assets and goodwill. (Financial instruments, deferred tax benefits, pension funds and rights following from insurance agreements are not included.)

MNOK	Norway	Europe	North America	South America	Asia	Australia	Africa	Total
2017								
Operating revenue from external customers	2 772	3 569	4 448	194	2 974	159	374	**14 490**
Operating revenues as % of the total	19%	25%	31%	1%	21%	1%	3%	
Fixed assets [1]	4 216	134	788	18	304	0	1	**5 461**
2016								
Operating revenue from external customers	2 764	3 506	4 723	175	4 344	182	151	**15 845**
Operating revenues as % of the total	17%	22%	30%	1%	27%	1%	1%	
Fixed assets [1]	4 091	125	871	22	360	-	-	**5 469**

1) Fixed assets in this report comprises of property, plant and equipment, goodwill and other intangible assets.

7 SHARES IN JOINT ARRANGEMENTS AND ASSOCIATED COMPANIES

Specification of movement in the balance line "Shares in joint arrangements and associated companies" 1 January – 31 December:

MNOK	*Registered office*	*Share*	*Net holding 1 Jan 17*	*Access in the period*	*Dividends received*	*Profit/loss in the period[1)]*	*Compre-hensive income in the period[2)]*	*Net holding 31 Dec 17*
Patria Oyj	Helsinki, Finland	49.90%	2 689	-	(148)	75	191	2 807
Kongsberg Satellite Services AS	Tromsø, Norway	50.00%	332	-	(45)	101	-	388
Other			161	11	(20)	11	-	163
Total			**3 182**	**11**	**(213)**	**187**	**191**	**3 358**

1) The results from companies that are separate tax entities, such as private limited companies, are adopted after tax.
2) Comprehensive income is mainly exchange differences. Parts of the investment in Patria are hedged in basic swaps. See note 20B "Financial instruments - Currency risk and hedging of currency".

KONGSBERG acquired shares in Patria on 24 May 2016 worth MNOK 2,664. The purchase sum remains unchanged and the final excess value allocation was as shown in Note 7 to the consolidated financial statements for 2016. In assessing whether KONGSBERG has a significant influence in Patria, emphasis is placed on KONGSBERG's ownership and right to representation on the board of the company.

Income in the ownership period

	1 Jan 17–31 Dec 17		24 May 16–31 Dec 16	
	MEUR	*MNOK*	*MEUR*	*MNOK*
Earnings after tax in Patria (100%)[1)]	30		44	
Minority interests	(5)		(5)	
Earnings after tax in Patria (100%), majority	25	242	39	368
KONGSBERG's share (49.9%)		121		184
Amortisation of added value after tax		(46)		(40)
Share of net income in the period		75		143

1) Differs from Patria's reported income due to provisions in Patria that do not affect KONGSBERG's share of net income.

8 CONSTRUCTION CONTRACTS IN PROGRESS

A significant part of the Group's operations is development and manufacture of products and systems on the basis of orders received. For recognition and classification of construction contracts please refer to Note 3C "Income recognition – Construction contracts/ system deliveries".

Projects in progress in the table below are the net amount of accumulated earned operating revenues minus accumulated invoicing for all ongoing construction contracts where the accumulated operating revenues exceed the cumulative invoicing. Prepayments from customers are the net amount of the accumulated earned operating revenues minus the cumulative cash receipts from the customer for all ongoing construction contracts where payments exceed the accumulated operating revenues. Project accruals are the net amount of costs incurred according to the project completion rate minus the accumulated costs charged to the construction contract.

Financial position

MNOK	*31 Dec 17*	*31 Dec 16*
Projects in progress	2 730	3 215
Prepayments received from customers	(2 947)	(2 150)
Project accruals assets	1 151	977
Project accruals liability	(2 305)	(2 841)
Netto anleggskontrakter under utførelse	**(1 371)**	**(799)**

MNOK	*31 Dec 17*	*31 Dec 16*
Construction contracts in progress, asset	2 018	2 049
Construction contracts in progress, liability	(3 389)	(2 848)
Net construction contracts in progress	**(1 371)**	**(799)**

The Group has construction contracts in all business areas, but to the greatest extent in Kongsberg Maritime and Kongsberg Defence & Aerospace. In the business area Kongsberg Maritime, the majority of projects are of shorter duration than two years, and the revenue of the individual projects comprises a limited share of the total revenues. At Kongsberg Defence & Aerospace the projects are of longer duration and total revenues from the individual projects comprise a substantial amount in relation to the Group's total revenues.

Summary of significant contract data

MNOK	*2017*	*2016*
Total orders in progress in the period	47 976	46 707
Operating revenues for the year	8 236	9 320
Accumulated operating revenues	37 046	35 434
Accumulated variable costs	27 414	26 703
Remaining operating revenues	10 930	11 273
Prepayments received from customers	2 947	2 150
Remaining variable cost of loss-making projects	5	78

Estimated uncertainty connected to the recognition of construction contracts

Recognition of the contracts takes place in line with the calculated progress. Progress of completion is normally calculated on the basis of costs incurred compared to total expected costs or incurred hours measured against the expected time consumption. See also Note 3C "Income recognition – Construction contracts/system deliveries". Contract income is agreed, and expected total costs are estimated, based on a combination of experience-based estimates, systematic estimation procedures and follow-up of efficiency metrics and good judgement. Normally, a large share of the total costs will be the number of hours remaining that employees must use to develop or complete the project. The uncertainty in the estimates is affected by the project's duration and technical complexity. Principles have been established for categorising projects in terms of technological complexity and degree of development. This forms the basis for an assessment of risk and recognition of revenue in the projects. The projects are evaluated at least every quarter.

9 INVENTORIES

The Group's total inventories include the following:

MNOK	*31 Dec 17*	*31 Dec 16*
Raw materials	1 749	2 318
Work in progress	1 214	1239
Finished products	998	1109
Total	**3 961**	**4 666**
Recognised changes in value for inventories	**55**	**166**
Year's total material cost amounts to[1)]	**4 417**	**5 260**

1) For the year's total material cost, the comparative figure for 2016 was reduced by NOK 689 million. This is due to the fact that from 2017 we have chosen to classify costs for leased resources within the production and leasing of real estate as other operating expenses.

Estimation uncertainty

Inventories are measured at the lowest of acquisition cost and net realisable value. Judgement is used when assessing net sales value. Market conditions and technical condition are taken into consideration, amongst other things, for the assessments.

10 PERSONNEL EXPENSES

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

MNOK	*Note*	*2017*	*2016*
Salaries		4 402	4 649
Social security expenses		829	876
Pension expenses, defined benefit plans[1)]	11	144	115
Pension expenses, defined contribution pension schemes	11	358	349
Other benefits		55	147
Total personnel expenses		**5 788**	**6 136**
Average no. of FTEs (full-time employees)		6 878	7 299

1) The sum includes MNOK 122 in costs related to gift pension agreements, including social security expenses. See note 32 "Definitions" regarding restructuring costs.

11 PENSIONS

KONGSBERG has a service pension plan that complies with legislation, and consists of a defined contribution plan and a closed defined benefit plan. The service pension plans include all employees of the Group in Norway. At 31 December 2017, there are approximately 4,490 employees in Norway who are covered by the plan. KONGSBERG endeavours to ensure that as many of its employees as possible outside Norway are also covered by service pension plans.

The defined contribution pension scheme (ITP)

The Group introduced a defined contribution pension scheme for all employees under the age of 52 as of 1 January 2008. The contribution rates are 0 per cent of salary up to 1G, 5 per cent of salary between 1G and 7,1G, and 11 per cent of salary from 7,1G up to 12G. The employees can influence the way the funds are managed by choosing between three investment options; with either 30, 50 or 80 per cent of their shares in the portfolio. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The Group's deposits in this plan is 18 per cent of the portion of the base salary that exceeds 12G, up to a ceiling of 15G. Special terms and conditions apply for executives. This is described in Note 27 "Statement on the remuneration of the Group CEO and Executive Management". The unfunded scheme has been closed for new members since 2015. The supplementary plan has the same investment choices as the main plan. KONGSBERG's companies abroad generally have defined contribution plans. At 31 December, approximately 4,240 employees in Norway and the majority of the employees abroad were covered by these plans. The contributions are expensed as incurred.

The defined benefit plan (YTP)

In connection with the transition to the defined contribution plan on 1 January 2008, employees aged 52 or more remained in the defined benefit plan. The pension plan is insured through DNB Life Insurance. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. Pension costs are distributed over the employee's accrual period. Given a calculated state pension based on the Norwegian National Insurance Scheme's rules before 1 January 2011 and full earning, the scheme provides approx. 65 per cent of the final salary including National Insurance benefits until the age of 77, after which the service pension section is reduced by 50 per cent for the remaining lifetime. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The collective, unfunded benefits plan corresponds to about 60 per cent of the share of the basic wage that exceeds 12G until the age of 77, and then the benefit is reduced by 50 per cent for the remaining lifetime. Special terms and conditions apply for executives. This is described in Note 27 "Statement on the remuneration of the Group CEO and Executive Management". These supplementary plans were discontinued in connection with the transition to defined contribution pension schemes.

Risk coverage

Disability pension from the Group was changed on 1 January 2016 and will provide an addition to the estimated disability benefits from national insurance. National insurance will cover 66 per cent of the pension basis up to 6G, while the Group plan covers 66 per cent of the pension basis between 6G and 12G. The Group plan also provides an additional 3 per cent of the pension basis from 0G to 12G, a pay increase of 25 per cent of G and any child supplement of 4 per cent per child (maximum 3 children). From 1 January 2016, KONGSBERG has decided to terminate the paid-up policy accrual for disability pensions as part of the adaptation to the new regulations. The employees have been issued individual paid-up policies for the already earned paid-up policy rights. The new scheme is a one-year risk cover and the premiums will be expensed as they accrue. Starting on 1 January 2013, the risk pensions are unfunded for the share of salary that exceeds 12G. In practice this implies that KONGSBERG is self-insurer for the risk pension for future periods. The unfunded scheme has been closed for new members since 2015.

Early retirement

In 2009, the Group introduced new rules for early retirement for newly hired members of executive management and others in certain key positions. The rules entail early retirement from the age of 65 at the latest, but with reciprocal rights for the Group and the employees to request retirement from the age of 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 contribution years. If the employee resigns between 63 and 65, this will reduce pension earnings for other plans.

The Group decided not to continue the scheme with early retirement agreements for executives employed after 1 July 2013. This also applied to employees in certain key positions who previously were offered agreements on early retirement. These individuals instead receive an additional contribution of 12 per cent of the basic salary in excess of 12G, to the unfunded pension scheme as long as they hold the post, but only until the age of 65 at the latest. After an overall assessment of the State's ownership report, the Group decided on 1 October 2015 not offer any early retirement options.

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

Economic assumptions	*31 Dec 17*	*31 Dec 16*
Discount rate	2.25%	2.50%
Asset return	2.25%	2.50%
Wage adjustment	1.75%	1.50%
Pension base level (G) adjustment	2.25%	2.00%
Pension adjustment	1.25%	1.00%

Demographic assumptions	*31 Dec 17*	*31 Dec 16*
Mortality	K2013	K2013
Disability	IR 73	IR 73
Voluntary turnover	4.5% for all ages	4.5% for all ages

The pension calculations are based on mortality table K2013. The reason is an increased life expectancy which will lead to higher pension obligations. IR 73 concerns tables for expected disability. The mortality and disability risks are based on public tables and observations of disabilities at KONGSBERG. The probability that an employee in a given age group will become disabled or die within one year, and the life expectancy is as follows:

	Disability%		Mortality%		Estimate life	
Age	*Men*	*Women*	*Men*	*Women*	*Men*	*Women*
20	0.1	0.2	<0.1	<0.1	89	94
40	0.3	0.4	0.1	<0.1	88	92
60	1.4	1.8	0.4	0.3	87	90
80	-	-	4.3	2.9	90	92

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 history in which approx. 25 per cent of the disability pension is reimbursed through an international pool.

The year's pension costs were calculated as follows:

MNOK	*2017*	*2016*
Present value of the year's earned pensions	36	50
Interest cost on accrued pension liabilities	47	49
Estimated return on pension plan assets	(36)	(38)
Administration costs	14	14
Accrued social security expenses	9	11
Total	**70**	**86**
Gift pension incl. social security tax[1]	122	48
Settlement pension scheme incl. social security costs.	(37)	(8)
Total net pension costs for the year including finance items	**155**	**126**
Adjusted for net interest classified as finance expense	(11)	(11)
Total net pension costs for the year	**144**	**115**
Costs of defined contribution plans in Norway	319	309
Defined contribution pension scheme costs abroad	39	40

1) See note 32 "Definitions" regarding restructuring costs.

Net interests costs are classified as finance expenses.

Change in net pension liabilities recognised on the balance sheet

	2017			2016		
MNOK	*Funded*	*Unfunded*	*Total*	*Funded*	*Unfunded*	*Total*
Changes in gross pension liabilities						
Gross pension liabilities at 1 January	1 718	240	1 958	1 756	247	2 003
Reclassification of gift pension		42	42			
Present value of current year's contribution	22	14	36	35	15	50
Interest expenses on pension liabilities	41	6	47	43	6	49
Actuarial losses/gains	(22)	(2)	(24)	(1)	5	4
Settlement of pension scheme	(32)		(32)	(2)	(5)	(7)
Gift pension/plan change	-	107	107	(11)	-	(11)
Payments of pensions/paid-up policies	(93)	(32)	(125)	(99)	(27)	(126)
Net change in social security expenses	3	13	16	(3)	(1)	(4)
Gross pension liabilities at 31 December	**1 637**	**388**	**2 025**	**1 718**	**240**	**1 958**
Changes in gross pension fund assets						
Fair value, pension plan assets 1 January	1 491	-	1 491	1 506	-	1 506
Expected return on pension funds	36	-	36	38	-	38
Actuarial losses/gains	(90)	-	(90)	22	-	22
Premium payments	46	-	46	49	-	49
Fund transferred from YTP to ITP		-	-	(6)	-	(6)
Plan change		-	-	(11)	-	(11)
Payments of pensions/paid-up policies	(105)	-	(105)	(107)	-	(107)
Fair value, pension plan assets 31 December	**1 378**	**-**	**1 378**	**1 491**	**-**	**1 491**
Net capitalised pension liabilities at 31 December	**(259)**	**(388)**	**(647)**	**(227)**	**(240)**	**(467)**

The distribution of pension plan assets by investment categories at 31 December 2017 and in previous periods:

MNOK	*2017*	*2016*	*2015*	*2014*	*2013*
Long-term bonds	182	436	492	599	576
Loans and receivables	361	314	271	-	-
Money market	186	377	366	386	403
Short-term bonds	368	180	98	248	264
Shares	146	77	125	194	139
Property	121	96	149	258	227
Other	14	11	5	36	22
Total	**1 378**	**1 491**	**1 506**	**1 721**	**1 631**
Recognised return on pension plan assets	**4.4%**	**3.6%**	**4.5%**	**5.4%**	**4.4%**

The secured pension scheme is insured in DNB Liv, and the Group's pension funds are thereby regulated by an insurance policy. The insurance policy cannot be traded, and the value is determined in accordance with the legislation on insurance businesses. The insurance has an interest guarantee, implying that DNB Liv carries the risk for the return on the pension funds.

MNOK	*2017*	*2016*	*2015*	*2014*	*2013*
Net liabilities at 1 January	(467)	(497)	(915)	(757)	(532)
Reclassification of gift pension	(42)				
Recognised pension cost	(61)	(75)	(149)	(144)	(138)
Settlement of pension scheme	32	7	147	(10)	-
Gift pension	(107)	-	-	-	-
Premium payments	46	49	128	135	127
Disbursements	34	27	18	22	30
Purchase/sale	-	-	-	-	(6)
Transition to the equity method	-	-	-	7	-
Actuarial losses/gains	(66)	18	222	(147)	(209)
Net change in social security expenses	(16)	4	52	(21)	(29)
Net capitalised pension liabilities at 31 December	**(647)**	**(467)**	**(497)**	**(915)**	**(757)**

Actuarial loss/gain is recognised in the statement of comprehensive income by MNOK -76 incl. social security expense.

Historical information

Amounts in MNOK	*2017*	*2016*	*2015*	*2014*	*2013*
Gross pension liabilities at 31 December	2 025	1 958	2 003	2 636	2 388
Fair value, pension plan assets 31 December	1 378	1 491	1 506	1 721	1 631
Net pension liabilities 31 December	**(647)**	**(467)**	**(497)**	**(915)**	**(757)**
Actuarial gains/losses pension liabilities 31 December	(24)	4	(211)	160	162
Actuarial gains/losses pension assets 31 December	(90)	22	11	13	(47)
Accumulated estimated gains/losses recognised in the statement of comprehensive income after tax	**(1 374)**	**(1 316)**	**(1 331)**	**(1 521)**	**(1 399)**
Of which constitute experience deviations	(928)	(943)	(898)	(1 002)	(1 056)

Contractual early retirement plan

The Group's general contractual early retirement plan gives a life-long supplement to the ordinary pension. Employees can choose to draw on the new plan from the age of 62, even if they continue to work. The new plan is a defined benefit multi-employer pension plan, and it is funded through premiums established as a percentage of wages. For the moment, there is no reliable measurement or allocation of liabilities and funding as regards the plan. is therefore considered to be a defined contribution pension scheme in which premium payments are expensed on an ongoing basis, and no provisions are made in the financial statements. A premium is paid to the new plan of the total payments made between 1G and 7.1G to the Group's employees. For 2017, the premium was 2.5 per cent, and the same rate is set for 2018 (estimated at MNOK 77). There is no accumulation of capital in the plan and further increases in the premium level are expected over the coming years.

Other

Pension expenses for the year are calculated on the basis of 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 the end of the year. The gross value of pension fund assets is calculated on the assumption that there will be an annual return of 2.25 per cent, being the expectation on 31 December 2017. The value adjusted return on investments was 4.8 per cent, but will not be included in the capitalised assets until 2018.

The premium payments for the closed defined benefit plan for 2018 are expected to be approx. MNOK 45. Pension benefits depend on the number of years of service and salary level when reaching retirement age. Net pension liabilities are determined on the basis of actuarial estimates made on assumptions related to the discount rate, future wage growth, pension adjustments, projected return on pension fund assets and employee turnover. These assumptions are updated annually. The discount rate is stipulated on the basis of the covered bond interest rate, which reflects the time frame for paying out on the pension liabilities for the benefit plan. In KONGSBERG's opinion, the market for covered bonds is sufficiently deep and shows reliable pricing. The pension liability would have been approx. 8 per cent higher using a government bond rate of 1.5 per cent, all other factors held constant. Pension adjustments are now calculated after adjustment for inflation compared to minimum adjustments in previous years. The pension liability would have been approx. 7 per cent lower using minimum adjustment, all other factors held constant.

The balance sheet shows net pension liabilities including social security.

Expected pension payments within the defined benefit pension scheme are as follows:

	MNOK
2018	102
2019	104
2020	109
2021	111
2022	119
Next 5 years	581

Sensitivity analysis of pension calculations

The following estimates are based on facts and circumstances that applied at 31 December 2017, provided that all other parameters are constant. Actual results may deviate significantly from these estimates.

	Discount rate		Annual salary growth		Annual basic amount	
Changes in % are percentage points	*1%*	*(1%)*	*1%*	*(1%)*	*1%*	*(1%)*
Change in pension						
Defined benefit obligation (PBO)	(9%)	11%	2%	(2%)	(1%)	1%
Net pension cost for the period	(11%)	13%	8%	(7%)	(3%)	4%

	Annual adjustment of pensions		Resignation rate		Mortality	
Changes in % are percentage points	*1%*	*(1%)*	*1%*	*(1%)*	*1 year lower expected lifetime at age 67*	*1 year increased expected lifetime at 67 years*
Change in pension						
Defined benefit obligation (PBO)	9%	(8%)	(0.2%)	0.2%	(4%)	3%
Net pension cost for the period	9%	(8%)	(0.8%)	0.8%	(3%)	3%

When calculating the sensitivity for mortality, we adjust K2013 so that the life expectancy for a 67 year old is increased by 1 year and reduced by 1 year, respectively. This is relevant for life expectancy for a 67 year old in 2017 according to the mortality table K2013.

12 PROPERTY, PLANT AND EQUIPMENT

MNOK	*Land*	*Buildings and other fixed property*	*Machinery and plant*	*Equipment and vehicles*	*Plant in progress*	*Total*
Acquisition cost						
1 Jan 16	238	2 014	1 400	1 848	115	5 615
Additions	5	204	106	190	136	641
Disposals	(12)	(26)	(38)	(64)	-	(140)
Translation differences	(2)	(33)	(46)	(24)	(1)	(106)
Acquisition cost 31 Dec 16	**229**	**2 159**	**1 422**	**1 950**	**250**	**6 010**
Reclassification	-	19	(2)	(17)	-	-
Additions	75	90	156	122	(104)	339
Disposals	-	(16)	(19)	(11)	-	(46)
Translation differences	-	(4)	9	2	2	9
Acquisition cost 31 Dec 16	**304**	**2 248**	**1 566**	**2 046**	**148**	**6 312**
Accumulated depreciation and impairment						
1 Jan 16	-	848	781	1 438	6	3 073
Depreciation for the year	-	91	114	155	-	360
Impairment for the year	-	6	10	6	-	22
Accumulated depreciation through disposal	-	(14)	(34)	(58)	-	(106)
Translation differences	-	(9)	(32)	(21)	-	(62)
Accumulated depreciation and impairment 31 Dec 16	**-**	**922**	**839**	**1 520**	**6**	**3 287**
Reclassification	-	3	(1)	(2)	-	-
Depreciation for the year	-	96	110	147	-	353
Impairment for the year	-	33	6	1	-	40
Accumulated depreciation through disposal	-	(13)	(13)	(9)	-	(35)
Translation differences	-	(1)	7	3	-	9
Total accumulated depreciation and impairment 31 Dec 17	**-**	**1 040**	**948**	**1 660**	**6**	**3 654**
Carrying amount 31 Dec 16	**229**	**1 237**	**583**	**430**	**244**	**2 723**
Carrying amount 31 Dec 17	**304**	**1 208**	**618**	**386**	**142**	**2 658**
Useful life	**N/A**	**10–33 years**	**3–10 years**	**3–10 years**		
Annual rent paid for off-balance sheet property, plant and equipment	**-**	**343**	**-**	**29**		**372**

Estimation uncertainty

For property, plant and equipment, there is estimation uncertainty with regards to the determination of estimated remaining useful life and expected residual value. These factors are assessed annually.

13 INTANGIBLE ASSETS

MNOK	*Goodwill*	*Technology*	*Capitalised development*	*Other intangible assets*	*Total*
Acquisition cost					
1 Jan 16	2 925	825	807	100	4 657
Additions	2	-	263	3	268
Disposals	(4)	(152)	(118)	-	(274)
Translation differences	(14)	(11)	-	(3)	(28)
Acquisition cost 31 Dec 16	**2 909**	**662**	**952**	**100**	**4 623**
Additions	-	-	187	2	189
Disposals	-	-	-	(1)	(1)
Translation differences	(16)	(6)	-	-	(22)
Acquisition cost 31 Dec 17	**2 893**	**656**	**1 139**	**101**	**4 789**
Accumulated amortisation and impairment					
1 Jan 16	913	694	320	74	2 001
Amortisation	-	61	69	13	143
Disposals	-	(152)	(103)	-	(255)
Translation differences	(2)	(8)	-	(2)	(12)
Total accumulated amortisation and impairment 31 Dec 16	**911**	**595**	**286**	**85**	**1 877**
Amortisation	-	45	58	11	114
Disposals	-	-	-	1	1
Translation differences	1	(5)	-	(2)	(6)
Total accumulated amortisation and impairment 31 Dec 17	**912**	**635**	**344**	**95**	**1 986**
Carrying amount 31 Dec 16	**1 998**	**67**	**666**	**15**	**2 746**
Carrying amount 31 Dec 17	**1 981**	**21**	**795**	**6**	**2 803**
Useful life		**8–10 years**	**5 years**	**8–10 years**	

With the exception of goodwill, which cannot be amortised, the amortisation of intangible assets is linear with useful life. The amortisation starts when the intangible asset is available for use.

Product maintenance, research and development recognised in profit and loss

	2017			2016		
MNOK	*Product main-tenance*	*Research and develop-ment costs*	*Total*	*Product main-tenance*	*Research and develop-ment costs*	*Total*
Kongsberg Maritime	226	480	706	167	587	754
Kongsberg Defence & Aerospace	42	89	131	44	94	138
Others	4	94	98	3	112	115
Total	**272**	**663**	**935**	**214**	**793**	**1 007**

Capitalisation of development projects

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

Internally financed development projects at Kongsberg Maritime mainly contain many projects with limited total scope and, to a great extent, the development of existing technology. Many of these development projects are not considered to be eligible for capitalisation. Several of the projects also entail considerable uncertainty about whether they are technologically feasible and how the final solution will turn out. Normally, the criteria for capitalisation will not be satisfied until fairly late in the development project.

The largest capitalised projects are associated with the development of the "Joint Strike Missile", weapons stations, remotely operated airport towers, digital platform and within new integrated vessel solutions.

Estimation uncertainty

Capitalised development costs are amortised according to the estimated lifetime. Estimated lifetime may change over time. This is considered annually, and the amortisation is adjusted when considered necessary. When testing the value of capitalised development costs, the Group applies the same principles and methods as used for impairment testing. Regarding estimate uncertainty associated with this matter, see Note 14 "Impairment testing of goodwill".

14 IMPAIRMENT TESTING OF GOODWILL

Goodwill

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

Goodwill is allocated to the operating segments as follows:

MNOK	*31 Dec 17*	*31 Dec 16*
Kongsberg Maritime	1 722	1 740
Kongsberg Defence & Aerospace	173	172
Other [1]	86	86
Total goodwill in balance sheet	**1 981**	**1 998**

1) Goodwill from others is connected to Kongsberg Digital.

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

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

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

Key assumptions

Discount rate

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

Profit margin (EBITDA)
The profit margin is reviewed for each of the cash flow-generating entities that are based on expectations of future development. This gives the Group good prospects for order intake, especially within the defence segment, and it is a solid basis for long-term growth. The major corporate restructurings are expected to contribute to increased profitability for the Group as a whole. The explicit 5-year period is based on moderate growth in both Kongsberg Maritime and Kongsberg Defence & Aerospace.

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

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

Key assumptions per cash flow-generating unit

Per cent	*Kongsberg Maritime*	*Kongsberg Defence & Aerospace*	*Other*
Discount rate before tax	11.8	8.7	11.2
Discount rate after tax	9.2	7.2	9.2
Long-term nominal growth rate	1.5	1.5	1.5
Inflation	1.5	1.5	1.5

Sensitivity analysis

In connection with impairment tests of goodwill, sensitivity analyses are carried out for each individual cash generating unit.

For both Kongsberg Maritime and Kongsberg Defence & Aerospace, there will not be an impairment situation before relatively large changes in the key assumptions, and these changes are considered to be outside the probable outcome.

Estimation uncertainty

There will always be uncertainty related to the estimate of value in use. The assessments are based on key assumptions as described above, and are to a large degree influenced by market data for comparable companies, interest rates and other risk conditions. These calculations are based on discounted future cash flows, in which judgement was used as regards future profit and operation.

Significant changes in the cash flows will affect the value of goodwill.

15 FINANCIAL INCOME AND FINANCIAL EXPENSES

MNOK	*2017*	*2016*
Interest income from assets at amortised cost	11	23
Derivatives at fair value through profit and loss	14	-
Foreign exchange gain	11	18
Profit from sale of shares	-	143
Other finance income	11	13
Financial income	**47**	**197**
Interest expense from liabilities at amortised cost	110	63
Derivatives at fair value through profit and loss	1	18
Foreign exchange loss	12	28
Discounts of non-current provisions	3	2
Other financial expenses	39	48
Financial expenses	**165**	**160**
Net finance item recognised in income statement	**(118)**	**37**

16 INCOME TAX

Income tax expense

MNOK	*2017*	*2016*
Tax payable Norway	-	-
Tax payable abroad	103	119
Change in deferred tax	(8)	(41)
Income tax expense	**95**	**78**

Reconciliation from nominal to effective tax rate

MNOK	*2017*	*2016*
Profit before tax	654	729
Share of net income from joint arrangements and associated companies	(187)	(230)
Profit before tax excluding joint arrangements and associated companies	**467**	**499**
Tax calculated at tax rate 24% (25%) of profit before tax excluding joint arrangements and associated companies	112	125
Effect of reducing the tax rate to 23% (24%)	(50)	(55)
Effect of tax differences and unrecognised tax benefits abroad	26	59
Sale of shares	-	(49)
Other permanent differences	7	(2)
Income tax expense	**95**	**78**
Effective tax rate	14.5%	10.7%

Construction contracts are based on the assumption that tax wise, revenue recognition will occur when the responsibility and risk has been transferred to the customer. This has no effect on the tax expense in the income statement, but as a consequence, tax payable will fluctuate over time.

As a result of the major differences between the accounting and tax-related profits, the approved changes in the tax rate from 24 per cent to 23 per cent from 2018 will cause a reduction in this year's tax costs of MNOK 50.

Deferred tax asset and deferred tax liability

MNOK	*31 Dec 17*	*31 Dec 16*
Deferred tax assets		
Pensions	149	112
Provisions/currency	-	86
Derivatives	148	306
Accumulated tax loss to carry forward	191	234
Deferred tax assets - gross	**488**	**738**
Deferred tax liability		
Fixed assets	184	215
Construction contracts in progress	1 502	1 617
Provisions/currency	25	-
Derivatives	49	80
Deferred tax liabilities - gross	**1 760**	**1 912**
Net recognised deferred tax liabilities	**(1 272)**	**(1 174)**
Tax rate in Norway	23%	24%

Change in deferred tax recognised in other comprehensive income

MNOK	*31 Dec 17*	*31 Dec 16*
Pensions	(18)	5
Cash flow hedges	124	273
Total	**106**	**278**
Access deferred tax assets on acquisition	-	(20)
Expected tax deduction abroad, not offset	-	(26)

The tax impact related to a change in tax rate from 24 per cent to 23 per cent as of 2018 will give a reduction of MNOK 2 relating to cash flow hedges and is included in comprehensive income.

Payments of dividends to the parent company's shareholders have no impact on the Group's payable or deferred tax.

17 EARNINGS PER SHARE

MNOK	*2017*	*2016*
Profit for the year attributable to the shareholders		
Profit after tax	559	651
Non-controlling interests' share of the result	(5)	(2)
Profit for the year/diluted profit attributable to the ordinary shareholders	**554**	**653**

Number of shares	*Note*	*2017*	*2016*
Average weighted number of shares outstanding at 1 January	22	120	120
Average weighted number of shares at 31 December		**120**	**120**

NOK	*2017*	*2016*
Profit for the year per share	4.62	5.44
Earnings per share for the year, diluted	4.62	5.44

18 OTHER NON-CURRENT ASSETS

MNOK	*31 Dec 17*	*31 Dec 16*
Loans to employees	16	21
Sales credit, property sales	-	37
Prepaid land rental	14	14
Long-term loans to customers	129	139
Other non-current assets	16	18
Total other non-current assets	**175**	**229**

19 RECEIVABLES AND CREDIT RISK

MNOK	*31 Dec 17*	*31 Dec 16*
Trade receivable	2 358	2 670
Provision for bad debts	(241)	(234)
Net trade receivable	**2 117**	**2 436**
Other receivables	447	536
Prepayments to suppliers	108	382
Net receivables	**2 672**	**3 354**

Credit risk

Exposure to credit risk

For an explanation of KONGSBERG's credit risk and its handling, see Note 5 – Management of capital and financial risk. Carrying value of financial assets represents the maximum credit exposure:

MNOK	*Note*	*31 Dec 17*	*31 Dec 16*
Trade receivable		2 358	2 670
Other short-term receivables		555	918
Other non-current assets	19	175	229
Cash and cash equivalents	22	2 956	1 888
Forward contracts and interest rate swaps are used as currency hedging	20A	213	332
Total exposure to credit risk		**6 257**	**6 037**

Trade receivables distributed by region

MNOK	*31 Dec 17*	*31 Dec 16*
Norge	292	234
EU	419	303
Øvrige Europa	83	66
Nord Amerika	756	1 436
Sør Amerika	63	24
Asia	417	438
Andre land	328	169
Totalt	**2 358**	**2 670**

Trade receivables distributed by customer type

MNOK	*31 Dec 17*	*31 Dec 16*
Public	691	434
Private	1 667	2 236
Total	**2 358**	**2 670**

Age-distributed receivables and provisions for losses on trade receivable

	31 Dec 17		31 Dec 16	
MNOK	*Gross*	*Provision for bad debts*	*Gross*	*Provision for bad debts*
Not due	1 160	(2)	1 359	(1)
Due 1–30 days	429	(32)	415	(5)
Due 31–90 days	381	(23)	414	(14)
Due 91–180 days	103	(22)	195	(21)
Due more than 180 days	285	(162)	287	(193)
Total	**2 358**	**(241)**	**2 670**	**(234)**

Changes in provision for trade receivables

MNOK	*2017*	*2016*
Provision 1 Jan	(234)	(167)
Actual losses	16	6
Allocation	(41)	(95)
Dissolved	18	22
Provision 31 Dec	**(241)**	**(234)**

Estimation uncertainty

The provision for bad debts is determined by an assessment of the probability of loss on a receivable or a group of receivables. Judgement and assumptions that can change over time are applied for the assessments. The provision for bad debts is, to a large degree, influenced by the market situation and the financial standing of the counter party.

20 FINANCIAL INSTRUMENTS

For definitions of financial instruments, please see Note 3J "Financial instruments".

A) Derivatives

MNOK	*Note*	*31 Dec 17*	*31 Dec 16*
Current assets			
Forward exchange contracts, cash flow hedging	20C	43	37
Forward exchange contracts, fair value hedges		149	246
Interest rate swaps, fair value hedges	20D	10	13
Fair value basis swaps		-	29
Loan hedges	20B	11	7
Total derivatives, current assets		**213**	**332**
Current liabilities			
Forward exchange contracts, cash flow hedging		17	181
Interest rate swaps, cash flow hedging	20D	1	4
Forward exchange contracts, fair value hedges		563	1 078
Fair value basis swaps		64	14
Total derivatives, current liabilities		**645**	**1 277**

B) Currency risk and hedging of currency

For an explanation of KONGSBERG's currency risk and its handling of this risk, see Note 5 – Management of capital and financial risk. KONGSBERG's exposure to currency risks related to capitalised trade receivable and payable in US dollars (USD) and Euro (EUR), based on the nominal amount was, at year-end:

	31 Dec 17		31 Dec 16	
Amounts in mill.	*USD*	*EUR*	*USD*	*EUR*
Trade receivable [1]	351	51	417	30
Trade payable	(24)	(12)	(24)	(11)
Net balance exposure	**327**	**39**	**393**	**19**
Volume forward exchange contracts, fair value hedges [2]	558	290	841	182

1) Trade receivable shows KONGSBERG's gross exposure in USD and EUR. Trade receivable in the statement of financial position and Note 19 "Receivables and credit risk" shows net exposure where receivables are netted against other balance sheet items within the same project; see also Note 3C "Summary of significant accounting policies - Revenue recognition - Construction contracts / system deliveries".
2) In accordance with KONGSBERG's currency strategy, all contracts are hedged to the functional currency.

Forward exchange contracts as fair value hedges must protect all contractual currency flows. This means that the forward rates will hedge capitalised trade receivables in foreign currency, as well as invoicing remaining on the contracts. KONGSBERG is also exposed to other currencies, but these are insignificant compared with the exposure to USD and EUR.

Important foreign exchange rates used in the consolidated financial statements throughout the year:

	Average exchange rate		Spot rate as of 31 Dec	
	2017	*2016*	*2017*	*2016*
USD	8.27	8.40	8.20	8.61
EUR	9.33	9.30	9.83	9.09

Currency hedging

At 31 December, the company had the following net sale foreign currency hedges, divided by hedge category:

	2017					
Amounts in mill.	*Value in NOK at 31 Dec 17 based on the agreed rates*	*Fair value [1] in NOK 31 Dec 17*	*Total hedged amount in USD 31 Dec 17*	*Average hedged rate in USD 31 Dec 17*	*Total hedged amount in EUR 31 Dec 17*	*Average hedged rate in EUR 31 Dec 17*
Hedge category						
Forward exchange contracts, cash flow hedges[2)3)]	2 374	26	310	8.22	49	9.84
Total cash flow hedges	**2 374**	**26**	**310**		**49**	
Forward exchange contracts, fair value hedges[3)4)]	7 868	(413)	558	7.59	290	9.56
Loan hedges, fair value hedges[3)]	527	11	72	8.32	4	9.91
Total fair value hedges	**8 395**	**(402)**	**630**		**294**	
Total	**10 769**	**(376)**	**940**		**343**	

	2016					
Amounts in mill.	*Value in NOK at 31 Dec 16 based on the agreed rates*	*Fair value [1] in NOK 31 Dec 16*	*Total hedged amount in USD 31 Dec 16*	*Average hedged rate in USD 31 Dec 16*	*Total hedged amount in EUR 31 Dec 16*	*Average hedged rate in EUR 31 Dec 16*
Hedge category						
Forward exchange contracts, cash flow hedges[2)3)]	5 067	(144)	571	8.34	37	9.22
Total cash flow hedges	**5 067**	**(144)**	**571**		**37**	
Forward exchange contracts, fair value hedges[3)4)]	9 183	(832)	841	7.40	182	9.41
Loan hedges, fair value hedges[3)]	961	8	100	8.67	4	9.07
Total fair value hedges	**10 144**	**(824)**	**941**		**186**	
Total	**15 211**	**(968)**	**1 512**		**223**	

1) Fair value is the difference between the spot rate at 31 December and the agreed rate on the forward exchange contracts.
2) Change in fair value connected to the effective cash flow hedges are recognised in other comprehensive income. The part that is not hedge-effective will be recognised in the income statement.
3) Values in the table linked to the value based on the agreed rates and fair value also include currencies other than USD and EUR. Loan hedges are currency hedges connected to loans in foreign currency.
4) The total value increase on hedged projects was MNOK 419 during 2017 (increase of MNOK 810 in 2016). Derivatives used as project hedging have had the corresponding negative value through the year and the hedging has thus been 100 per cent efficient. Change of value is recognised in accounts receivable and construction contracts in progress (assets and liabilities).

Foreign exchange options
As of 31 December 2017, KONGSBERG has no currency options.

Basis swaps
In connection with the acquisition of shares in Patria Oyj at a cost price of EUR 284.9 million, basis swaps were entered into totalling EUR 130 million to ensure a net investment in foreign entities. These basis swaps have a fair value of MNOK -64.4 as of 31 December 2017 (MNOK NOK 28.6 as of 31 December 2016). Changes in fair value on the basis of swaps is recognised in comprehensive income.

Fair value for forward rates is, in addition to the exchange rate on 31 December, influenced by the differences in interest rates in the relevant currencies. The interest rate curves that are used in the valuation are received from Reuters, which retrieves information from various market actors. Also refer to Note 4 "Fair value" and Note 20 G "Assessment of fair value".

Sensitivity analysis
A strengthening of the NOK against the USD and EUR as of 31 December 2017 of 10 per cent (also 10 per cent in 2016) would have increased the comprehensive income by the amount stated in the table.

Estimated effect on comprehensive income (after tax):

MNOK	*31 Dec 17*	*31 Dec 16*
Forward exchange contracts in USD	196	374
Forward exchange contracts in EUR	37	26
Total	**233**	**400**

Cash flow hedging is considered to be efficient and all the effects of a currency rate change will thus be recognised in comprehensive income. For fair value hedges, neither comprehensive income nor the annual results will be affected as long as the hedges are 100 per cent efficient.

When KONGSBERG has a hedging strategy that generally hedges all contractual currency flows and receivables in foreign currency, fluctuations in the exchange rate will have minor effect on the profitability of the contracts.

C) Cash flow hedges

List of the periods in which the cash flows related to derivatives that are cash flow hedges are expected to occur:

	31 Dec 17				**31 Dec 16**			
MNOK	*Carrying amount*	*Expected cash flow*	*2018*	*2019 and later*	*Carrying amount*	*Expected cash flow*	*2017*	*2018 and later*
Currency forward exchange contracts								
Assets	43	43	43	-	37	37	37	-
Liabilities	(17)	(17)	(17)	-	(181)	(182)	(182)	-
Interest rate swaps								
Assets	-	-	-	-	-	-	-	-
Liabilities	(1)	(1)	(1)	-	(4)	(4)	(4)	-
Total	**25**	**25**	**25**	**-**	**(148)**	**(149)**	**(149)**	**-**

List of the periods in which the cash flows related to derivatives that are cash flow hedges are expected to affect results:

	31 Dec 17				**31 Dec 16**			
MNOK	*Carrying amount*	*Expected cash flow*	*2018*	*2019 and later*	*Carrying amount*	*Expected cash flow*	*2017*	*2018 and later*
Currency forward exchange contracts								
Assets	43	43	26	17	37	37	21	16
Liabilities	(17)	(17)	(10)	(7)	(181)	(182)	(103)	(79)
Interest rate swaps								
Assets	-	-	-	-	-	-	-	-
Liabilities	(1)	(1)	(1)	-	(4)	(4)	(4)	-
Total	**25**	**25**	**15**	**10**	**(148)**	**(149)**	**(86)**	**(63)**

Cash flow hedges – hedging reserve

MNOK	*2017*	*2016*
Opening balance	(509)	(1 299)
Changes in fair value in the period		
Forward exchange contracts and effects of rollovers[1) 2)]	102	439
Interest rate swaps and basis swaps	(89)	5
Tax on items recognised directly in comprehensive income	(124)	(273)
Recognised gains/losses in the period		
Forward exchange contracts and effects of rollovers[1)]	496	619
Closing balance hedge reserve[2)]	**(124)**	**(509)**

1) Accrual occurs when cash flow hedges are realised new and forward exchange contracts, fair value hedges, are entered into for the projects (rollovers). The effect on results that occurs will be recognised and realised in line with the progress of the projects. The carrying amount associated with the rolled cash flow hedges amounts to MNOK 122 on 31 December 2017 (MNOK 550 on 31 December 2016).
2) The net effect from the cash flow hedges before tax that are recognised in comprehensive income amounts to MNOK 509 in 2017 (MNOK 1,063 in 2016). In the comprehensive income, there is a change of MNOK 598, and the deviation of MNOK -89 is due to a change in the fair value of interest rate swaps of MNOK 3 and basis swaps of MNOK -92.

If an expected project becomes contractual and a fair value hedge is established, the recognised hedge reserve is transferred from comprehensive income to the carrying value of the hedged project. If an expected cash flow occurs and does not result in a project hedge, the hedge reserve is recognised in the income statement at the same time as the hedged transactions.

In 2017, a total of MNOK -237 was recognised that was related to inefficient cash flow hedges in the ordinary results. The amount is also included in the record "recognised gains/losses in the period" in the table above.

D) Interest rate risk on loans

	2017			2016			
Amount MNOK	*Due date*	*Nominal interest rate*	*Carrying value[1)]*	*Due date*	*Nominal interest rate*	*Nominal amount*	*Carrying value*
Bond loan KOG07 - fixed interest	11 Sep 19	4.80%	250	11 Sep 19	4.80%	250	250
Bond loan KOG08 - floating interest	2 Sep 21	2.02%	1 000	2 Jun 21	2.39%	1 000	1 000
Bond loan KOG09 - fixed interest	2 Jun 26	3.20%	1 000	2 Jun 26	3.20%	1 000	1 000
Bond loan KOG10 - floating interest	5 Mar 20	1.66%	550	5 Mar 20	2.04%	550	550
Bond loan KOG11 - fixed interest	5 Dec 23	2.90%	450	5 Dec 23	2.90%	450	450
Bridging loan in EUR – floating interest[2)]			-	24 Feb 19	0.80%	482	482
Other long-term loans[3)]			80			75	75
Total long-term loans[4)]			**3 330**			**3 807**	**3 807**

	Due date	*Nominal amount*		
Syndicated credit facility (undrawn borrowing limit)	15 Mar 22	2 300	7 Apr 19	1 500	-
Overdraft (unused)		500		500	-

1) The carrying value is equal to the nominal amount.
2) The bridging loan was originally at EUR 160 million when recorded in May 2016. The bridging loan was repaid in April 2017.
3) "Other long-term loans" are minor borrowing by some of the Group's subsidiaries in local banks.
4) The difference between the carrying value in the statement of financial position and the amount in this note is due to the fair value of the interest rate swap agreement linked to bond loan KOG07 of MNOK 10 on 31 December 2017 (MNOK 13 on 31 December 2016).

Kongsberg Gruppen ASA has a syndicated credit facility with Danske Bank, DNB, JP Morgan Chase, Nordea and SEB. The facility is for general business purposes. The facility has a term of five years with an option to extend for one year, twice. The interest rate is NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.55 per cent to 2 per cent. The credit facilities require that net interest-bearing debt shall not exceed four times the EBITDA, but can be up to 4.5 times the figure for three consecutive quarters at the most. The covenants in the loan agreements have been met. There was no borrowings on the facility as of 31 December 2017. Please refer to Note 5 for further information.

Kongsberg Gruppen ASA had five bond loans at the end of 2017. The bond loans were issued in NOK and listed on the Oslo Stock Exchange. The interest rate terms on loans with floating rates are 3-month NIBOR with a margin of + 1.25 per cent for KOG08 and 0.9 per cent for KOG10. The fixed interest rate is 4.8 per cent for KOG07, 3.20 per cent for KOG09 and 2.9 per cent for KOG11. KOG07 matures in Q3 2019.

Kongsberg Group ASA had a bridging loan from 2016 that was completely redeemed on 28 April 2017. A new cash credit of MNOK 500 was established. As of 31 December 2017, this remains undrawn.

Amount MNOK	*Due date*	*Interest rate*	*Nominal amount 2017*	*Fair value 31 Dec 17*	*Nominal amount 2016*	*Fair value 31 Dec 16*
Interest rate swap agreement, floating to fixed rate[1]	2 Jan 18	2.47%	247	(1)	247	(4)
Total interest rate swap agreements, floating to fixed rate			**247**	**(1)**	**247**	**(4)**
Interest rate swap agreements, fixed to floating rate[2]	11 Sep 19	4.80%	250	10	250	13
Total interest rate swap agreements			**497**	**9**	**497**	**9**

1) KONGSBERG has entered into interest rate swaps from floating to fixed interest rates for a nominal amount of MNOK 247. The agreement was entered into in connection with the financing of the property business area in order to reduce interest rate exposure. The change in value on the interest rate swap agreement is recognised in the statement of comprehensive income.
2) KONGSBERG has entered into two interest rate swaps from fixed to floating interest rates for a nominal amount each of MNOK 125. The agreements were entered into in connection with the bond loan KOG07, which is a fixed rate loan. The value change for the interest rate swap agreements is adjusted against the capitalised value of the loan.

Sensitivity analysis interest rate risk

Effect of the interest rate increase of 50 BP in NIBOR:

MNOK	*31 Dec 17*	*31 Dec 16*
Investments with floating interest rates	15	9
Variable interest rate loans	(8)	(11)
Interest rate swap agreements, floating to fixed rate	-	1
Cash flow sensitivity (net)	**7**	**(1)**

In addition, such a change in interest rate would increase (decrease) comprehensive income and equity by MNOK 2 (MNOK 2 in 2016) linked to the interest rate swaps from fixed to floating interest rates.

E) Liquidity risk

The table shows due dates in accordance with the contract for the financial liabilities, including interest payments. Such liabilities as government fees and taxes are not financial liabilities and are therefore not included. The same applies to prepayments by customers and accrual of the projects.

	31 Dec 17						
MNOK	*Carrying amount*	*Contractual related cash flows*	*2018*	*2019*	*2020*	*2021*	*2022 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	3 250	(3 871)	(86)	(342)	(667)	(1 094)	(1 682)
Other loans and liabilities	80	(80)	(5)	-	-	-	(75)
Accounts payable	937	(937)	(937)	-	-	-	-
Financial liabilities that are derivatives							
Currency derivatives	580	(589)	(431)	(146)	(11)	(1)	-
Interest rate swaps	1	(1)	(1)	-	-	-	-
Basis swaps	64	(64)	-	(64)	-	-	-
Total	**4 912**	**(5 542)**	**(1 460)**	**(552)**	**(678)**	**(1 095)**	**(1 756)**

	31 Dec 16						
MNOK	*Carrying amount*	*Contractual related cash flows*	*2017*	*2018*	*2019*	*2020*	*2021 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	3 507	(4 267)	(360)	(92)	(347)	(683)	(2 784)
Bridging loan	482	(540)	(7)	(7)	(527)	-	-
Other loans and liabilities	75	(75)	-	(4)	(9)	(3)	(59)
Accounts payable	1 038	(1 038)	(1 038)	-	-	-	-
Financial liabilities that are derivatives							
Currency derivatives	1 259	(1 275)	(806)	(345)	(123)	-	-
Interest rate swaps	4	(4)	(4)	-	-	-	-
Basis swaps	14	(14)	-	(14)	-	-	-
Total	**6 379**	**(7 213)**	**(2 215)**	**(462)**	**(1 006)**	**(686)**	**(2 843)**

F) List of financial assets and liabilities

Financial assets and liabilities divided into different categories for accounting purposes at 31 December 2017:

MNOK	*Note*	**2017** *Derivatives used as hedging*	*Derivatives that do not qualify for hedging*	*Loans and receivables*	*Available-for-sale shares*	*Other financial liabilities*	***Total***	*Fair value*
Assets – non-current assets								
Investment in available-for-sale shares		-	-	-	29	-	**29**	29
Other non-current assets	18	-	-	175	-	-	**175**	175
Assets – current assets								
Derivatives	20A	213	-	-	-	-	**213**	213
Receivables	19	-	-	2 672	-	-	**2 672**	2 672
Cash and cash equivalents	21	-	-	2 956	-	-	**2 956**	2 956
Financial liabilities – non-current								
Interest-bearing loans	20D	-	-	-	-	3 330	**3 330**	3 460
Derivatives	20D	-	-	-	-	10	**10**	10
Other non-current liabilities		-	-	-	-	20	**20**	20
Financial liabilities – current								
Interest-bearing loans			-	-	-	-	**-**	-
Derivatives	20A	645	-	-	-	-	**645**	645
Accounts payable	24	-	-	-	-	947	**947**	947

MNOK	*Note*	**2016** *Derivatives used as hedging*	*Derivatives that do not qualify for hedging*	*Loans and receivables*	*Available-for-sale shares*	*Other financial liabilities*	***Total***	*Fair value*
Assets – non-current assets								
Investment in available-for-sale shares		-	-	-	35	-	**35**	35
Other non-current assets	18	-	-	229	-	-	**229**	229
Assets – current assets								
Derivatives	20A	332	-	-	-	-	**332**	332
Receivables	19	-	-	3 354	-	-	**3 354**	3 354
Cash and cash equivalents	21	-	-	1 888	-	-	**1 888**	1 888
Financial liabilities – non-current								
Interest-bearing loans	20D	-	-	-	-	3 807	**3 807**	3 891
Derivatives	20D	-	-	-	-	13	**13**	13
Other non-current liabilities		-	-	-	-	24	**24**	24
Financial liabilities – current								
Interest-bearing loans			-	257	-	-	**257**	258
Derivatives	20A	1 277	-	-	-	-	**1 277**	1 277
Accounts payable	24	-	-	-	-	1 038	**1 038**	1 038

G) Assessment of fair value

The following table shows corporate assets and liabilities measured at fair value

		2017			2016		
MNOK	*Note*	*Level 1*	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
Assets							
Investment in available-for-sale shares		-	-	29	-	-	35
Derivatives	20A	-	213	-	-	332	-
Total assets at fair value		**-**	**213**	**29**	**-**	**332**	**35**
Liabilities							
Derivatives	20A	-	645	-	-	1 277	-
Interest-bearing liabilities (intended for note purposes)		-	3 460	-	-	4 396	-
Total liabilities at fair value		**-**	**4 105**	**-**	**-**	**5 673**	**-**

The various levels are defined as follows:

Level 1: Fair value is measured by using quoted prices from active markets for identical financial instruments. No adjustment is made with respect to these prices.

Level 2: Fair value is measured based on data other than the list prices covered by the level 1, but which is based on observable market data either directly or indirectly. These methods have some uncertainty in the determination of fair value.

Level 3: Fair value is measured using models that substantially employ non-observable market data. This involves more uncertainty connected to the determination of fair value.

See also Note 4 "Fair value" for a discussion of the fair value measurement.

H) Estimate uncertainty

KONGSBERG has a range of financial instruments that are recognised at fair value. When market prices cannot be observed directly through the traded prices, fair value is estimated by using different models that either build on internal estimates or input from banks or other market players. The assumptions for such assessments include spot prices, forward prices and interest curves.

The assessments are always based on KONGSBERG's best estimates, but it is still likely that the observable market information and assumptions will change over time. Such changes can affect the calculated values of financial instruments considerably, and thereby result in gains and losses that will affect future periods' income statements. How such changes affect the income statement depends on the type of instrument and whether it is included in a hedging relation.

21 CASH AND CASH EQUIVALENTS

Nominal amounts in MNOK	*31 Dec 17*	*31 Dec 16*
Bank deposits	2 956	1 888
Total	**2 956**	**1 888**

Bank guarantees have been furnished for funds related to withholding tax for employees of MNOK 274 (MNOK 262 in 2016).

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

22 SHARE CAPITAL

Share capital

As of 31 December 2017, share capital consists of 120,000,000 shares, each with a nominal value of NOK 1.25.

Share capital trends

	Date	Number of shares	Nominal amount MNOK	Amount MNOK	Corr. factor	Share capital MNOK
Expansion type						
Stock exchange introduction	13 Dec 1993	5 850 000	20	117		117
Private placement for employees	1996	6 000 000	20	3		120
Share split	1997	24 000 000	5		01:04	120
Issue	1999	30 000 000	5	30		150
Share split	2009	120 000 000	1.25		01:04	150

List of major shareholders as of 31 December 2017

Shareholders	*Type*	*Number of shares*	*% share*
Ministry of Trade, Industry and Fisheries		60 001 600	50.00%
Arendals Fossekompani ASA		9 552 796	7.96%
National Insurance Fund		7 838 890	6.53%
MP Pensjon Pk		4 452 048	3.71%
Danske Invest Norske Instit. II.		2 142 952	1.79%
State Street Bank and Trust Comp.	Nom	2 028 508	1.69%
Odin Norge		1 861 224	1.55%
Danske Invest Norske Aksjer Inst.		1 119 272	0.93%
Nordea Nordic Small Cap Fund		1 094 820	0.91%
JP Morgan Chase Bank, N.A., London	Nom	968 719	0.81%
State Street Bank and Trust Comp	Nom	870 543	0.73%
Arctic Funds Plc		847 561	0.71%
State Street Bank and Trust Comp	Nom	833 698	0.69%
Invesco Funds Series 4		831 853	0.69%
State Street Bank and Trust Comp	Nom	607 471	0.51%
KLP Aksjenorge Indeks		556 662	0.46%
State Street Bank and Trust Comp	Nom	552 133	0.46%
Danske Invest Norge II		504 392	0.42%
State Street Bank and Trust Comp	Nom	485 036	0.40%
Citibank, N.A.	Nom	417 548	0.35%
Total		**97 567 726**	**81.31%**
Other		22 432 274	18.69%
Total number of shares		**120 000 000**	**100.00%**

Shareholders listed according to share holding size

Shareholding interval	*Number of owners*	*Number of shares*	*Holding %*
1–1,000	6 938	1 865 340	1.55%
1,001–10,000	2 072	5 723 362	4.77%
10,001–100,000	171	4 948 673	4.12%
100,001–1,000,000	57	17 370 515	14.48%
1,000,001–10,000,000	8	30 090 510	25.08%
Over 10,000,000	1	60 001 600	50.00%
Total	**9 247**	**120 000 000**	**100.00%**

At 31 December 2017, 820 of the 9,247 shareholders were foreigners, and they owned a total of 14.28 per cent of the shares.

Treasury shares

At 31 December 2017, KONGSBERG has a holding of 8,961 treasury shares. The shares have been purchased in accordance with the authority given at the annual general meeting and provides the opportunity to buy back of up to 5 per cent of the issued shares.

	Amount
Holding of treasury shares at 31 Dec 16	1 049
Purchase of treasury shares	569 940
Treasury shares sold to employees in connection with the share programme	(550 951)
Treasury shares sold to employees in connection with the long-term incentive scheme	(11 077)
Holding of treasury shares as of 31 Dec 17	**8 961**

Dividends

	2017	*2016*
Dividends paid in NOK per share	3.75	4.25
Dividends paid in MNOK	450	510
Of which dividends treasury shares in MNOK	1.79	1.49

The Board has proposed a dividend for the accounting year 2017 of NOK 3.75 per share. This gives a total of MNOK 450.

23 PROVISIONS

Non-current provisions

MNOK	*Sales and leaseback*	*Other*	*Total*
31 Dec 16	**139**	**26**	**165**
Reclassified	-	(12)	(12)
Provisions used	(16)	(1)	(17)
Allocation	31	-	31
Dissolved	(25)	(2)	(27)
31 Dec 17	**129**	**11**	**140**

Non-current provisions

KONGSBERG has in the period from 1999 to 2014 sold properties in the Kongsberg Technology Park. The properties have been leased back on long-term lease and expire from 2017 to 2031. The leaseback contract related to the purchase in 1999 expired in 2014. In connection with the sale and leaseback it was agreed that KONGSBERG guarantees for entry costs and for the maintenance of the buildings in the leaseback period. The current value of future warranty liability is allocated in the accounts. In addition, provision has been made for lack of rental. The remaining provision requirement will need to be assessed each quarter. The effects of discounting cost are transferred as financial expenses.

Current provisions

MNOK	*Warranty provisions*	*Other*	*Total*
31 Dec 16	**477**	**326**	**803**
Reclassified to pension liabilities	-	(42)	(42)
Provisions used	(173)	(91)	(264)
Allocation	133	99	232
Dissolved	(89)	(97)	(186)
31 Dec 17	**348**	**195**	**543**

Warranty provisions

Warranty provisions are provisions for warranty costs on completed deliveries. Unused warranty provisions are dissolved upon the expiration of the warranty period. Warranty provisions are estimated based on a combination of experience figures, specific calculations and judgement. The warranty period usually extends from one to five years, but for some defence contracts the warranty period may be up to 30 years.

Other provisions

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

Provisions apply to conditions where there is disagreement between contractual parties, uncertainty related to product liability or products that are in an early lifecycle phase.

Estimation uncertainty

Assessments are based on a combination of experience figures, technical evaluations and judgement. Evaluations of the estimates are made each quarter. There is significant uncertainty related to these provisions with respect to amounts and times.

24 OTHER CURRENT LIABILITIES

MNOK	*31 Dec 17*	*31 Dec 16*
Accounts payable	947	1 038
Public charges owing	313	295
Calculated income tax payable	20	29
Accrued holiday pay	395	408
Prepayments and accruals on sale of goods	1 061	1249
Other accruals	746	611
Total	**3 481**	**3 630**

25 ASSETS PLEDGED AS COLLATERAL AND GUARANTEES

Assets pledged as collateral

The Group's loan agreements, both bond loan agreements and the agreement on the syndicated credit facilities, are based on the negative collateral.

Prepayment and completion guarantees

Group companies have provided guarantees for prepayments and completion in connection with projects. The guarantees are issued by Norwegian and foreign banks and insurance companies and by Kongsberg Gruppen ASA (parent company guarantees). Kongsberg Gruppen ASA is responsible for all guarantees.

MNOK	*31 Dec 17*	*31 Dec 16*
Guarantees issued by banks and insurance companies	2 308	2 572
Guarantees issued by Kongsberg Gruppen ASA (parent company)	5 331	5 093
Prepayments from and completion guarantees to customers	**7 639**	**7 665**

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

26 SALE AND LEASEBACK

KONGSBERG has in the period from 1999 to 2014 sold properties in the Kongsberg Technology Park. The properties have been leased back on long-term lease and expire from 2017 to 2031. The leaseback contracts are classified as operating leasing agreements.

In addition to lease payments, KONGSBERG is responsible for certain expenses related to taxes and maintenance of the properties. The leases have durations ranging from three months to 13 years. The provisions related to the sales and leaseback agreements are discussed in Note 23 "Provisions".

Amounts in MNOK	*Year of disposal*	*Annual lease payments 2018*	*Lease payments 2019 –2023*	*Lease payments later than 2023*	*Remaining term of lease*	*Lease payments sublease 2018[1)]*	*Weighted average subleasing period*
Agreement 1 – A total of 27,000 sq m industrial/ office space	2001	22	-	-	1 year	**22**	2 years
Agreement 2 – A total of 10,000 sq m industrial/ office space	2006	19	72	-	3.5 years	**21**	4.5 years
Agreement 3 – A total of 40,000 sq m industrial/ office space	2007	63	331	70	7 years	**-**	8 years
Agreement 4 – A total of 57,000 sq m parking/office	2014	32	173	269	13 years	**6**	14 years
Total		**136**	**576**	**339**		**49**	

1) Lease amount to external tenants.

KONGSBERG has pre-emptive rights at market rates for agreements 2 and 3. The Group has the right to the extension of the rental periods for at least five years at a time. The rental amount is fixed, with 2.25 per cent annual adjustment for rental agreement 1. Agreements 2 and 3 are adjusted by 100 per cent of the change in the consumer price index, which is assumed to be equal to 2 per cent annually. The rent is adjusted annually according to the consumer price index.

Agreement 4 consists of the leasing of three buildings, of which two are parking garages, and the rental amounts are adjusted annually according to the consumer price index. The Group has the right to the extension of the rental periods for at least five years at a time at the existing conditions. Sub-letting agreements have been signed for the rental period to both external and internal corporate tenants.

See also Note 23 "Provisions".

27 STATEMENT ON REMUNERATION OF THE GROUP CEO AND EXECUTIVE MANAGEMENT

Statement on the setting of salaries and other remuneration of the Executive Management

The Board proposes that the guidelines described below are applied for 2018 and until the Annual General Meeting in 2019.

Main principles for the company's executive salary policy

The principles and systems for remuneration of executive management are determined by the Board. The Board performs an annual evaluation of the CEO's salary and conditions, as well as the Group's performance-based pay scheme for management. The Board's compensation committee prepares the cases for the Board. The CEO sets remuneration for other members of executive management after consultation with the chairman of the Board.
Management salaries at Kongsberg Gruppen ASA and Group companies ("KONGSBERG") are determined by the following principles:

- Executive management's salaries should be competitive, but not salary leaders, and within this framework support general moderation in executive management salary developments – the company should attract and retain talented management.
- Executive management salaries should be motivating – the salary should be such that it motivates extra effort for the continual improvement of the business and the company's results.
- The salary system should be understandable, meaningful and acceptable both internally at KONGSBERG and externally.
- The salary system should be flexible, so that changes can be made when necessary.
- The salary system should promote cooperation.

Remuneration to Group executive management should reflect their responsibility for administration, results and sustainable development of KONGSBERG, and take into account the size of the organisation and its complexity. The schemes should otherwise be transparent and in line with principles that promote good corporate governance.

Other companies in the Group must follow the main executive management salary policy principles. The company's objective is to coordinate salary policy within the Group as well as variable benefit schemes.

Elements of executive management salaries – fixed salaries and variable benefits

The starting point for determination of salary is the total level of fixed salary and variable benefits. Fixed salary consists of the basic salary as well as fixed benefits in kind and pension agreements. Variable benefits consist of the performance-based salary and share programmes (LTI). Regular measurement is made against relevant markets to ensure that the total compensation is competitive, but not leading.

Base salary
The basic salary should normally be the main element of the executive managements' payroll. It is assessed once per year.

Fixed benefits in kind
Leading employees will normally be assigned benefits in kind that are common for comparable positions, such as free communication, newspapers, and car arrangements. There are no particular restrictions on the kind of benefits in kind that can be agreed.

Pension schemes
Executive management should normally have pension schemes that ensure a pension payout that is in line with salaries. This is mainly covered by membership of KONGSBERG's collective main pension scheme for salaries up to 12G.

The Group's collective main pension scheme is a defined contribution scheme. The contributions are 0 per cent of salary between 0G and 1G, 5 per cent of salary from 1G to 7.1G and 11 per cent of salary from 7.1G to 12G. The funds can be distributed optionally between three savings profiles, respectively with 30, 50 and 80 per cent shares. The Group introduced a defined contribution pension scheme on 1 January 2008. Employees who were 52 years of age or older at the time of the conversion remained in a locked benefit scheme. In connection with changes in the law on defined contribution pension schemes and the national insurance scheme, KONGSBERG's collective defined contribution pension scheme was adapted to a new breakpoint at 7.1G (formerly 6G), applicable from 1 January 2017. The defined contribution rates will be reassessed in 2018 in light of market developments for defined contribution pensions.

In line with guidelines from the Ministry of Trade, Industry and Fisheries (NFD), in 2015 the Group ended the previous arrangements regarding pensions for salaries above 12G, although still taking into account the stipulation that "agreements entered into before the effective date of these guidelines can still be maintained". For senior executives, in the years from 2008 to 2015, an 18 per cent pension contribution at a fixed salary over 12G was given.

KONGSBERG will not enter into early retirement agreements for senior executives; however, senior executives who had such arrangements prior to 1 October 2015 will have them continued.

The company has previously entered into early retirement agreements for some of its executives. The agreements have always been entered into in accordance with the current ownership reports from the state. There are currently various different schemes, depending on when they were signed. Some agreements include the opportunity for retirement from the age of 65, but with the reciprocal right for KONGSBERG and employees in the corporate executive management to request early retirement from the age of 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 contribution years. If the employee retires between the ages of 63 and 65, however, this will lead to reduced pension earnings in the defined contribution pension scheme, that will apply from the age of 67 years. These agreements were terminated for new senior executives in 2013 and now apply to two members of the corporate executive management, including the Chief Executive Officer. One of the corporate executive management members has an older agreement, active from the age of 60. Assuming at least a 10-year earning period, the benefit is 90 per cent of salary from the age of 60, reducing in 10 per cent steps per year to 60 per cent of salary from the ages of 63 to 67. Similarly, a group executive vice president has an agreement to retire at the age of 62. Assuming at least a 15-years earning period, the benefit is 65 per cent of salary up to the age of 67. These older schemes were discontinued in 2006 and 2008, respectively. One of the corporate executive management members has, for the part of their salary that exceeds 12G, an extra contribution of 12 per cent of their salary. This scheme was discontinued for new senior executives in 2015.

One member of the corporate executive management took office in 2016 and another in 2017, from an external position. Similarly, another member of the corporate executive management took office in January 2017 and was previously employed by the Group. Both have a maximum pensionable income of 12G. Neither of them have agreements on early retirement and are compensated by a higher fixed salary.

The company has adapted to new rules within the Working Environment Act regarding age limits by implementing an internal age limit of 70 years, which is effect from 1 January 2017.

Long-term incentive (LTI)

From 2012, the Board introduced an LTI scheme for the Chief Executive Officer and other corporate executive management. The rationale for this scheme is to be competitive with comparable companies. In 2015 the Ministry of Trade, Industry and Fisheries (NFD) changed LTI programmes from being part of a fixed salary to being a variable contribution. In this regard, NFD expressed an expectation that the companies also introduced criteria for achievement. Therefore, in 2016 the LTI programme for the corporate executive management was raised by 5 percentage points, so that the maximum limit is 30 per cent of the base salary for the Chief Executive Officer, 25 per cent for the business managers and 20 per cent for staff leaders. Furthermore, new criteria were introduced for obtaining LTI, in that an EBIT greater than 0 gives 1/3 of the maximum allocation, ROACE equal to WACC (8 per cent), provides an additional 1/3 of the maximum allocation and ROACE between 8 per cent and 12 per cent provides a pro rata contribution to the last 1/3 of the total allocation. The associated company Patria Oyj is included with earnings before taxes and amortisation. The participants in the scheme will be committed to invest the net amount after tax in KONGSBERG shares that are purchased in the market and are owned with a binding time of three years. Participants who leave the company of their own volition will, for shares that do not meet the three-year requirement, have to pay back an amount equal to the share value after tax at the time of resignation. The scheme does not earn pension points. The scheme will be continued in 2018.

Performance-based salary

KONGSBERG's senior management and most important decision makers must have their own economic interests directly related to the development and improvement of KONGSBERG. To this end, in 2006. the Board adopted a performance-based salary scheme that includes approximately. 90 managers. The scheme was revised in 2016 and will be continued in 2018. The objective of the scheme is for managers who perform well over time to achieve an average performance-based salary of 20-30 per cent of base salary.

The performance-based salary scheme is based on the following three components:

1. Change in EBITA (progress component):
   The progress component is calculated based on the change in the current year's EBITA, adjusted for 10 per cent calculated interest rate on the change in employed capital. The measurement is weighted on the individual's area of responsibility and general levels. The progress component is credited to a performance-related pay account for each participant. The progress component will be positive when there is progress in adjusted EBITA, while it can be negative if there is regress in the adjusted EBITA, and can be debited against previous accumulation of the performance-based salary bank.
2. Achieved EBITA margin (margin component):
   The margin component is achieved through an EBITA margin greater than 10 per cent or through maintaining or improving a margin that is above 5 per cent. The margin component can, at most, make up 20 per cent.
3. Personal objectives (individual component):
   The individual component is achieved through fulfilment of personal objectives related to important KPIs for the individual manager, which may be of both financial and non-financial nature.
   The individual component can, at most, make up 15 per cent.

The margin and progress components can, at most, make up 35 per cent (45 per cent for senior employees before 13 February 2015). The margin component will reduce the progress component when the sum of these two is higher than the maximum amount. The combined contribution from the three components can, at most, make up 50 per cent (60 per cent for senior employees before 13 February 2015).

The performance-related pay disbursed to the individual consists of 40 per cent of the balance in the performance-related pay account plus the margin component and individual component for the year. Disbursed performance-related pay cannot exceed 50 per cent of base salary.

The balance in the performance-based salary bank will not be paid out if the individual leaves before pensionable age. The performance-based salary bank will level out over time, act as a long-term incentive and ensure that there will be both positives and negatives for individuals.

Pension points cannot be earned on the performance-based salary scheme. The performance-based salary scheme is assessed annually by the Compensation Committee and the Board to ensure that it works as intended and ensure that necessary adjustments are made.

Upon completion of special major projects, demanding turnaround operations and acquisitions that require a short-term decline in profits as well as larger strategic investments, individual agreements can be entered into with the Chief Executive Officer. In such cases the ordinary scheme for performance-related pay would be removed and replaced by a separate agreement capped at 35 per cent.

Remuneration connected to shares or share price development

Senior executives have the opportunity to participate fully in KONGSBERG's discounted share saving scheme on the same terms as all Group employees. KONGSBERG has no scheme for allocation of share options or other instruments connected to the company's shares. There are no plans to introduce such schemes.

Severance arrangements

In order to safeguard KONGSBERG's requirement for ensuring at any time that the composition of its managers is in accordance with its business needs, agreements for severance arrangements can be, and have been entered into. Severance arrangements are designed to be acceptable both internally and externally, and agreements signed from 2011 are not entitled to severance payments whose value exceeds the equivalent of salary and benefits for more than six months. This scheme will continue in 2018. Before 2011, the scheme allowed for up to 12 months of severance pay. Such agreements have been entered into for directors in corporate executive management within the framework of the Working Environment Act.

Remuneration for the Chief Executive Officer

The current Chief Executive Officer took over the position on 6 June 2016. The Chief Executive Officer's remuneration consists of a fixed salary of NOK 4,998,000, a performance-based component of the salary of a maximum of 50 per cent of the fixed salary and an LTI of up to 30 per cent of the fixed salary. In a previous position, the Chief Executive Officer had an agreement on pension-earned benefits of 18 per cent for salary exceeding 12G and early retirement at 65 per cent of the fixed salary from the age of 63–65 years until the standard retirement age of 67. The schemes have been continued with a maximum pensionable income / basis for early retirement equal to pay from the previous position, at NOK 2,424,200. The pension base is adjusted annually with the same percentage increase as the last increase in benefits paid out by the national insurance service (pt G-0.75 per cent).

Report for the 2017 financial year

The executive management salary policy has for the 2017 financial year, been conducted in accordance with the guidelines that were adopted by KONGSBERG's annual general meeting in 2017.

After the ordinary wage settlement on 1 July 2017, the CEO's base salary has been adjusted by 2 per cent to NOK 4,998,000 per year (0 per cent in 2016). For the other members of corporate executive management, the base salary has been adjusted upwards by an average of 1.6 per cent in 2015 (0 per cent in 2016). In addition, there is the performance-based part of the salary, as described above and as shown in Note 28.

The consolidated financial statements for 2017 have calculated performance-based salaries for leading employees at MNOK 37, excluding social security tax, corresponding to 24 per cent of the total payroll for participants in the scheme (MNOK 19 in 2016, corresponding to 14 per cent). No agreements regarding remuneration were entered into or changed that would have any significant effects for KONGSBERG or its shareholders in the previous accounting year.

28 REMUNERATION FOR EXECUTIVE MANAGEMENT AND THE BOARD

Remuneration specified for members of the Corporate Executive Management for 2017 and 2016[1)]

Amounts in NOK thousand	*Year*	*Payment of salary incl. holiday pay*	*Other benefits recognised in the financial year[2)]*	*Retained long-term incentive scheme (LTI)[3)]*	*Retained perfor-mance-based part of salary in the financial year[4)]*	*This year's pension accruals*	*Payment of long-term incentive scheme (LTI)[5)]*	*Outstand-ing loan amount*	*Shares acquired in financial year related to LTI-arrange-ment*	*Total number of shares including LTI as of 31 Dec*
Geir Håøy President and CEO	2017	4 723	309	571	1741	530	1012	-	2 979	12 508
	2016	3 732	282	471	398	555	759	-	2 010	9 240
Hans-Jørgen Wibstad, Chief Financial Officer, until 31 Oct 17	2017	2 291	215	240	-	458	-	-	-	-
	2016	2 477	256	355	218	577	-	-	1 504	7 242
Gyrid Skalleberg Ingerø, Chief Financial Officer, from 1 Nov 17	2017	423	35	-	130	13	57	-	-	4 000
Even Aas, Group Executive Vice President, Public Affairs	2017	1 604	278	224	561	765	217	-	835	16 900
	2016	1 609	277	227	187	67	213	-	967	15 776
Wenche Helgesen Andersen, Group Executive Vice President, Corporate Functions	2017	2 440	243	58	692	79	303	-	689	4 013
	2016	1 374	200	-	586	39	175	-	-	1 035
Harald Aarø, Group Executive Vice President, Business Development	2017	2182	213	110	764	344	303	-	1 020	2 414
	2016	1810	223	87	292	357	260	-	295	1 105
Hege Skryseth, President, Kongsberg Digital	2017	2 250	200	333	717	490	378	400	1 474	5 077
	2016	2 262	173	208	242	568	375	469	1 366	3 314
Egil Haugsdal, President, Kongsberg Maritime	2017	2 494	461	373	937	787	454	-	1 603	18 738
	2016	2 476	390	350	215	856	408	-	1 485	16 846
Espen Henriksen, President, Kongsberg Protech Systems, until 30 Sep 17	2017	1 771	210	399	302	344	274	-	1 417	8 267
	2016	2 145	287	413	179	464	361	-	1 750	6 850
Eirik Lie. President, Kongsberg Defence & Aerospace	2017	2 733	206	-	526	79	473	-	-	834
	2016	668	63	-	585	146	-	-	-	545

1) Remuneration and other benefits to members of the corporate executive management are based on their time served as part of this management.
2) Benefits other than cash refers to expensed discounts on shares in connection with the share programme for all employees, communication, car arrangements and compensation for the taxable share of pensions and insurance, as well as other taxable benefits.
3) Accrued LTI including tax compensation is, for accounting purposes, accrued on a linear basis over three years since the shares can be managed freely only after three years.
A statement on the LTI scheme is provided in Note 27.
4) Retained performance-based part of salary in the financial year. To be paid out when the accounts for the relevant year have been approved by the Board.
A statement on performance-based pay is provided in Note 27.

Shares owned by, and compensation to the members of the Board

The Board of Directors Styret *Amount in NOK*	*Year*	*Number of shares*		*Fixed Board compensa-tion*	*Compensa-tion for committee meetings*	*Total Board compensa-tion*	*Number of Board meetings*[1]
Eivind K. Reiten, Chair from 26 April 17	2017			326 000	21 200	347 200	8
Finn Jebsen, Chair, left the Board on 26 April 17	2017	20 000	(through the company Fateburet AS)	148 333	20 800	169 133	6
	2016	20 000	(through the company Fateburet AS)	440 667	50 500	491 167	15
Irene Waage Basili, Director, Deputy Chairman	2017	-		254 333	-	254 333	11
	2016	-		247 000	-	247 000	13
Morten Henriksen, Director	2017	-		238 666	68 100	306 766	14
	2016	-		222 000	55 600	277 600	15
Anne-Grete Strøm-Erichsen, Director	2017	-		238 666	37 200	275 866	13
	2016	-		222 000	43 400	265 400	15
Jarle Roth, Director, left the Board on 26 April 17	2017	-		74 667	19 800	94 467	6
	2016	-		222 000	48 000	270 000	15
Roar Marthiniussen, Director, left the Board on 26 April 17	2017	3 103		74 667	18 400	93 067	6
	2016	5 814		222 000	44 500	266 500	15
Helge Lintvedt, Director	2017	-		238 666	60 000	298 666	14
	2016	-		222 000	48 000	270 000	15
Rune Sundt Larsen, Director, left the Board on 26 April 17	2017	-		74 667	-	74 667	6
	2016	-		222 000	-	222 000	15
Martha Kold Bakkevig, Director from 26 April 17	2017	1 400	(through the company Kold Invest AS)	164 000	30 300	194 300	7
Elisabeth Fossan, Director from 26 April 17	2017	3 024		164 000	18 800	182 800	8
Sigmund Ivar Bakke, Director from 26 April 17	2017	2 862		164 000	-	164 000	7
Total compensation to the Board	**2017**			**2 160 665**	**294 600**	**2 455 265**	
Total compensation to the Board	**2016**			**2 019 667**	**290 000**	**2 309 667**	

1) 14 board meetings were held in 2017 (15 board meetings in 2016).

29 AUDITOR'S FEES

NOK thousand	2017 Parent company	2017 Subsidiaries in Norway	2017 Subsidiaries abroad	Total 2017	2016 Parent company	2016 Subsidiaries in Norway	2016 Subsidiaries abroad	Total 2016
Group auditor EY								
Statutory audit	833	4 899	2 466	8 198	922	5 377	2 282	8 581
Other assurance services	-	477	-	477	-	92	-	92
Tax consultancy	467	648	1 213	2 328	123	666	1 247	2 036
Other services outside the audit	2 426	622	-	3 048	1 193	328	490	2 011
Total fees, EY	**3 726**	**6 646**	**3 679**	**14 051**	**2 238**	**6 463**	**4 019**	**12 720**
Other auditors								
Estimated audit fees			2 247	2 247			1 478	1 478

30 LIST OF GROUP COMPANIES

The following companies have been consolidated:

Name of company	*Country of origin*	*Ownership stake 31 Dec 17*	*Ownership stake 31 Dec 16*
Kongsberg Gruppen ASA	Norway	Parent	Parent
Kongsberg Defence & Aerospace AS	Norway	100	100
Kongsberg Spacetec AS	Norway	100	100
Kongsberg Norspace AS	Norway	100	100
Kongsberg Oil & Gas Technologies AS	Norway	100	100
Kongsberg Digital AS	Norway	100	100
Kongsberg Eiendom Holding AS	Norway	100	100
Kongsberg Teknologipark AS	Norway	100	100
Kongsberg Næringseiendom AS	Norway	100	100
Kongsberg Næringsparkutvikling AS	Norway	100	100
Kongsberg Næringsbygg 2 AS	Norway	100	100
Kongsberg Næringsbygg 3 AS	Norway	100	100
Kongsberg Næringsbygg 5 AS	Norway	100	100
Kongsberg Næringsbygg 6 AS	Norway	100	100
Kongsberg Real Estate AS	Norway	100	100
Kongsberg Næringsbygg 11 AS	Norway	100	100
Kongsberg Next AS	Norway	100	100
Kongsberg Seatex AS	Norway	100	100
Vehicle Tracking and Information Systems AS	Norway	100	100
Nerion AS	Norway	100	100
Kongsberg Maritime AS	Norway	100	100
Kongsberg Norcontrol AS	Norway	100	100
Kongsberg Maritime Engineering AS	Norway	Merged	100
Kongsberg Evotec AS	Norway	100	100
Kongsberg Maritime S.R.L	Italy	100	100
Simrad S.R.L	Italy	Phased out	100
Kongsberg Maritime Holland BV	The Netherlands	100	100
Kongsberg Maritime Poland Sp.z o.o.	Poland	100	100

Name of company	*Country of origin*	*Ownership stake 31 Dec 17*	*Ownership stake 31 Dec 16*
Kongsberg Defence Sp.z o.o.	Poland	100	100
Simrad Spain S.L.	Spain	100	100
Kongsberg Defence Oy	Finland	100	100
Kongsberg Maritime GmbH	Germany	100	100
Kongsberg Maritime Embient GmbH	Germany	100	100
Kongsberg Maritime Contros GmbH	Germany	100	100
Kongsberg Reinsurance DAC	Ireland	100	100
Kongsberg Norcontrol Ltd.	Great Britain	100	100
Kongsberg Maritime Holding Ltd.	Great Britain	100	100
Kongsberg Maritime Ltd.	Great Britain	100	100
Kongsberg Oil & Gas Technologies Ltd.(under avvikling)	Great Britain	100	100
Kongsberg GeoAcoustics Ltd.	Great Britain	100	100
Kongsberg Hungaria Kft.	Hungary	100	100
Kongsberg Maritime Hellas SA	Greece	100	100
Kongsberg Digital LLC	Russia	100	100
Kongsberg Geospetial Ltd.	Canada	100	100
Kongsberg Digital Simulation Ltd.	Canada	100	100
Kongsberg Maritime Ltd.	Canada	100	100
Kongsberg Mesotech Ltd.	Canada	100	100
Kongsberg Protech Systems Canada Corporation	Canada	100	100
Kongsberg Digital (Maritime) Simulation Inc.	USA	100	100
Simrad North America Inc.	USA	100	100
Kongsberg Maritime Inc.	USA	100	100
Kongsberg Underwater Technology Inc.	USA	100	100
Kongsberg Protech Systems USA Corporation	USA	100	100
Kongsberg Digital Inc (Kongsberg Gas Technologies Inc.)	USA	100	100
Kongsberg Defense Systems Inc.	USA	100	100
Hydroid Inc.	USA	100	100
Kongsberg Geospatial Corperation	USA	100	100
Kongsberg Integrated Tactical Systems Inc.	USA	100	100
Kongsberg Maritime do Brasil Ltda	Brazil	100	100
Kongsberg Maritime Training do Brasil Ltda	Brazil	Phased out	100
Kongsberg Oil & Gas Technologies do Brazil Ltda	Brazil	100	100
Kongsberg Maritime Mexico S.A. DE C.V.	Mexico	100	100
Kongsberg Defence Chile SpA	Chile	100	100
Kongsberg Maritime Panama Corp.	Panama	100	100
Kongsberg Asia Pacific Ltd.	Hong Kong	100	100
Kongsberg Maritime Hoi Tung Holding Ltd.	Hong Kong	90	90
Kongsberg Maritime China Shanghai Ltd.	China	100	100
Kongsberg Maritime China Jiangsu Ltd.	China	97	97
Kongsberg Maritime China Ltd.	China	100	100
Kongsberg Maritime China Waigaoqiao Ltd	China	100	100
Kongsberg Maritime Korea Ltd.	South Korea	96.9	96.9
Kongsberg Norcontrol IT Pte. Ltd.	Singapore	100	100
Kongsberg Maritime Pte. Ltd.	Singapore	100	100
GeoAcoustics Asia Pacific Pte Ltd.	Singapore	Phased out	100
Kongsberg Maritime India Pvt. Ltd.	India	91	91
Kongsberg Digital (Oil & Gas Technologies) PVT Ltd.	India	100	100
Kongsberg Digital Software & Services Pvt Ltd	India	100	100
Kongsberg Norcontrol Surveillance Pvt. Ltd.	India	100	100
Kongsberg Defence Ltd. Co.	Saudi Arabia	100	100
Kongsberg Defence Malaysia SDN BHD	Malaysia	100	
Kongsberg Maritime Malaysia Sdn. Bhd.	Malaysia	100	100
Kongsberg Maritime Middle East DMCCO	UAE	70	70
Kongsberg Protech Systems Australia Pty Ltd.	Australia	100	100
Kongsberg Nemo Pty. Ltd. (Under avvikling)	Australia	100	100
Kongsberg Maritime Australia Pty Ltd.	Australia	100	100
Kongsberg Maritime South-Africa Ltd.	South Africa	100	100

31 TRANSACTIONS WITH RELATED PARTIES

The Norwegian State as the largest owner

The Norwegian State as represented by the Ministry of Trade, Industry and Fisheries is KONGSBERG's largest owner (50.001 per cent of the shares in Kongsberg Gruppen ASA). The State represented by the Ministry of Defence is an important customer for the Group. Sales to the Armed Forces are regulated by the EEA agreement and the Procurement Regulations for the Armed Forces, which guarantee equal treatment for all vendors. At 31 December 2017, KONGSBERG had an outstanding balance from state-owned customers of MNOK 93, while other liability items in respect of state suppliers amounted to MNOK 12 on 31 December 2017.

In 2017, KONGSBERG issued invoices to state customers for a total of MNOK 1,413. Goods and services purchased from state suppliers in 2017 amounted to MNOK 15.

Please refer also to the Board's report on corporate governance Chapter 4 "Equal treatment of shareholders and related party transactions", where the State as a customer and shareholder is described in more detail.

Transactions with the associated companies

At 31 December 2017, KONGSBERG had trade receivables for associated companies of MNOK 7, while trade payable amounted to MNOK 10 on 31 December 2017.

In 2017, KONGSBERG issued invoices to associated companies for a total of MNOK 26. Goods and services purchased from state suppliers in 2017 amounted to MNOK 7.

32 DEFINITIONS

KONGSBERG uses terms in the consolidated financial statements that are not anchored in the IFRS accounting standards. Our definitions and explanations of these terms follow below.

EBITDA/EBITA/EBIT

EBITDA / EBITA / EBIT are considered by KONGSBERG to be normal accounting terms, but they are not included in the IFRS accounting standards. EBITDA is an abbreviation of "Earnings Before Interest, Taxes, Depreciation and Amortisation". KONGSBERG uses EBITDA in the income statement as a summation line for other accounting lines. These accounting lines are defined in our accounting principles, which are part of the consolidated financial statements for 2017. The same applies for EBITA and EBIT.

Net interest-bearing debt

Net interest-bearing debt is the net amount of the accounting lines "Cash and cash equivalents", "Long-term interest-bearing loans" and "Short-term interest-bearing loans".

Restructuring costs

KONGSBERG defines restructuring costs as salary and social security tax when the employment relationship is terminated (including severance pay and gift pension) in connection with workforce reductions. In addition, there is rent and related costs or one-time payments when leases are terminated before the lease agreement expires for spaces that are vacated, and some other costs related to restructuring.

Return on Average Capital Employed (ROACE)

ROACE is defined as 12 months rollover EBIT divided by 12 month average of the entered equity and interest-bearing debt. The definition was changed from Q3 2017 and the comparison figures have been changed accordingly.

Working capital

Working capital is defined as current assets minus cash and cash equivalents, current non-interest liabilities (except taxes payable) and financial instruments recognised at fair value. The definition was changed from Q2 2017 and the comparison figures have been changed accordingly.

Book/bill

New orders divided on operating revenues.

33 EVENTS AFTER BALANCE DATE

After the balance sheet date there have been no events significant to the consolidated financial statements and notes as of 31 December 2017.

Income statement 1 January-31 December

KONGSBERG GRUPPEN ASA

MNOK	*Note*	*2017*	*2016*
Operating revenues from subsidiaries	9	221	242
Profit from sale of shares		2	64
Total revenues		**223**	**306**
Payroll expenses	4, 5	(126)	(131)
Depreciation		(1)	(1)
Other operating expenses	4	(141)	(142)
Total operating expenses		**(268)**	**(274)**
Operating profit		**(45)**	**32**
Profit from sale of shares		-	104
Interest from group companies		99	109
Net gain on currency exchange		6	1
Interest to Group companies		(8)	(19)
Other interest expenses		(95)	(68)
Other financial income		4	9
Other finance expenses		(23)	(19)
Group contribution		690	400
Net finance items		**673**	**517**
Ordinary profit before tax (EBIT)		**628**	**549**
Income tax expense (+income/expense)	6	10	(2)
Profit for the year		**638**	**547**
Allocations and equity transfers			
Proposed dividend		(450)	(450)

Balance sheet at 31 December

KONGSBERG GRUPPEN ASA

MNOK	*Note*	*2017*	*2016*
Assets			
Fixed assets			
Deferred tax assets	6	109	99
Fixed assets		4	4
Shares in subsidiaries	3	2 970	2 970
Other shares		-	-
Long-term receivables from subsidiaries	9	1 977	3 738
Other long-term receivables		2	40
Total non-current assets		**5 062**	**6 851**
Current assets			
Receivables from subsidiaries	9	794	555
Other short-term receivables		56	45
Cash and cash equivalents		758	-
Total current assets		**1 608**	**600**
Total assets		**6 670**	**7 451**
Equity and liabilities			
Equity			
Shares capital		150	150
Total paid-in capital		**150**	**150**
Other equity		1 289	1 102
Total retained earnings		**1 289**	**1 102**
Total equity	2	**1 439**	**1 252**
Non-current liabilities			
Pension liabilities	5	240	239
Debt to credit institutions	7	3 250	3 732
Other non-current liabilities		7	8
Total non-current liabilities		**3 497**	**3 979**
Current liabilities			
Dividend		450	450
Debt to credit institutions	7, 11	-	1 125
Current liabilities to subsidiaries	9	1 195	552
Other current liabilities		89	93
Total current liabilities		**1 734**	**2 220**
Total equity and liabilities		**6 670**	**7 451**

Kongsberg, 15 March 2018

Eivind Reiten
Chairman

Irene Waage Basili
Deputy chairman

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Director

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
Chief Executive Officer

Statement of cash flow

KONGSBERG GRUPPEN ASA

MNOK	*Note*	*2017*	*2016*
Profit before tax		628	549
Profit from sale of shares		-	(158)
Depreciation		1	1
Changes in accruals, etc.		52	240
Net cash flows from operating activities		**681**	**632**
Cash flow from investing activities			
Sales of fixed assets		-	-
Purchase of fixed assets		(1)	(1)
Sale of shares		-	278
Investment in shares		-	(725)
Net cash flow used in investing activities		**(1)**	**(448)**
Cash flow from financing activities			
Repayment of loans		37	2
Dividends received		-	7
Proceeds from interest-bearing loans		-	2 977
Payment of loans		(755)	-
Paid dividend		(448)	(509)
Net disbursements for purchase/disposal of treasury shares		(18)	(3)
Changes in intercompany balances		2 125	(3 242)
Net cash flow from financing activities		**941**	**(768)**
Net increase (reduction) in cash and cash equivalents		**1 621**	**(584)**
Cash and cash equivalents at the beginning of the period		**(863)**	**(279)**
Cash and cash equivalents at the end of the period		**758**	**(863)**

Notes

KONGSBERG GRUPPEN ASA

1 ACCOUNTING POLICIES

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

Subsidiaries and associated companies

Subsidiaries and associates are measured at cost in the statutory accounts. The investment is evaluated at acquisition cost less any impairment losses. Such assets are written down to fair value when a decrease in value cannot be considered to be temporary and is required pursuant to generally accepted accounting principles. Impairments are reversed when the basis for the impairment no longer applies.

Classification and valuation of balance sheet items

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

Revenues

Revenues are recognised in the period when the services are rendered.

Hedges

Kongsberg Gruppen ASA enters into hedging contracts on behalf of subsidiaries and enters into "back to back-" agreements with external banks. See also Note 10 "Currency hedging" and Note 3J "Financial instruments" of the consolidated financial statement.

Receivables

Trade receivables and other receivables are capitalised at nominal values less provisions for expected loss. Provisions for losses are made on the basis of individual assessments of each receivable.

Foreign currency

Monetary items in a foreign currency are assessed using the exchange rate applicable at year-end. Gains and losses related to items in a foreign currency and that are part of the goods circulation are included in the operating profit/loss. Other gains and losses related to items in foreign currency are classified as financial income or costs.

Short-term investments

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

Pensions

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

The defined benefit plan
Pension costs and pension obligations are calculated according to linear accruals, based on the expected final salary. The calculation is based on a number of assumptions including discount rates, future salary adjustments, pensions and benefits from the National Insurance Scheme, and future interest income on pension fund assets, as well as actuarial assumptions on mortality and voluntary retirement. Pension fund assets are measured at their fair value, less net pension liabilities at the date of the balance sheet. See also Note 5 "Pensions".

Income tax

Income tax expense in the financial statements includes tax payable and the change in deferred tax for the period. Deferred tax/tax assets are calculated at 23 per cent on all temporary differences between the book value and tax value of assets and liabilities, and loss carried forward at the end of the reporting period. Taxable and deductible temporary differences that reverse or may reverse in the same period are offset. Deferred tax assets are recognised when it is probable that the company will have adequate profit for tax purposes in subsequent periods to utilise the tax asset.

Statement of cash flow

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

2 EQUITY RECONCILIATION

MNOK	*Share capital*	*Other equity*	*Total equity*
Equity at 31 Dec 15	**150**	**1 002**	**1 152**
Profit for the year	-	547	547
Transactions with treasury shares	-	5	5
Dividend for 2016	-	(450)	(450)
Actuarial gain/loss on pension expense	-	(2)	(2)
Equity at 31 Dec 16	**150**	**1 102**	**1 252**
Profit for the year	-	638	638
Transactions with treasury shares	-	(2)	(2)
Dividend for 2017	-	(450)	(450)
Actuarial gain/loss on pension expense	-	1	1
Equity at 31 Dec 17	**150**	**1 289**	**1 439**

Other information about the company's share capital is provided in Note 22 "Share capital" of the consolidated financial statements. The total number of treasury shares at 31 December is 8,961.

3 SHARES IN SUBSIDIARIES

MNOK	*Acquisition time*	*Business office*	*Owner/ vote share*	*Carrying amount 31 Dec*
Kongsberg Defence & Aerospace AS	1997	Kongsberg	100	1 206
Kongsberg Basetec AS	1992	Kongsberg	100	106
Kongsberg Maritime AS[1]	1992	Kongsberg	98,9	1 102
Kongsberg Eiendom Holding AS	2015	Kongsberg	100	497
Kongsberg Next AS	2014	Kongsberg	100	30
Kongsberg Maritime China Ltd	2016	Shanghai	100	25
Kongsberg Holding AS	1987	Kongsberg	100	-
Kongsberg Forsvar AS	1995	Kongsberg	100	-
Norsk Forsvarsteknologi AS	1987	Kongsberg	100	-
Nerion AS	2002	Trondheim	100	-
Kongsberg Hungaria Kft [2]	2003	Budapest	10	-
Kongsberg Reinsurance Ltd.	2001	Dublin	100	4
Total				**2 970**

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

4 PAYROLL EXPENSES AND AUDITOR'S FEES

With regard to salary and remuneration to the corporate executive management and Board members, reference is made to Note 28 "Remuneration for executive management and the Board" in the consolidated financial statements.

Auditor's fees

NOK thousand	*2017*	*2016*
Group auditor EY		
Statutory audit	833	922
Tax consultancy	467	123
Other services outside the audit	2 426	1 193
Total fees, EY	**3 726**	**2 238**

Payroll expenses

MNOK	*2017*	*2016*
Salaries	71	75
Social security expenses	13	14
Pension	16	16
Other benefits	26	26
Total payroll expenses	**126**	**131**
Total man-labour years	51	62

5 PENSIONS

KONGSBERG has a service pension plan that consists of a defined contribution plan and a defined benefit plan and complies with laws and regulations. The service pension plans include all employees of the Group in Norway.

The defined contribution pension scheme (ITP)

The Group introduced a defined contribution pension scheme as of 1 January 2008 for all employees under 52 years of age. The contribution rates are 0 per cent of salary up to 1G, 5 per cent of salary between 1G and 7,1G, and 11 per cent of salary from 7,1G up to 12G. The employees can influence the way the funds are managed by choosing between three investment options; with either 30, 50 or 80 per cent of their shares in the portfolio. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The Group's deposits in this plan are 18 per cent of the portion of the base salary that exceeds 12G, up to a ceiling of 15G. Special terms and conditions apply for executives. This is described in Note 27 "Statement on the remuneration of the Group CEO and Executive Management". The unfunded scheme has been closed for new members since 2015. The supplementary plan has the same investment choices as the main plan. The contributions are expensed as incurred.

The defined benefit plan (YTP)

In connection with the transition to the defined contribution plan on 1 January 2008, employees aged 52 or more remained in the defined benefit plan. The pension plan is insured through DNB Life Insurance. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. Pension costs are distributed over the employee's accrual period. Given a calculated state pension based on the Norwegian National Insurance Scheme's rules before 1 January 2011 and full earning, the scheme provides approx. 65 per cent of the final salary including National Insurance benefits until the age of 77, after which the service pension section is reduced by 50 per cent for the remaining lifetime. The Group also has a collective, unfunded defined benefit plan for salaries between 12G and 15G. The collective, unfunded benefits plan corresponds to about 60 per cent of the share of the basic wage that exceeds 12G until the age of 77, and then the benefit is reduced by 50 per cent for the remaining lifetime. Special terms and conditions apply for executives. This is described in Note 27 "Statement on the remuneration of the Group CEO and Executive Management". These supplementary plans were discontinued in connection with the transition to defined contribution pension schemes.

Risk coverage

Disability pension from the Group was changed on 1 January 2016 and will provide an addition to the estimated disability benefits from national insurance. National insurance will cover 66 per cent of the pension basis up to 6G, while the Group plan covers 66 per cent of the pension basis between 6G and 12G. The Group plan also provides an additional 3 per cent of the pension basis from 0G to 12G, a pay increase of 25 per cent of G and any child supplement of 4 per cent per child (maximum 3 children). From 1 January 2016, KONGSBERG has decided to terminate the paid-up policy accrual for disability pensions as part of the adaptation to the new regulations. The employees have been issued individual paid-up policies for the already earned paid-up policy rights. The new scheme is a one-year risk cover and the premiums will be expensed as they accrue. Starting on 1 January 2013, the risk pensions are unfunded for the share of salary that exceeds 12G. In practice this implies that KONGSBERG is self-insurer for the risk pension for future periods. The unfunded scheme has been closed for new members since 2015.

Early retirement

In 2009, the Group introduced new rules for early retirement for newly hired members of executive management and others in certain key positions. The rules entail early retirement from the age of 65 at the latest, but with reciprocal rights for the Group and the employees to request retirement from the age of 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 contribution years. If the employee resigns between 63 and 65, this will reduce pension earnings for other plans. The Group decided not to continue the scheme with early retirement agreements for executives employed after 1 July 2013. This also applied to employees in certain key positions who previously were offered agreements on early retirement. These individuals instead receive an additional contribution of 12 per cent of the basic salary in excess of 12G, to the unfunded pension scheme as long as they hold the post, but only until the age of 65 at the latest. After an overall assessment of the State's ownership report, the Group decided on 1 October 2015 not offer any early retirement options.

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

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

	31 Dec 17	*31 Dec 16*
Discount rate	2.25%	2.50%
Asset return	2.25%	2.50%
Wage adjustment	1.75%	1.50%
Pension base level (G) adjustment	2.25%	2.00%
Pension adjustment	1.25%	1.00%
Mortality	K 2013	K 2013
Disability	IR 73	IR 73
Voluntary turnover	4.50%	4.50%

The year's pension costs were calculated as follows:

MNOK	*2017*	*2016*
Present value of the year's earned pensions	7	7
Interest cost on accrued pension liabilities	3	2
Estimated return on pension plan assets	-	(1)
Accrued social security expenses	1	1
Total net pension cost for the year	**11**	**9**
Defined contribution plan costs	**12**	**12**

The net pension liability appears as follows:

MNOK	*2017*	*2016*
Total gross pension liabilities	(241)	(243)
Gross value of gross pension assets	31	34
Net pension liabilities	**(210)**	**(209)**
Social security expenses	(30)	(30)
Net pension liabilities in balance sheet	**(240)**	**(239)**

6 INCOME TAX

Income tax expense

MNOK	*2017*	*2016*
Taxes payable	-	-
Change in deferred tax	(10)	2
Tax income/expense	**(10)**	**2**

MNOK	*2017*	*2016*
Profit before tax	**628**	**549**
Tax calculated – 24 per cent (25 per cent) of profit before tax	151	137
Group contribution without tax effect	(166)	(100)
Other permanent differences	-	(39)
Effect of reduced tax rate by 1 per cent	5	4
Tax income/expense	**(10)**	**2**

Deferred tax and deferred tax asset

MNOK	*2017*	*2016*
Pension	55	57
Unused tax losses	55	42
Other	(1)	-
Recognised deferred tax asset	**109**	**99**
Tax rate in Norway	23%	24%

Change in deferred tax recognised directly in equity as follows:

MNOK	*2017*	*2016*
Pensions	-	1
Total	**-**	**1**

7 LONG-TERM INTEREST-BEARING LOANS AND CREDIT FACILITIES

At 31 December 2017, Kongsberg Gruppen ASA had the following loans and credit facilities:

	Due date	*Nominal interest rate*	*Years to maturity*	*Carrying value 31 Dec 17*	*Carrying value 31 Dec 16*
Bond loan KOG07 - fixed interest	11 Sep 19	4.80%	1.7	250	250
Bond loan KOG08 - floating interest	2 Jun 21	2.02%	3.5	1 000	1 000
Bond loan KOG09 - fixed interest	2 Jun 26	3.20%	8.5	1 000	1 000
Bond loan KOG10 - floating interest	5 Mar 20	2.04%	2.3	550	550
Bond loan KOG11 - fixed interest	5 Dec 23	2.90%	6	450	450
Bridging loan in EUR – floating interest	24 Feb 19	0.80%		-	482
Total long-term loans				**3 250**	**3 732**
Bond loan KOG05 - floating interest	11 Sep 17	2.94%	0,7	-	257
Other interest-bearing loans	1 Mar 17			-	5
Total current liabilities				**-**	**262**
Total interest-bearing loans				**3 250**	**3 994**
Credit facility (undrawn borrowing limit)	7 Apr 19			2 300	1 500
Overdraft (unused)				500	500

Kongsberg Gruppen ASA has a syndicated credit facility with Danske Bank, DNB, JP Morgan Chase, Nordea and SEB. The facility is for general business purposes. The facility has a term of five years with an option to extend for one year, twice. The interest rate is NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.55 per cent to 2 per cent. The credit facilities require that net interest-bearing debt shall not exceed four times the EBITDA, but can be up to 4.5 times the figure for three consecutive quarters at the most. The covenants in the loan agreements have been met. There was no borrowings on the facility as of 31 December 2017.

Kongsberg Gruppen ASA had five bond loans at the end of 2017. The bond loans were issued in NOK and listed on the Oslo Stock Exchange. The interest rate terms on loans with floating rates are 3-month NIBOR with a margin of + 1.25 per cent for KOG08 and 0.9 per cent for KOG10. The fixed interest rate is 4.8 per cent for KOG07, 3.20 per cent for KOG09 and 2.9 per cent for KOG11.

Kongsberg Group ASA had a bridging loan from 2016 that was completely redeemed on 28 April 2017.

A new cash credit of MNOK 500 was established. As of 31 December 2017, this remains undrawn.

All loans in the Group are centralised to Kongsberg Gruppen ASA and handled by the Group's treasury unit.

8 GUARANTEES

Kongsberg Gruppen ASA has, in the period from 1999 to 2014, sold properties in the Kongsberg Teknologipark Park. The properties have been leased back on long-term lease and expire from 2017 to 2031. The leaseback contracts have been entered into by Kongsberg Næringsparkutvikling AS, which is a wholly-owned subsidiary of Kongsberg Eiendom Holding AS, which in its turn is owned 100 per cent by Kongsberg Gruppen ASA. The leaseback contracts are classified as operating leasing agreements.

In addition to lease payments, Kongsberg Gruppen ASA is responsible for certain expenses related to taxes and maintenance of the properties. With the exception of the properties sold in 2007 and 2014, the properties are mainly leased to external tenants. The leases have durations ranging from three months to 15 years. The obligations related to this responsibility were in 2015 transferred to Kongsberg Næringsparkutvikling AS, but Kongsberg Gruppen ASA guarantees that the obligations are observed. Further information on provisions related to these leases is given in Note 23 "Provisions" of the consolidated financial statements.

Prepayment and completion guarantees

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

MNOK	*2017*	*2016*
Guarantees issued by banks and insurance companies	2 308	2 572
Guarantees issued by Kongsberg Gruppen ASA	5 331	5 093
Prepayments from and completion guarantees to customers	**7 639**	**7 665**

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

9 RELATED PARTIES

Operating revenues

MNOK	2017	2016
Kongsberg Maritime AS	109	130
Kongsberg Defence & Aerospace AS	95	97
Kongsberg Digital AS	11	7
Kongsberg Oil & Gas Technologies AS	-	4
Other companies	6	4
Total operating income-related parties	**221**	**242**

Operating income from closely related parties mainly consists of joint Group expenses and insurance, as well as margins on guarantee and currency businesses.

Long-term receivables from related parties

MNOK	2017	2016
Kongsberg Defence & Aerospace AS	529	1 629
Kongsberg Maritime AS	-	196
Kongsberg Digital AS	100	100
Kongsberg Næringseiendom AS	100	100
Kongsberg Næringsbygg 2 AS	79	79
Kongsberg Næringsbygg 3 AS	83	103
Kongsberg Norcontrol IT AS	198	233
Kongsberg Næringsbygg 5 AS	106	71
Kongsberg Næringsbygg 6 AS	5	12
Kongsberg Maritime Engineering AS	-	120
Kongsberg Geospatial Ltd.	-	11
Kongsberg Protech Systems USA Corporation Inc.	31	42
Hydroid Inc	462	520
Kongsberg Maritime Holding Ltd	-	46
Kongsberg Maritime Hoi Tung Holding Ltd.	102	104
Kongsberg Integrated Tactical systems Inc (KITS)	-	174
Kongsberg Maritime Mexico S.A.DE C.V	-	4
Kongsberg Maritime do Brasil SA	7	7
Kongsberg Maritime Training do Brasil SA		16
Kongsberg Maritime Malaysia Sdn. Bhd	16	17
Kongsberg Oil & Gas Technologies Pty Ltd	-	21
Kongsberg Norspace AS	84	64
Kongsberg Maritime Embient GmbH	27	25
Kongsberg Maritime Contros GmbH	16	15
Kongsberg Maritime Australia Pty Ltd.	6	6
Kongsberg Maritime India PVT. LTD	17	18
Other companies	10	6
Total	**1 977**	**3 738**

Short-term liabilities to related parties

MNOK	2017	2016
Kongsberg Defence & Aerospace AS	680	307
Kongsberg Maritime AS	280	1
Kongsberg Digital AS	-	1
Kongsberg Oil & Gas Technologies AS	-	2
Kongsberg Seatex AS	4	4
Kongsberg Spacetec AS	19	36
Kongsberg Next AS	15	15
Kongsberg Evotec AS	15	15
Kongsberg Holding AS	5	5
Kongsberg Reinsurance Ltd	-	85
Kongsberg Maritime Inc	33	13
Kongsberg Mesotech Ltd.	105	-
Kongsberg Maritime Holding Ltd	-	26
KM Aberdeen	22	21
Kongsberg Underwater Technology Inc.	16	17
Other companies	1	3
Total	**1 195**	**552**

Short-term receivables from related parties

MNOK	2017	2016
Kongsberg Maritime AS	25	233
Kongsberg Defence & Aerospace AS	686	265
Kongsberg Basetec AS	40	40
Kongsberg Seatex	31	1
Kongsberg Næringsparkutvikling	1	-
Kongsberg Digital AS	0	4
Other	11	12
Total	**794**	**555**

10 CURRENCY HEDGING

On 31 December, the company had the following foreign exchange currency hedges, divided by hedge category:

	2017					
Amounts in mill.	*Value in NOK based on the agreed rates 31 Dec 17*	*Fair value in NOK 31 Dec 17*	*Total hedged amount in USD 2017*	*Average hedged rate in USD 31 Dec 17*	*Total hedged amount in EUR 31 Dec 17*	*Average hedged rate in EUR 31 Dec 17*
Cash flow hedges						
Forward exchange contracts	2 374	26	310	8.22	49	9.84
Total cash flow hedges	**2 374**	**26**	**310**		**49**	
Fair value hedges						
Forward exchange contracts	7 868	(413)	558	7.59	290	9.56
Loan hedges	527	11	72	8.32	4	9.91
Total currency hedges	**10 769**	**(376)**	**940**		**343**	

	2016					
Amounts in mill.	*Value in NOK based on the agreed rates 31 Dec 16*	*Fair value in NOK 31 Dec 16*	*Total hedged amount in USD 2016*	*Average hedged rate in USD 31 Dec 16*	*Total hedged amount in EUR 31 Dec 16*	*Average hedged rate in EUR 31 Dec 16*
Cash flow hedges						
Forward exchange contracts	5 070	(144)	571	8.34	37	9.22
Total cash flow hedges	**5 070**	**(144)**	**571**		**37**	
Fair value hedges						
Forward exchange contracts	9 182	(833)	841	7.4	182	9.41
Loan hedges	961	8	100	8.67	4	9.07
Total currency hedges	**15 213**	**(969)**	**1 512**		**223**	

Foreign exchange options
As of 31 December 2017 Kongsberg Gruppen ASA has no currency options.

Basis swaps
In 2016, basis swaps totalling MEUR 130 were entered in relation to investments in associated companies in one of the subsidiaries. These basis swaps have a fair value of MNOK -64.6 as of 31 December 2017 (MNOK 28.6 as of 31 December 2016). Changes in value have not been included in Kongsberg Gruppen ASA's accounts in accordance with Norwegian GAAP.

Currency hedges related parties

Subsidiary

MNOK	2017 Value in NOK based on the agreed rates 31 Dec 17	2017 Fair value in NOK 31 Dec 17	2017 Total hedged amount in USD 2017	2017 Total hedged amount in EUR 31 Dec 17	2016 Value in NOK based on the agreed rates 31 Dec 16	2016 Fair value in NOK 31 Dec 16	2016 Total hedged amount in USD 2016	2016 Total hedged amount in EUR 31 Dec 16
Forward exchange contracts, cash flow hedging								
Kongsberg Maritime AS	260	(7)	24	7	439	(19)	44	9
Kongsberg Oil & Gas Technologies AS	-	-	-	-	-	-	-	-
Kongsberg Digital AS	58	0	5	2	86	(2)	7	3
Kongsberg Defence & Aerospace AS	2 059	35	281	41	4 285	(118)	489	25
Kongsberg Norcontrol AS	(2)	(2)	-	-	260	(5)	31	-
Total cash flow hedges	**2 374**	**26**	**310**	**49**	**5 070**	**(144)**	**571**	**37**
Forward exchange contracts, fair value hedges								
Kongsberg Maritime AS	2 170	4	184	64	1 996	(34)	193	37
Kongsberg Maritime Engineering AS	-	-	-	-	428	6	17	30
Kongsberg Oil & Gas Technologies AS					-	-	-	-
Kongsberg Digital AS	292	(5)	18	10	292	(9)	15	10
Kongsberg Defence & Aerospace AS	4 203	(388)	338	113	5 545	(790)	596	30
Kongsberg Spacetec AS	199	(0)	11	11	118	-	12	2
Kongsberg Norcontrol IT AS	413	(5)	5	36	380	4	5	33
Kongsberg Norspace AS	557	(23)	2	57				
Other companies	34	3	1	(1)	423	(9)	3	41
Total fair value hedges	**7 868**	**(413)**	**558**	**290**	**9 182**	**(832)**	**841**	**183**
Total currency hedges	**10 242**	**(387)**	**868**	**339**	**14 252**	**(976)**	**1 412**	**220**

Associated companies

MNOK	2017 Value in NOK at 31 Dec 17 based on the agreed rates	2017 Fair value in NOK 31 Dec 17	2017 Total hedged amount in USD 2017	2017 Total hedged amount in EUR 31 Dec 17	2016 Value in NOK at 31 Dec 16 based on the agreed rates	2016 Fair value in NOK 31 Dec 16	2016 Total hedged amount in USD 2016	2016 Total hedged amount in EUR 31 Dec 16
Forward exchange contracts, fair value hedges								
Kongsberg Satellite Service	1 273	(19)	80	61	1 229	(9)	82	54

11 CASH AND CASH EQUIVALENTS

Nominal amounts in MNOK	*2017*	*2016*
Bank deposits, operating accounts	758	-
Deductions from operating bank accounts	-	(863)
Total	**758**	**(863)**

Bank guarantees amounting to MNOK 10 (MNOK 10 in 2016) have been furnished for funds related to withholding tax for employees.

The Group's liquidity management is centralised in Kongsberg Gruppen ASA and handled by the Group's treasury unit.

Statement from the Board

KONGSBERG GRUPPEN ASA

We hereby confirm, to the best of our conviction, that the financial statements for 1 January to 31 December 2017 have been drawn up in compliance with recognised accounting standards, and that the information disclosed therein gives a true picture of the enterprise's and the Group's assets, liabilities, financial position and performance as a whole, and that the information disclosed in the Directors' report gives a true picture of the progress, profits and position of the enterprise and the Group, as well as a description of the most central risk and uncertainty factors facing them.

Kongsberg, 15 March 2018

Eivind Reiten
Chairman

Irene Waage Basili
Deputy chairman

Martha Kold Bakkevig
Director

Morten Henriksen
Director

Anne-Grete Strøm-Erichsen
Director

Sigmund Ivar Bakke
Director

Elisabeth Fossan
Director

Helge Lintvedt
Director

Geir Håøy
President and CEO

AUDITOR'S REPORT 2017

Building a better working world

Statsautoriserte revisorer
Ernst & Young AS

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Medlemmer av Den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Kongsberg Gruppen ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kongsberg Gruppen ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2017, the income statement and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the statement of financial position as at 31 December 2017, the income statement, statements of other comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Recognition of construction contracts

A large part of the Group's revenues and expenses are derived from construction contracts recognised in accordance with the percentage of completion method. Management exercises judgement with regard to different assumptions in the process of recognising the Group's revenues and expenses in accordance with the percentage of completion method, including choice of method for measuring completion and assessment of the projects' percentage of completion.

There is uncertainty attached to expected total revenues and expenses which are the basis for these estimates. The recognition of construction contracts is a key audit matter, due the extent and complexity of ongoing projects in the Group with duration over several years, and where management exercises judgement to estimate the percentage of completion, including expected revenues and expenses.

We evaluated the application of accounting principles, methods for estimating the projects' percentage of completion, routines for monitoring projects and tested controls over project assessments and recognition. We discussed estimated total project expenses or hours, including provisions for guarantees, with project management, evaluated these estimates against comparable projects, and analysed the development in margins for selected projects and the total project portfolio. For selected contracts, we tested estimated revenues against agreements, incurred expenses against invoices and hours against timesheets, and assessed the total estimated project expenses. In addition, we have analysed actual margins on selected completed projects against estimated total margins during the project period in order to evaluate management's accuracy in judgments and estimates.

We refer to Note 2 for details on estimation uncertainty and note 8 on construction contracts in the Groups' financial statements.

Currency hedging of future cash flows in foreign currency

A large part of the Group's cash flows is in foreign currencies. The Group hedges contractual cash flows and a part of highly probable future cash flows by entering into forward contracts. The use of hedge accounting and documentation of hedge effectiveness is complex and require close follow up from management. Due to the amounts involved, we view currency hedging of future cash flows in foreign currency as a key audit matter.

We assessed the design and tested the effectiveness of internal controls over designation and follow up of the hedging relationships, including testing the assessment of hedge effectiveness. We assessed if the documentation relating to the currency hedging was in accordance with requirements in the accounting standards. We considered the Group's process of follow up of forward contracts entered into against expected cash flows and tested reconciliations between supporting source systems and documents used to manage and document hedging relationships. We assessed the Group's presentation and classification of currency hedges in the financial statements, including note disclosures.

We refer to Note 3 for details on accounting principles and note 20 on financial instruments in the Group's financial statements.

Other information

Other information consists of the information included in the Company's annual report and sustainability report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

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

Opinion on registration and documentation

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

Oslo, 15 March 2018
ERNST & YOUNG AS

Finn Espen Sellæg
State Authorised Public Accountant (Norway)

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

Financial calendar

ANNUAL GENERAL MEETING

The ordinary Annual General Meeting will be held on
Wednesday 16 May 2018

PRESENTATION OF QUARTERLY RESULTS

Q1:	15 May 2018
Q2:	24 August 2018
Q3:	26 October 2018

Ticker kode: KOG (Oslo Stock Exchange)

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