KONGSBERG

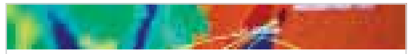
ANNUAL REPORT AND SUSTAINABILITY REPORT 2006

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

THE GROUP

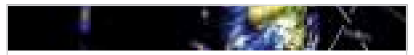
VISION, OBJECTIVES AND STRATEGY

DIRECTORS' REPORT AND ACCOUNTS



BUSINESS AREA ACTIVITIES

CORPORATE GOVERNANCE AND FINANCIAL STATEMENTS



SUSTAINABILITY REPORT

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

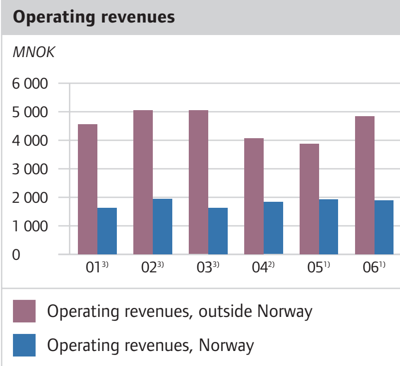
Kongsberg Gruppen ASA

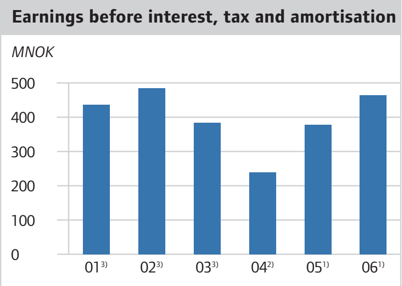
Kongsberg Maritime AS	Kongsberg Defence & Aerospace AS
Offshore & Merchant Marine	**Defence & Aerospace**
Offshore & Marine	Missiles & Space
Process Automation	Naval Systems
Subsea	Integrated Air Defence Systems
Positioning	Dynamic Systems
	Land Systems & Surveillance
	Defence Communication

The Group

- Total growth in operating revenues was 16%. Growth took place in both business areas.
- 94% of the growth took place abroad, and sales outside Norway accounted for 72% of operating revenues.
- The operating profit climbed by MNOK 86. Improved performance for both Offshore & Merchant Marine and Defence & Aerospace.
- The EBITA margin ended at 6.9%. Margins improved in both business areas.

Read more on pages 2–11

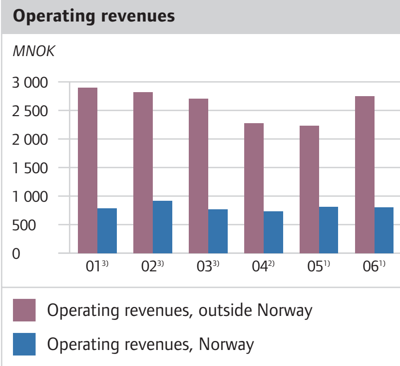


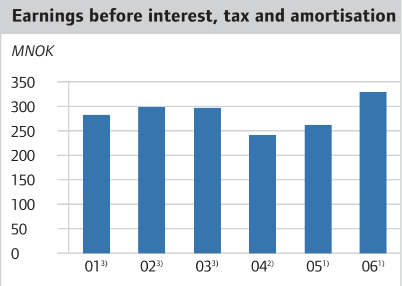


Offshore & Merchant Marine

- 17% growth in operating revenues. More deliveries to the offshore market. The merchant fleet market maintained a stable high level.
- Sales outside Norway accounted for 77% of operating revenues.
- The operating profit up by MNOK 67. Improvement in all divisions. The EBITA margin ended at 9.3%. Profitability improved thanks to positive market conditions, emphasis on efficient performance and the fact that some value-adding operations have been moved closer to customers.

Read more on pages 66–77

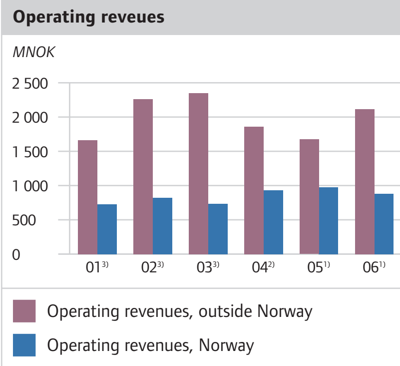


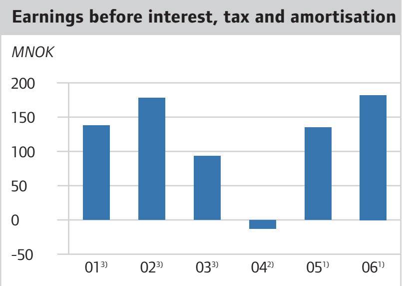


Defence & Aerospace

- Total growth in operating revenues of 13%. Dynamic Systems accounted for the largest part of the growth.
- Sales outside Norway accounted for 71% of operating revenues.
- The operating profit climbed by MNOK 47. Most pronounced improvement in military communications and remote weapons systems.
- The EBITA margin ended at 6.1%. Dynamic Systems improved profitability as a result of a buoyant market and higher volumes. Communications operations saw a favourable profitability trend thanks to added emphasis on project implementation.

Read more on pages 78–89





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

MAIN FIGURES

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

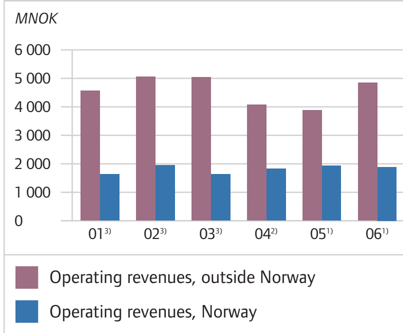
Amounts in MNOK		*2006[1)]*	*2005[1)]*	*2004[2)]*	*2003[3)]*	*2002[3)]*	*2001[3)]*	*1990[3)]*
Operations								
Operating revenues		6 720	5 791	5 901	6 651	6 980	6 176	5 296
– Civilian	%	57	59	54	54	62	63	64
– Defence	%	43	41	46	46	38	37	36
– Outside Norway	%	72	67	69	76	72	74	74
Earnings before interest, tax and amortisation (EBITA)		464	378	239	383	485	437	287
EBITA margin	%	6.9	6.5	4.1	5.8	6.9	7.1	5.4
Earnings before tax (EBT)		390	314	180	190	291	191	188
Net profit/(loss) for the year		252	262	118	125	216	123	(56)
Backlog of orders		6 472	5 416	5 425	5 913	5 143	6 401	6 610
Number of employees		3 650	3 372	3 495	4 176	4 208	4 012	3 765
Owners' values								
Market capitalisation		5 250	3 720	2 970	3 180	2 715	2 895	2 550
Earnings per share from continuing operations		8.30	7.19	3.44	4.23	7.21	4.18	(1.86)
P/E		21.08	17.24	27.62	25.06	12.55	23.09	-
Equity ratio	%	23	23	26	30	31	27	26
Equity		1 684	1 505	1 626	1 830	1 741	1 538	1 406
Dividends		2.50	2.15	2.00	1.30	2.10	0.00	0.00

Amounts in MEUR (NOK/EUR = 8,2380)		*2006[1)]*	*2005[1)]*	*2004[2)]*	*2003[3)]*	*2002[3)]*	*2001[3)]*	*1990[3)]*
Operations								
Operating revenues		816	703	716	807	847	750	643
– Earnings before interest, tax and amortisation (EBITA)	%	56	46	29	46	59	53	35
– Earnings before tax (EBT)	%	47	38	22	23	35	23	23
Owner's values								
Earnings per share after tax in EUR		1.01	0.87	0.42	0.51	0.88	0.51	(0.23)

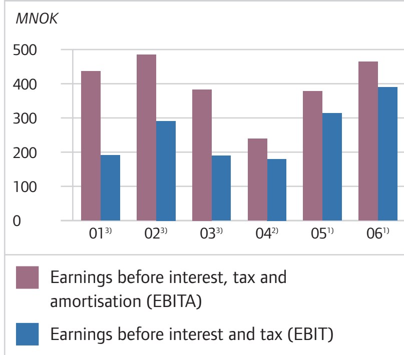
Key figures by Business Area	Operating revenues			Operating profit		
Amounts in MNOK	*2006*	*2005*	*2004[2)]*	*2006*	*2005*	*2004[2)]*
Offshore & Merchant Marine	3 553	3 034	3 013	329	262	242
Defence & Aerospace	2 997	2 650	2 791	182	135	(13)
Other/elimination	170	107	97	(47)	(19)	10
The Group	6 720	5 791	5 901	464	378	239

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

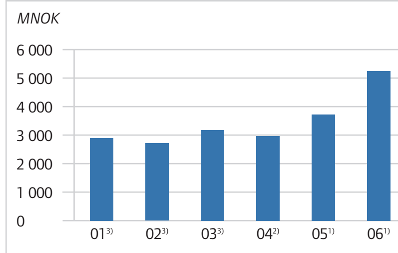
Operating revenues



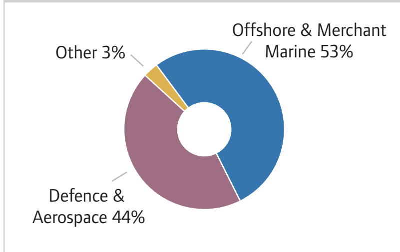
Earnings



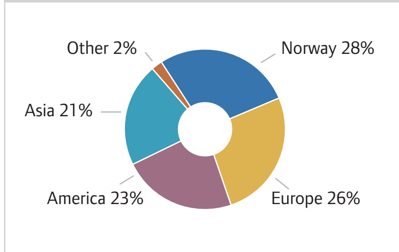
Market capitalisation



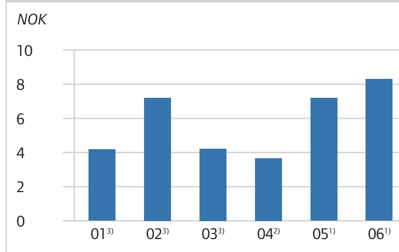
Operating reveues by business activity



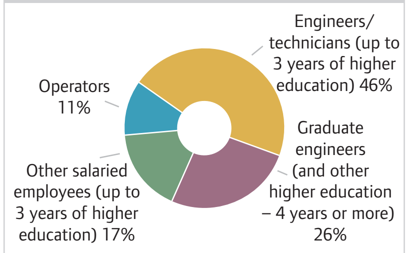
Operating revenues by region



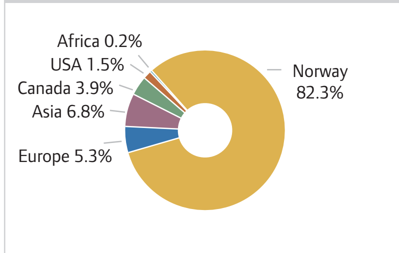
Earnings per share



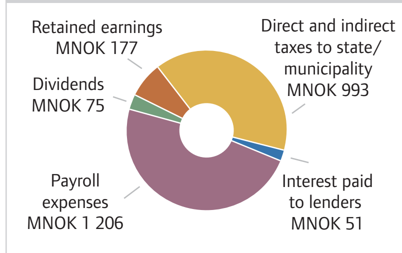
Employees by level of education



Employees by region



Value added accounts



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

CHIEF EXECUTIVE OFFICER JAN ERIK KORSSJØEN

"WE ADD CONSIDERABLE VALUE"

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

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

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

Our long-term value creation can to some extent be expressed by the investments we make in the future. The most important are:

- We spent MNOK 82 more on development in 2006 than in 2005. Altogether, Kongsberg spent 11 per cent of its operating revenues on R&D.
- We spent MNOK 284 on acquisitions in 2006, and these undertakings will reinforce our operations in selected product areas. Collectively, these acquisitions did not make a positive contribution to earnings per share (EPS) in 2006, but they are expected to contribute favourably in the years ahead.
- We continue to give priority to human resources development in technical fields as well as administration, and we invested in new production control tools.

All in all, we added considerable value during the year. The year's value added was higher than in 2005, and we augmented our investments in the future. In terms of both added value and market position, our progress was partially ascribable to the generally bullish market, but it was mainly the result of our successes during the year. We improved our operating revenues (16 per cent), profitability (22.8 per cent higher EBITA), new orders (35 per cent) and order backlog (19.5 per cent), at the same time as we cut costs.

Strong markets

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

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

We continue to maintain leading positions in most of our maritime product areas. We benefit greatly from being part of a robust Norwegian maritime cluster.

Kongsberg Maritime signed agreements to acquire Fantoft Process Technologies and Sense Intellifield in 2006. Combined with the Group's other oil and gas activities, the acquisitions will be valuable additions to Kongsberg's campaign to become a larger, more important supplier to the oil and gas industry.

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

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

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

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

Stronger international presence

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

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

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

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

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

Kongsberg currently has more than 40 operations in 24 countries.

Ambitions

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

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

We also stand for value

We do not merely create value; we also stand for value. Groups like Kongsberg have plenty of guidelines, instructions and procedures. The important thing is which choices we make with a view to what we want to stand for, and which attitudes and standards of conduct we strive to achieve.

Besides working with attitudes, we have made choices about how to document the standards that best express those attitudes. As a result, we joined the UN Global Compact in 2006. The initiative covers areas such as human rights, the environment and corruption in a manner that is fully commensurate with the Group's guidelines and attitudes.

Kongsberg has decided to publish its 2006 Annual Report and Sustainability Report as a single document. This choice reflects our desire to show that sustainability and corporate social responsibility are integral parts of the Group's business strategy and routine operations.

2007 – an exciting year

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

The world's demand for oil and gas products will continue to grow, meaning the market for exploring for oil and gas, surveying, developing, producing, transporting and overhauling/upgrading/maintaining will remain strong over time.

We also believe the need to transport raw materials and cargo by sea will grow since the amount of cargo is growing, especially in Europe, and because there are political initiatives being taken to move more cargo from the roadways to the seaways.

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

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

The development of oil and gas resources at northerly latitudes will also afford interesting business opportunities. Kongsberg has a number of products of interest in conjunction with oil and gas activities in the Barents region. The Group's products cover every link in the value chain from seabed surveying, seismic, field and process simulation, field development, and process control including integrated operations, to satellite-based monitoring and all electronics-based guidance and control systems on board the vessels, rigs and floating production units to be used in the area.

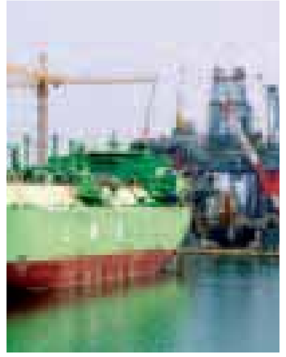
We exist to add value. In 2007, our ambition is to add even more value than we did in 2006. This means that we will strive to pave the way for more short-term benefits for all stakeholders, at the same time as we build up our potential for further growth and profitability. Doesn't that sound exciting?

Jan Erik Korssjøen
CEO

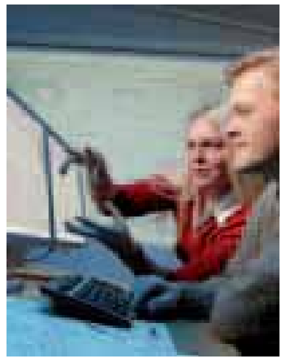
HIGHLIGHTS

The Group
Improved profitability
Kongsberg had operating revenues of MNOK 6 720 (MNOK 5 791) and an operating profit (EBITA) of MNOK 464 (MNOK 378) in 2006. Revenues climbed by 16 per cent, and profitability was up 22.8 per cent from 2005. Sales orders added up to NOK 7.6 billion in 2006. At year end, the backlog was valued at NOK 6.4 billion, i.e. more than NOK 1 billion more than at year-end 2005.

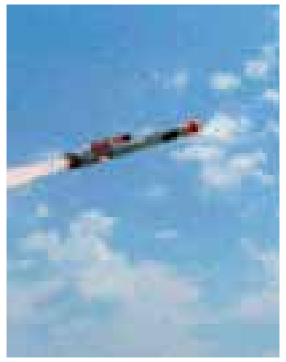
Q4 2006
Kongsberg Defence & Aerospace
NASAMS air defence system to the Netherlands
The Norwegian-developed NASAMS II (Norwegian Advanced Surface to Air Missile System) was sold to the Dutch Army in December. The contract is worth MNOK 345 and the system will be delivered in 2009. The Netherlands is considered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



Quarters 1-4, 2006
Kongsberg Maritime
Burgeoning activity in 2006
Offshore & Merchant Marine had a very good influx of new orders in 2006. Business was booming in the offshore market and the market for commercial vessels. Among other orders, the business area landed an order for integrated control systems for safety and automation on vessels for floating production that BP will be operating on the Skarv Idun field. At year end, new orders reached a record-high MNOK 3 054.

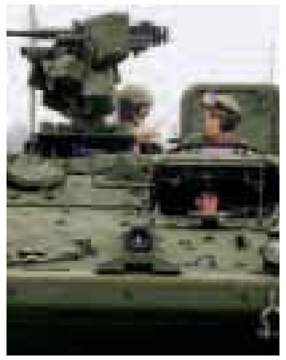


Q1 2007
Kongsberg Maritime
Integrated control systems to Gjøa
In January 2007, Kongsberg Maritime was awarded a contract valued at approx. MNOK 80 for Integrated Control Systems for safety and process automation on board a semi-submersible production platform that will be used on the Gjøa oil and gas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



Quarters 1-4, 2006 and Quarter 1, 2007
Kongsberg Defence & Aerospace
The NSM missile is ready for serial production
In July/August 2006 and in early 2007, a total of four successful test firings of the NSM (Naval Strike Missile) were conducted in California in the US. Development of the missile commenced in 1996, and it is now ready for serial production. In January 2007, a marketing agreement was signed with Lockheed Martin that applied to the adaptation of the missile for the JSF fighter aircraft.

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



Quarters 1-4, 2006
Kongsberg Defence & Aerospace
Protector sold to seven countries
Deployed on armoured personnel carriers, the Protector weapons control system has been sold to a total of seven countries: the US, Canada, Australia, Finland, Norway, Ireland and Switzerland. Contracts valued at a total of NOK 1.2 billion were signed in 2006. Altogether, contracts valued at NOK 2.6 billion have been signed since the first delivery in 2000.

Q1 2007
Kongsberg Defence & Aerospace
Framework agreements related to JSF production
In January 2007, a long-term framework agreement was signed with Lockheed Martin and Northrop Grumman of the US for the production of composite products for the new JSF (Joint Strike Fighter). The agreements are conditional upon Norway choosing the JSF in 2008. The framework agreements have an initial scope of MNOK 1 300 and MNOK 650, respectively.

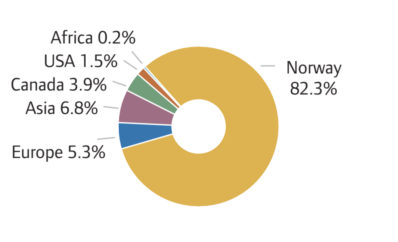
THIS IS KONGSBERG

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

Primary objective

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

Employees by region



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

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

Products

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

Markets

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

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

Business areas

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

Kongsberg Maritime

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

The business area is a market leader in these areas. Important markets include countries with large-scale offshore and shipyard industries.

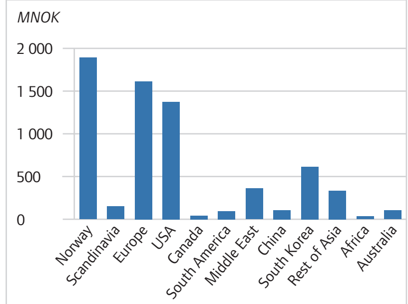
Kongsberg Maritime emphasises the advantages of using the Group's common technology base to stay at the forefront in terms of new products and applications. In 2006, Kongsberg Maritime earned operating revenues of NOK 3.6 billion and

This map gives a global overview of KONGSBERG's current operations.

Since the 2005 Annual Report, KONGSBERG has sold its interests in Peru and Chile. The businesses will continue to serve as agents for our products.

1) Kongsberg, Horten, Asker, Trondheim, Stavanger, Kristiansand, Oslo, Stjørdal, Tromsø, (Svalbard (Spitsbergen))

Operating revenues by region



Sonar operators in the operations room onboard the *KNM Fridtjof Nansen*.

had 2 009 employees. 72 per cent of operating revenues were earned outside Norway.

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

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

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

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

Operations rooms during the countdown for the NSM test firing (T3) at the US Naval test centre at Pt. Mugu, Califonia.

HISTORY

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

1624–1814
The discovery of silver
The town of Kongsberg was founded in 1624 by King Christian IV, after silver was discovered in the area. Kongsberg's silver works and silver mines played a pivotal role in Norwegian history from the late 1600s until the early 1800s. The silver works was Norway's largest enterprise. In about 1720, its aggregate earnings accounted for 20 per cent of the government budget.

1814–1955
Kongsberg Våpenfabrikk and the maritime community at Horten
An economic slump at the Silver Works led to the establishment of Kongsberg Våpenfabrikk (a munitions factory) in 1814. The most gifted mining engineers were assigned the task of developing the new cornerstone enterprise.

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

1955–1987
Industrial locomotive
Kongsberg Våpenfabrikk played a key role in building up Norwegian industry after World War II. From 1960 to 1987, the company evolved from a mechanical engineering company into an enterprise engaged in considerable product development, targeting several markets with strict performance standards. The market areas included the defence, automotive, gas turbine, data, offshore, aviation and aerospace industries.

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

1987–1992
Crisis and revitalisation
In 1987, Kongsberg Våpenfabrikk was restructured, and all civilian activities were sold. Still based in the community of Kongsberg, the units sold at that time have experienced healthy growth and profitability.

Defence activities continued under the banner of Norsk Forsvarsteknologi AS, which formed the core of today's corporation, KONGSBERG.

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

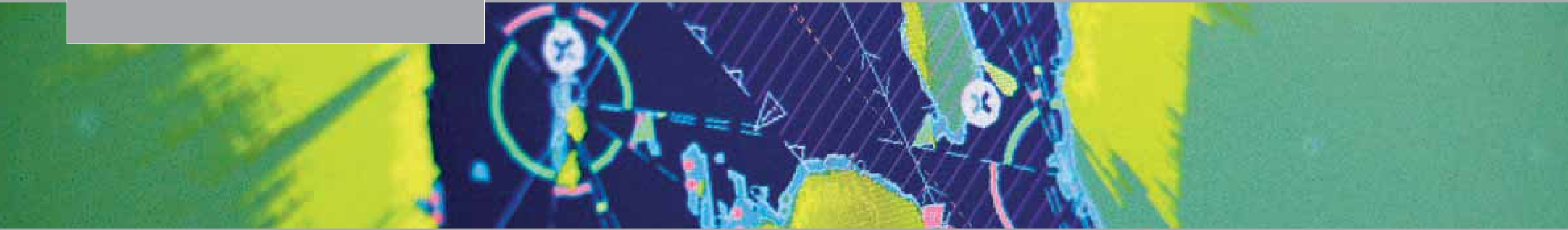
1992–2006
Maritime campaign, stock exchange listing and growth
In 1992, the Group acquired the Norcontrol companies. This augured the beginning of a maritime focus that culminated in Kongsberg Maritime being named a separate business area in 1995. In 1996, the Group acquired the SIMRAD Group, followed by Navia in 2000. The maritime efforts were a prerequisite for stock exchange listing and partial privatisation in 1993. The company changed its name to Kongsberg Gruppen (KONGSBERG) in 1995.

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

In 2006, Canadian Gallium Visual Systems Inc. was acquired by Kongsberg Defence & Aerospace, while Kongsberg Maritime acquired Fantoft Process Technologies AS and Sense Intellifield AS.

VISION, OBJECTIVES AND STRATEGY

The screen image is from a vessel carrying KONGSBERG's navigation system. The radar screen combines maps with a radar echo, ensuring that the navigator has an overview of the relevant waters and other vessel traffic.



STRATEGIC CHOI CES

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

Vision

WORLD CLASS – through people, technology and dedication

Objectives

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

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

Strategy

Important initiatives for achieving the objectives include:

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

Concentration on the strategic business areas – The business areas are continuously reviewed to identify activities which do not occupy a natural place there, or which might better be developed under the auspices of other industrial constellations. The Group considers these areas thoroughly to conserve assets to the greatest possible extent.

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

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

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

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

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

STRATEGIC DIRECTION

A stronger international presence in the offshore and merchant marine markets

Kongsberg Maritime

Why?

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

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

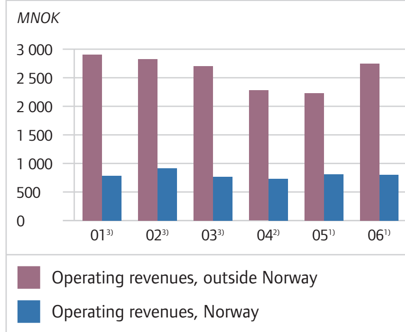
Markets outside Norway are growing fast and becoming more important for the Group. In 1995, 40 per cent of our operating revenues were generated outside Norway. By 2006, this figure had increased to 77 per cent and the trend is expected to continue.

How?

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

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

Operating revenues Kongsberg Maritime



Facts

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

STRATEGIC DIRECTION
To offer more products and services to existing markets

Kongsberg Maritime

Why?

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

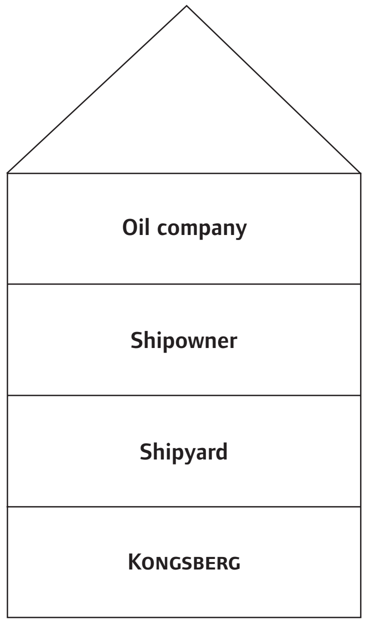
How?

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

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

STRATEGIC DIRECTION
To develop attractive products for delivery directly to oil and gas companies

Kongsberg Maritime



Why?

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

How?

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

Installation of an MRU (motion reference unit) on the HiPAP 350P. HiPAP is a hydroacoustic positioning system developed for accurate referencing of positions of objects under water.

STRATEGIC DIRECTION
To develop new opportunities through offset agreements

Kongsberg Defence & Aerospace

Why?

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

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

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

Although Kongsberg is Norway's premier supplier of high-technology defence systems, the Group is small by international standards and is heavily impacted by individual projects.
The Storting (Norwegian parliament) is scheduled to decide in 2008 which fighter aircraft to buy. This contract will be Norway's largest procurement of defence materiel ever, making it profoundly important for the Norwegian defence industry. Kongsberg works actively with potential development projects in connection with the various alternatives.

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

How?

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

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

Offset agreements
When the Norwegian Armed Forces sign contracts with foreign vendors for the purchase of defence materiel, they also sign contracts that obligate the contractor in turn to buy Norwegian goods and services.
- Offset agreements are still an important element of international trade.
- Norway operates with the same regime as other European countries. The Norwegian Government Declaration states: "The Government will require offsetting and industrial participation in connection with major defence procurements to a greater extent than today."
- The Armed Forces' future investment plans suggest increased imports (e.g. new fighter aircraft). This opens the possibility for new offset agreements which, in turn, will facilitate access to new geographical markets.
- All Armed Forces contracts with foreign vendors valued at more than MNOK 75 generally generate 100 per cent offsetting.

Fighter aircraft
After about 40 years of service, today's F-16 fighter craft will reach the end of their expected useful life in approx. 2020. The Norwegian Storting plans to designate its successor in 2008. The fighter craft contract will be Norway's most costly weapon procurements ever, with cost parameters of roughly NOK 40 billion. In December 2006, the Government voted to shortlist three candidates for the contract:
- Eurofighter Typhoon (Europe)
- JAS Gripen (Sweden)
- F-35 Joint Strike Fighter (USA)

Eurofighter Typhoon (EU) (top),
JAS Gripen (Sweden) (middle),
F-35 Joint Strike Fighter (USA) (bottom)

STRATEGIC DIRECTION

A stronger international presence along with alliance partners

Kongsberg Defence & Aerospace

Why?

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

How?

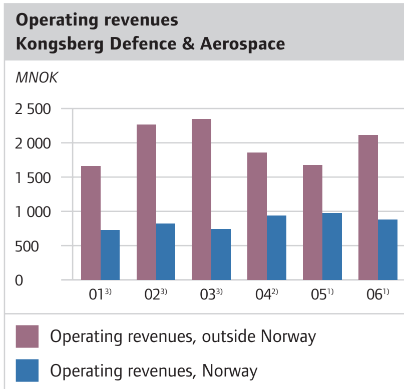
During 2007, we expect to conclude a production agreement for the NSM anti-ship missile. The NSM is one of Norway's most technologically advanced development projects. Several countries have shown considerable interest in the NSM, and that may open doors to new markets.

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

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

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

This map shows the locations of Kongsberg Defence & Aerospace's global operations.



NASAMS command post during the winter exercise Cold Reponse.

STRATEGIC DIRECTION

To enhance competitiveness through knowledge and expertise

Facts

China has 25 million students at university level, India has 10 million and, by comparison, Norway has 140 000. Our challenge will be to participate in the knowledge explosion taking place in today's world.

This map shows the location of KONGSBERG's global operations.

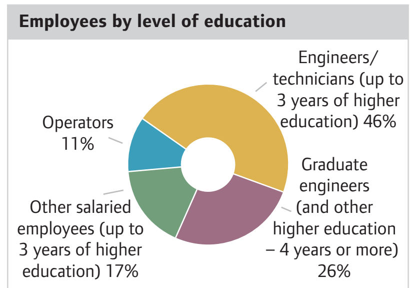
Why?

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

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

How?

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



DIRECTORS' REPORT & ACCOUNTS

The screen image is from the command and weapons control system for submarines. The system presents different types of targeting data that the submarine crew needs to get the best possible understanding of the tactical situation around the submarine.

STATUS AND PRO SPECTS

The future belongs to those who have the determination and ability to improve continuously.
A firm foundation is a good point of departure, but no excuse for not acting. The will to achieve, improve and take a long-term perspective will produce tomorrow's winners.

Kongsberg – Annual Report and Sustainability Report 2006

DIRECTORS' REPORT

2006 was a year of progress for KONGSBERG. Revenues climbed by 16 per cent to NOK 6.7 billion, the backlog of orders increased by NOK 1 billion to NOK 6.5 billion, and the EBITA rose by 22.8 per cent to MNOK 464. Earnings per share for continuing operations came to NOK 8.30 (NOK 7.19). The Board proposes a dividend of MNOK 2.50 per share.

General review of 2006

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

The Group completed two acquisitions in 2006: Gallium Visual Systems Inc. and Fantoft Process Technologies AS. The year's third acquisition, Sense Intellifield AS, was concluded in January 2007.

The BA Offshore & Merchant Marine posted good results and reported a strong influx of new orders. Sales orders for dynamic positioning aggregated NOK 1.2 billion and contracts were signed for the delivery of equipment to a total of 29 drilling rigs. The BA also signed several strategically important contracts. For example, the BA landed an order for integrated control systems for safety and automation on vessels for floating production that BP will be operating on the Skarv and Idun field on Haltenbanken.

Orders were up by more than 50 per cent for Defence & Aerospace compared with 2005. Major contracts were signed for remote weapons systems, communications and air defence. In 2006, the Division for Remote Weapons Systems booked new orders worth approx. NOK 1.2 billion. Contracts for the system have been signed with seven countries. The improvement in the situation for communications solutions was also gratifying in 2006. The development of the new Naval Strike Missile (NSM) is in the final phase, having demonstrated its most important features during successful test firings in 2006 and January 2007.

Comments on the result

Growth in sales

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

EBITA trend

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

Net financial items

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

Performance

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

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

Market conditions and parameters

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

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

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

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

The development of the new Naval Strike Missile (NSM) is in the final phase and the last two test firings were conducted in the USA in January 2007. The first contract for the missile is expected to be signed with the Norwegian Armed Forces in the early half of 2007. KONGSBERG envisages substantial market potential for the missile. A joint marketing agreement was signed with Lockheed Martin to market the missile in combination with the Joint Strike Fighter. A study is in progress to adapt the missile to the aircraft.

Predictability is crucial when it comes to export regulations and the way in which the authorities practice them. Offsetting national defence spending is an established practice internationally and the entire defence industry is cognisant of this. It is of great importance to KONGSBERG that the rules that apply to offsetting be continued and practised by the Norwegian authorities. The nation faces the largest defence investment in its history, i.e. new fighter aircraft. Favourable offset agreements will benefit KONGSBERG, the Group's subcontractors and the Norwegian defence industry as a whole.

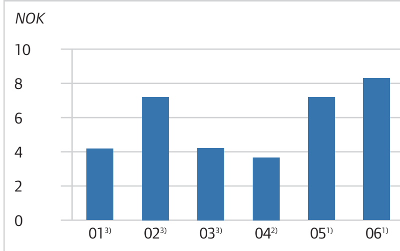
Technology and R&D

A substantial percentage of KONGSBERG's added value consists in the development of high-technology solutions for national and international markets. In this context, the Group's high-level expertise is essential for its competitiveness.

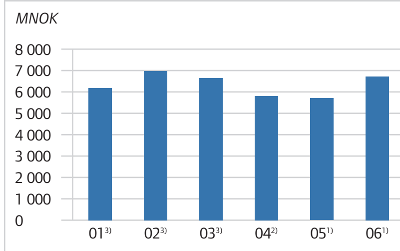
Technology-sharing also creates valuable synergies within KONGSBERG. The Group's systems and products generally revolve around four core competencies: Signal processing, systems integration, cybernetics (engineering cybernetics), and software development. KONGSBERG's extensive knowledge of dynamic positioning is based on expertise developed in connection with guidance systems for submarines and missiles.

KONGSBERG focuses continuously on product development. In 2006, product development costs were equivalent to about 11 per cent of operating revenues.

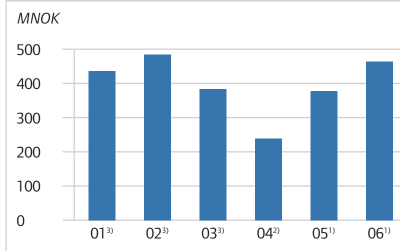
Earnings per share



Operating revenues



Earnings before interest, tax and amortisation



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

KONGSBERG – ANNUAL REPORT AND SUSTAINABILITY REPORT 2006

This level is considered necessary for achieving a sufficiently modern, cost-effective product portfolio. Roughly half the Group's product development is customer-funded, largely from the Norwegian Armed Forces.

The competition for good engineering resources in Norway is becoming sharper, but access to expertise was satisfactory in 2006. More attention is being devoted to taking advantage of the Group's international operations to improve access to expertise.

The financial situation and capital structure

Cash flow

The consolidated cash flow was MNOK -25 in 2006 (MNOK 563). The change in the cash flow compared with 2005 was mainly due to the change in the cash flow from investing activities. The acquisitions of Fantoft and Gallium entailed disbursements of MNOK 67 and MNOK 157, respectively. In addition, Kongsberg acquired shares in Remora ASA and Wavefield Inseis AS for a total of MNOK 59. Furthermore, a large payment was received in connection with the sale of Simrad Yachting in 2005.

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

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

Currency

Roughly 70 per cent of Kongsberg's earnings were earned outside Norway in 2006. The Group's goal is to limit foreign currency risk by having an explicit foreign exchange policy, where a percentage of the Group's anticipated new orders are hedged using forward foreign exchange contracts for up to three years in advance. At year-end 2006, the portfolio of forward foreign exchange contracts attached to hedges of forecast sales was NOK 3.7 billion measured at agreed exchange rates. At year-end 2006, these forward foreign exchange contracts had an excess of MNOK 57 (MNOK 55). All contractual foreign currency flows are hedged at the time of signing the contracts. At year end, the portfolio of forward foreign exchange contracts linked to the hedging of project contracts amounted to NOK 3.7 billion, measured in agreed exchange rates. At year-end 2006, these forward foreign exchange contracts had an added value of MNOK 24 (negative value of MNOK 41).

Capital structure

Consolidated equity increased by MNOK 179, ending at MNOK 1 684. That results in an equity ratio of 22.9 per cent, a level comparable to 2005. The Board aspires to improve its financial strength and thus consolidate its position for further growth. At 31 December 2006, net interest-bearing debt was MNOK 294 (MNOK 282). That results in a debt-equity ratio (net interest-bearing debt (NIBD)/equity) of 17.5 per cent (18.7 per cent). The net debt gearing ratio (NIBD/EBITDA) was 0.47 (0.53). Consolidated gross interest-bearing liabilities consisted of a loan of MNOK 1 000, of which MNOK 300 in Norwegian commercial papers and MNOK 700 in bond loans were listed on the Oslo Stock Exchange. The Group has a syndicated credit facility of MNOK 800, with maturity in 2009, which was unused at year end. To reduce refinancing risk, the certificate loans should not, as a general rule, exceed the syndicated credit facility.

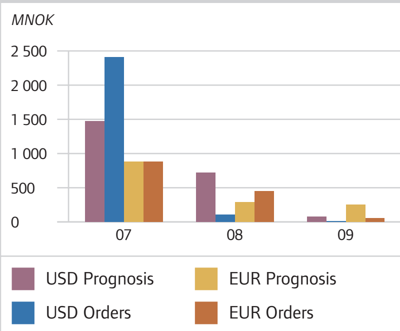
Pensions

Kongsberg has a service pension plan that covers all Group employees in Norway. At 31 December 2006, 3 019 employees were covered by the scheme. The plan is insured with Gjensidige NOR, and entitles an employee to 65 per cent of his or her salary upon retirement, including benefits from the National Insurance Scheme until the age of 77, at which time the service pension will be cut by 50 per cent. The accrual period is 30 years.

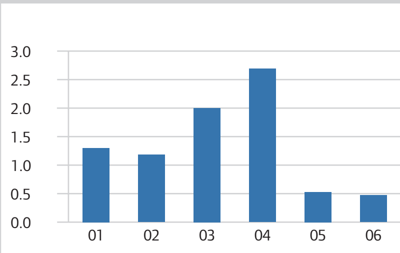
Kongsberg's consolidated foreign subsidiaries have deposit-based schemes that comply with local legislation.

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

Currency hedging portfolio at 31 Dec. 2006



Net interest-bearing debt/EBITDA



Acquisitions

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

Fantoft delivers dynamic process simulators and real-time systems for oil and gas fields, LNG installations and transportation pipelines. The company has a total of 50 employees, 30 of whom work in Norway.

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

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

Operations and markets, by BA

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

Offshore & Merchant Marine

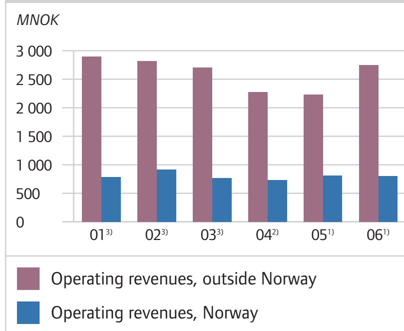
The BA posted operating revenues of MNOK 3 553 in 2006, an increase of 17.1 per cent from the previous year. The EBITA was MNOK 329 (MNOK 262), with an EBITA margin of 9.3 per cent (8.6 per cent).

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

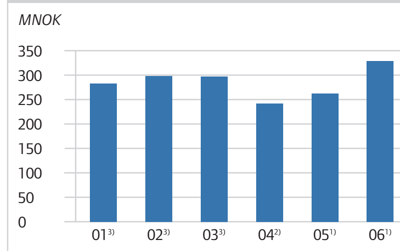
New orders aggregated MNOK 4 408 in 2006, up 23.6 per cent from 2005. The backlog of orders at the end of 2006 aggregated MNOK 3 054 (MNOK 2 158) for delivery from 2007 to 2009, increasing predictability for the segment. Part of the reason why orders are backed up is that shipyard capacity is currently limited. Kongsberg's systems are installed relatively late in the building phase and most of the world's shipyards are currently operating with several years' waiting time for new vessels. Offshore & Merchant Marine's order books reflect this. The BA's order backlog has expanded every year since 2002. At year end 2006, the backlog exceeded the NOK 3 billion mark for the first time.

The offshore market is still booming. More than 60 per cent of the BA's new orders came from this market in 2006. New orders for dynamic positioning totalled more than NOK 1.2 billion in 2006. Kongsberg booked orders for deliveries to 29 drilling rigs in 2006. The core of a rig order generally consists of dynamic positioning and navigation. A typical rig delivery also includes of a global positioning system (GPS) from Kongsberg Seatex, hydroacoustics from the Subsea Division in Horten, and security systems and process automation from the Process Automation Division, as well as riser management systems from Kongsberg Seaflex. Rig orders are the type of deliveries that reflect the diversity of Kongsberg's products within Offshore & Merchant Marine. The BA often pro-

Operating revenues Offshore & Merchant Marine



Earnings before interest, tax and amortisation Offshore & Merchant Marine



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

vides engineering services to accompany the delivery of systems.

The merchant marine market, including gas carriers (LNG), is maintaining a stable high level. To keep its strong position in this market, KONGSBERG is continuing its efforts in Asia. In South Korea, the world's largest shipbuilding nation today in terms of value, most of the ships being built are commercial vessels. KONGSBERG has a strong position in South Korea, where it has 107 employees.

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

Defence & Aerospace

Operating revenues totalled MNOK 2 997, i.e. an increase of 13.1 per cent. The EBITA came to MNOK 182 (MNOK 135), with an EBITA margin of 6.1 per cent (5.1 per cent). The improvement in performance was mainly generated by remote weapons systems and communications activities. Remote weapons systems performed better owing to a good market and higher volumes, in addition to which the product is now more mature. Emphasis on performance has had a favourable effect on the profits generated by the communications segment.

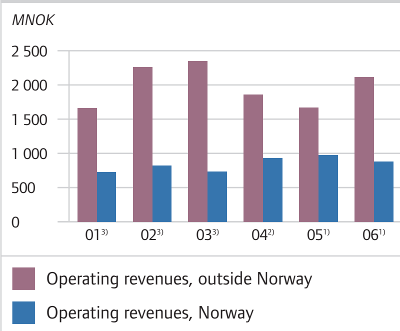
The BA booked new orders valued at MNOK 3 071 (MNOK 1 980). Several of the divisions have contributed to the strong influx of new orders. Remote weapons systems booked new orders valued at NOK 1.2 billion in 2006. A contract valued at MNOK 345 for air defence systems was concluded with the Netherlands in Q4. Total new air defence orders aggregated MNOK 450 in 2006. The communications segment booked MNOK 450 worth of new orders in 2006. Defence & Aerospace's backlog of orders at the end of 2006 came to MNOK 3 253 (MNOK 3 124).

Defence & Aerospace's largest development project ever, the naval strike missile (NSM), will be concluded in 2007. In 2006 and January 2007, several successful test firings were conducted, demonstrating the missile's most important features. Thus project risk was mitigated further. In the fiscal budget for 2007, the Government has stated that it will be procuring NSM missiles. Negotiations are in progress with the Norwegian Armed Forces for production contracts, and it is assumed that the contract will be signed in the early half of 2007.

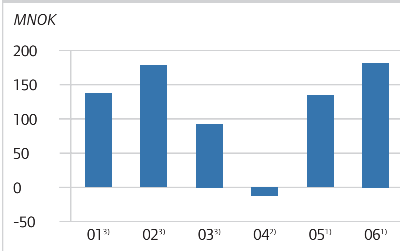
The new fighter aircraft could potentially represent Norway's largest defence procurement ever. It is necessary for the Norwegian defence industry that emphasis be attached to negotiating favourable offset agreements in connection with defence spending abroad. When the Armed Forces choose to spend large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

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

Operating reveues
Defence & Aerospace



Earnings before interest, tax and amortisation
Defence & Aerospace



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

Risk factors and risk management

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

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

Financial risk

The Board of Directors adopts KONGSBERG's financial policy, which is intended to optimise the Group's financial risk.

The Group's most distinct exposure to financial risk is related to currency fluctuations. About 70 per cent of the Group's earnings are generated outside Norway, and 30 per cent of the Group's expenses are in foreign currency. This results in net foreign currency exposure of 40 per cent. A systematic, well-established hedging strategy gives the Group time to adapt to fluctuations in currency exchange rates. Short-term fluctuations have less impact, and there is time to make operational adjustments for more enduring changes. The efforts to reduce the effect of currency fluctuations take place continuously, regardless of whether the value of a currency has increased or decreased over a period of time. Stepping up activities abroad is an important policy instrument for mitigating the effect of currency fluctuations. By increasing the percentage of expenses in foreign currency, the Group's net foreign currency exposure will be reduced and the effects of short- and long-term fluctuations on the Group's results will be mitigated further. KONGSBERG's financial policy assumes that activities will have access to predictable funding at any given time. The Group's financial capabilities are good at present.

KONGSBERG has opted to cover parts of its insurance needs through its subsidiary Kongsberg Reinsurance Ltd., with a reinsurance structure adapted to the Group's risk profile.

Operational risk

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

The projects' earnings are contractualised, so any uncertainty is attached to evaluations of remaining costs and the periodisation of the project's earnings. Principles have been established for categorising projects on the basis of their technological complexity and development content, paving the way for assessments of the 'profit at risk' and taking to account the profits from the projects. The profit at risk refers to the profit retained in the projects until the uncertainty has been clarified.

KONGSBERG's largest development project, the NSM, is now in the final phase. Successful test firings conducted in 2006 and in January 2007 demonstrated the missile's most important features, further mitigating project risk.

Business risk

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

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

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

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

Shares and shareholders

KONGSBERG's share price climbed from NOK 124 at year-end 2005 to NOK 175 at year-end 2006. This gives a market capitalisation of MNOK 5 250. Including the dividend of NOK 2.15 per share, the return on investments in 2006 came to 42.9 per cent. During the same period, the All-Share Index climbed by 32.4 per cent. At 31 December 2006, KONGSBERG had 4 530 shareholders, an increase of 690 from the year before. The share had 210 foreign owners who collectively held 3.98 per cent of the shares (1.01 per cent). The State, as represented by the Ministry of Trade and Industry, is still the largest owner with 50.001 per cent of the shares. The 10 largest shareholders owned 84.05 per cent of the shares collectively.

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

KONGSBERG – ANNUAL REPORT AND SUSTAINABILITY REPORT 2006

Liquidity is at a low level, but the company is working actively to promote interest in the share by devoting more attention to investor relations.

The Group's annual employee share programme was conducted in spring 2006 for the 10th time. A total of 83 987 shares were sold at a price of NOK 120 (20 per cent discount on the market price). 378 employees took advantage of the offer. See Note 24 to the annual accounts and the section on 'Shares and shareholders' for a more detailed description of the share programme.

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

Health, Safety and the Environment (HSE)

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

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

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

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

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

Personnel and organisation

Continuous efforts are made to adapt the organisation to Kongsberg's markets. At 31 December 2006, the Group had 3 650 employees (3372), 646 (516) of whom worked outside Norway. At year end, the parent company, Kongsberg Gruppen ASA, had 35 employees. Access to skilled labour has been satisfactory.

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

Kongsberg works continuously with human resources development. The Kongsberg School facilitates and co-ordinates courses and training programmes. In 2006, the project 'Leadership at Kongsberg' was initiated and given a mandate to improve Kongsberg's leadership principles and leadership requirements. A joint resource group working to develop qualified leadership talent in the Group offers a portfolio of management programmes through the Kongsberg School.

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

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

Corporate social responsibility and the environment

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

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

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

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

Corporate governance

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

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

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

Prospects for 2007

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

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

Both operating income and the operating margin are expected to be better in 2007 than in 2006.

Net profit and allocations - parent company

In 2006, the parent company Kongsberg Gruppen ASA posted a loss of MNOK 19. The Board proposes the following allocations for Kongsberg Gruppen ASA:

Dividends	MNOK 75
From retained earnings	MNOK (94)
Total allocations	MNOK 19

The company's distributable equity totalled MNOK 384 at 31 December 2006.

Kongsberg, 15 March 2007

Finn Jebsen
Chair

Benedicte Berg Schilbred
Deputy Chair

Erik Must
Director

Siri Hatlen
Director

John Giverholt
Director

Roar Marthiniussen
Director

Jan Erik Hagen
Director

Audun Solås
Director

Jan Erik Korssjøen
CEO

ACCOUNTS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006 KONGSBERG GRUPPEN (THE GROUP)

Amounts in MNOK	Notes	2006	2005	2004
Operating revenues	6	**6 720**	**5 791**	**5 901**
Cost of sales	7	(2 802)	(2 330)	(2 503)
Personnel expenses	8, 9	(2 326)	(2 043)	(2 060)
Other operating expenses	10	(965)	(882)	(928)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**627**	**536**	**410**
Depreciation	11	(163)	(158)	(171)
Earnings before interest, tax and amortisation (EBITA)		**464**	**378**	**239**
Amortisation	12	(16)	(7)	(3)
Earnings before interest and tax (EBIT)		**448**	**371**	**236**
Financial income	15	6	9	36
Financial expenses	15	(64)	(66)	(92)
Profit from continuing operations before tax		**390**	**314**	**180**
Income tax expense	16	(138)	(99)	(71)
Profit from continuing operations, net after tax		**252**	**215**	**109**
Profit from discontinued operations	5	-	47	9
Profit for the year		**252**	**262**	**118**
Attributable to				
Equity holders of the company		249	260	120
Minority interests		3	2	(2)
Earnings per share, in NOK				
- profit for the year, net	17	8.30	8.70	4.03
- profit for the year, diluted	17	8.30	8.69	4.03
- from continuing operations, net	17	8.30	7.19	3.66
- from continuing operations, diluted	17	8.30	7.19	3.66

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

Amounts in MNOK	Notes	31 Dec 2006	31 Dec 2005
Assets			
Non-current assets			
Property, plant and equipment	11	1 068	1 001
Goodwill	12, 13	1 167	1 095
Other intangible assets	12	191	40
Available-for-sale shares	18	263	138
Other non-current assets	19	117	116
		2 806	**2 390**
Current assets			
Inventories	7	1 012	847
Receivables	20	1 484	1 233
Projects in progress	21	1 208	1 253
Financial instruments	22	135	127
Cash and short-term deposits	23	711	736
		4 550	**4 196**
Total assets		**7 356**	**6 586**
Equity, provisions and liabilities			
Equity			
Share capital		150	150
Share premium		832	832
Treasury shares		0	0
Net unrealised gains reserve		170	90
Retained earnings		522	423
		1 674	**1 495**
Minority interests		10	10
Total equity	24, 25	**1 684**	**1 505**
Long-term provisions and liabilities			
Long-term interest-bearing loans	22	1 005	1 016
Pension liabilities	9	747	665
Financial instruments	22	23	63
Provisions	26	123	81
Deferred tax liability	16	473	383
		2 371	**2 208**
Current provisions and liabilities			
Short-term interest-bearing loans		-	2
Prepayments from customers	21	1 768	1 617
Financial instruments	22	52	115
Provisions	26	288	177
Other current liabilities	27	1 193	962
		3 301	**2 873**
Total provisions and liabilities		**5 672**	**5 081**
Total equity, provisions and liabilities		**7 356**	**6 586**

Kongsberg, 15 March 2007

Finn Jebsen
Chair

Benedicte Berg Schilbred
Deputy Chair

Erik Must
Director

Siri Hatlen
Director

John Giverholt
Director

Roar Marthiniussen
Director

Jan Erik Hagen
Director

Audun Solås
Director

Jan Erik Korssjøen
CEO

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006 KONGSBERG GRUPPEN (THE GROUP)

Amounts in MNOK	*Notes*	*2006*	*2005*
Receipts from customers		6 664	5 993
Payments to suppliers and employees		(6 043)	(5 354)
Income taxes paid		(16)	(8)
Net cash flows from operating activities		**605**	**631**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	11	7	12
Purchase of property, plant and equipment	11	(221)	(128)
Net receipts on disposal of Simrad Yachting	5	-	485
Net payments for the acquisition of shares and undertakings	5, 12, 18	(289)	(62)
Net cash flows from (used in) investing activities		**(503)**	**307**
Cash flows from financing activities			
Repayment of debt		(13)	(256)
Net interest paid		(46)	(66)
Net receipts related to the sale/purchase of treasury shares		(3)	10
Dividends paid to equity holders of the parent		(65)	(60)
Dividends paid to minority interests		-	(3)
Net cash flows from (used in) investing activities		**(127)**	**(375)**
Net change, cash and short-term deposits		(25)	563
Cash and short-term deposits at 1 January		736	173
Cash and short-term deposits at 31 December		**711**	**736**

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

Amounts in MNOK	*Notes*	*2006*	*2005*	*2004*
Change, fair value of financial instruments and hedge instruments for cash flow hedges				
- Change, cash flow hedges		(8)	(121)	-
- Change, interest swap agreements		21	18	-
- Change, shares available for sale		87	7	-
Recognised actuarial gains/losses on pension expenses		(85)	(227)	(58)
Translation differences, currency		(20)	(5)	-
Implementation effect IAS 39				
- Excess value, cash flow hedges		-	183	-
- Negative value, interest swap agreements		-	(49)	-
- Excess value, shares available for sale		-	21	-
Income and expenses recognised directly in equity		**(5)**	**(173)**	**(58)**
Profit for the year		**252**	**262**	**118**
Total recognised income and expenses	25	**247**	**89**	**60**
Attributable to				
Equity holders of the parent		244	89	62
Minority interests		3	0	(2)

All figures are presented after tax.

NOTES KONGSBERG GRUPPEN (THE GROUP)

1 Corporate information

Kongsberg's consolidated financial statements for the year ended at 31 December 2006 were approved by the Board of Directors at its meeting on 15 March 2007. Kongsberg Gruppen ASA (Kongsberg) is a public limited liability company headquartered in Kongsberg, Norway. The company's shares are traded on the Oslo Stock Exchange.

2 Basis for the preparation of the consolidated accounts

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

The consolidated financial statements for the year ended at 31 December 2006 are presented in accordance with the Norwegian Accounting Act, the International Financial Reporting Standards (IFRS) and interpretations issued by the International Accounting Standards Board, as adopted by the EU at 31 December 2006, with comparable IFRS-compliant figures for 2005 and 2004 (profit or loss).

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

- Financial derivatives at fair value
- Financial instruments at fair value through profit or loss are measured at fair value
- Financial available-for-sale assets are measured at fair value
- The liability related to the cash-based option scheme for employees is measured at fair value
- Pensions

Uncertainty associated with estimates
During the preparation of the financial statements in accordance with IFRS, the Group's management has applied its best estimates and assumptions considered to be realistic based on historical experience. The estimates are reviewed on an ongoing basis. Situations can arise that alter the estimates and assumptions, and which will in turn affect the company's assets, liabilities, equity and profit. Modified estimates are recognised in the period in which the estimate is revised and in future periods where relevant.

For more detailed information about significant areas of uncertainty associated with estimates and critical judgements related to the application of accounting principles that have the strongest impact on amounts recognised in the financial statements, please see the following notes:

- Business combinations – Note 5 'Changes in Group structure'
- Revenue recognition for long-term production contracts – Note 21 'Projects in progress'
- Impairment tests of goodwill – Note 13 'Impairment test of goodwill'
- Research and development – Note 12 'Intangible assets'
- Pension liabilities – Note 9 'Pensions and other long-term employee benefits'

3 Summary of significant accounting policies

With the exception of what is described in Note 14 'Investments in jointly controlled entities', the Group has applied the policies consistently for all the periods presented in the consolidated financial statements.

a) Basis for consolidation
Subsidiaries
The companies in which Kongsberg Gruppen has control are recognised in the consolidated financial statements as subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is usually achieved when the Group, directly or indirectly, owns more than 50 per cent of the shares in the entity, or when the Group is able to exert *de facto* control over the entity through agreements or statute. In assessing control, account is taken of potential votes that can currently be exercised or are convertible. The subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

New subsidiaries are recognised at their fair value on the date of acquisition. Fair value is allocated to identified assets and liabilities. Excess value that cannot be allocated to specific assets is classified as goodwill. New subsidiaries are included in the consolidated accounts from the date of acquisition. The date of acquisition is the date on which Kongsberg Gruppen ASA obtains control of the acquired company. Ordinarily, control will be achieved when all the terms of the agreement are satisfied. A lack of satisfaction will result in cancellation of the agreement. Examples can be the approval of the Board of Directors, the general meeting or the competition authorities. For business combinations achieved in stages, the financial statements are based on the values at the time the Group obtained control. Excess value in the form of goodwill is calculated on each individual acquisition. The most significant entities that constitute the Group appear in Note 32 'List of Group entities'. Group entities disposed of during the year are included in the consolidated financial statement until the control ceases, i.e. the date of disposal. Ordinarily, control will cease when all terms in the agreement are satisfied. A lack of satisfaction will result in the cancellation of the agreement. Operations disposed of during the period and which constitute independent business segments are presented as discontinued operations on a separate line on the income statement for the entire financial year and in the comparative figures.

Associates
Associates are entities in which the Group has significant influence, but not control (presumably a stake from 20 to 50 per cent) over financial and operating policies. Significant influence is the power to participate in the financial and operating policy decisions of the invested company, but not 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. The consolidated financial statements include the Group's percentage of profit/(loss) from associates using the equity method of accounting from the time significant influence is achieved and until such influence ceases. When the Group's percentage of a loss exceeds the value of the investment, the carrying amount of the investment is reduced to zero and

no further losses are recognised. The exceptions are cases in which the Group has an obligation to cover the losses.

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

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

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

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

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

Translation – foreign subsidiaries
The accounts of foreign subsidiaries are included in the income statement at average exchange rates for the year. Balance sheet items, including goodwill related to foreign subsidiaries, are translated at the rates that applied on 31 December. Translation differences are recognised directly in the Group's equity. Gains and losses on the hedging of investments in foreign subsidiaries are also recognised as translation differences, cf. a description of the policies in i) 'Financial instruments'.

Upon the disposal of a foreign entity, the accumulated translation difference related to the entity is reversed and recognised during the same period as a gain or loss on the sale.

c) Revenue recognition
Production contracts/system deliveries
The Group's main business objective is to develop and manufacture products and systems based on orders received. The processed value of the work in progress is recognised as operating revenue. Uninvoiced work in progress is reported on the balance sheet under 'Projects in progress'. Work in progress is stipulated as incurred production costs plus a proportional share of the estimated contract profit. Production costs include direct wages, direct materials and a proportional share of the individual business areas' indirect costs, while general development costs, sales costs and common administrative costs are not included in production costs. Accrued contract profit includes the interest income on prepayments from customers that exceeds the capital tied up in the individual projects. The estimated accrued contract profit shall not exceed a proportional share of the estimated total contract profit. The proportional share of the contract profit is based on the degree of completion of the individual contract, which is largely determined by the costs incurred as a ratio of the expected overall costs at the time of valuation. If the profit on a contract cannot be estimated with a reasonable degree of certainty, the project will be recognised without a profit until the uncertainty is manageable. All projects are followed up on an ongoing basis with project costings. Where a costing anticipates a loss on the remainder of a project, it will be expensed immediately in its entirety.

The Group changed the classification of projects in progress and prepayments from customers in 2005. Projects in progress were formerly presented under receivables, but they are now presented as a separate line item. Prepayments from customers were formerly presented on two lines, deferred income and prepayments from customers. Deferred income was defined as accumulated invoicing in excess of accumulated operating revenues, and was presented under 'Other current liabilities'. Prepayments from customers involved only the invoicing of prepayments, which were subsequently settled by invoice. Deferred income and prepayments from customers are now presented as prepayments from customers on one line, as this gives a better idea of the Group's obligations when it comes to long-term production contracts. Earlier figures have been adjusted to facilitate comparison.

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

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

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

Licence revenues
The Group also sells licences for the use of software systems. Licence revenues are normally recognised as revenue in their entirety when the system is delivered. In the cases that involve adaptations or additional work, the total contract amount including consideration for the licences is recognised as revenue in at the same pace as deliveries, as described under 'Production contracts'. 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.

Inventories
Revenue from ordinary sales is recognised upon delivery. A delivery is considered completed when the customer assumes most of the control of and risk for a delivered commodity or service.

d) Income tax expense
Tax expense on the income statement include payable taxes and the change in deferred tax for the period. The change in deferred tax reflects the future payable taxes resulting from the current year's activities. Deferred tax is based on accumulated profit, but which will be payable in subsequent accounting periods. Deferred tax is calculated on net tax-increasing differences between the balance sheet items used for accounting purposes and those used for taxation purposes, adjusted for deductible temporary tax differences and tax losses carried forward according to the liability method. Income from long-term production contracts is not recognised for tax purposes until an individual contract has been completed. Owing to Kongsberg's volume of large, long-term contracts, there are therefore considerable taxable temporary differences.

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

e) Financial income and financial expenses
Financial income consists of interest income, dividends, foreign currency gains, changes in the value of assets to fair value through the profit and loss, and gains on the disposal of available-for-sale assets where the changes in value are recognised directly in equity. Interest income is recognised as it accrues using the effective interest method, while dividends are recognised on the date the annual general meeting adopts the dividends.

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

f) Intangible assets
Goodwill
Goodwill is recognised on the balance sheet at cost less accumulated impairment loss. Goodwill that arises through the business combination is allocated to the cash-generating units that are expected to gain financial benefits from the synergies that arise from the business combination. A cash-generating unit is the smallest identifiable group that generates a cash flow that is largely independent from other assets or groups. Goodwill is non-depreciable, but tested for impairment annually, and whenever there are indications of impairment on the balance sheet date. Impairment is calculated by estimating the value of the individual cash-generating unit, based on the calculation of expected future cash flows. Goodwill is described in Note 13 'Impairment test of goodwill'. See also description h) Impairment of non-financial assets.

Research and development
Expenses for research activities are recognised as they are incurred. Research refers to original, planned investigations performed to gain new scientific or technical knowledge and understanding.

Expenses related to development activities are capitalised if the development activities meet the criteria for capitalisation. Development involves plans or designs for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. The capitalisation of development costs requires that those costs can be measured reliably, the product or process is technically and commercially feasible, future financial benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Other development costs are expensed as they are incurred.

Assessments of the fulfilment of the criteria for capitalising development costs are made at a pace commensurate with the progress of the ongoing development projects. Defence & Aerospace operates in a market where the customer funds parts of product development. This means equity-financed development projects at Defence & Aerospace normally become customer-financed before they fulfil the criteria for capitalisation. Offshore & Merchant Marine undertakes equity-financed development projects up to the finished product. Based on technical success and market assessments during the development phase, it is decided whether to complete development and begin capitalisation.

If the criteria are satisfied, expenses recognised on the balance sheet will include the cost of materials, direct payroll expenses and a percentage of directly attributable administrative expenses. Capitalised development costs are recognised on the balance sheet at acquisition cost less accumulated depreciation and impairment loss.

Expenses related to ongoing efforts to improve a product or enhance a product's quality are defined as product maintenance and expensed as they are incurred.

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

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

h) Impairment of non-financial assets
All non-financial assets, with the exception of inventories and deferred tax assets, are reviewed for each reporting period to determine whether there are indications of impairment. Where indications of impairment exist, recoverable amounts are calculated. For goodwill, recoverable amounts are estimated for each reporting period by each cash-generating units. Impairment tests are described in Note 13 'Impairment test of goodwill'.

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

Impairment is recognised if the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group that generates a cash flow that is largely independent from other assets or groups. Impairment related to cash-generating units is intended first to reduce the carrying amount of any goodwill allocated to the unit and then to reduce the carrying amount of the other assets in the unit on a *pro rata* basis. These assets will normally be property, plant and equipment, and other intangible assets.

Impairment of goodwill cannot be reversed. Other assets which have been subject to impairment losses are reviewed during each period to determine whether there are indications that the impairment loss has been reduced or no longer exists. Reversals of earlier impairments are reversed only to the extent of the carrying amount the assets might have had after depreciation and amortisation, if no impairment loss had been recognised.

i) Financial instruments
Financial assets and liabilities
Financial assets and liabilities consist of investments in shares, trade receivables and other receivables, cash and short-term deposits, loans, trade payables and other liabilities. A financial instrument is recognised when the Group becomes party to the instrument's contractual provisions. Upon initial recognition, financial assets and liabilities are assessed at fair value plus directly attributable expenses with the exception of financial instruments through the profit or loss that expense directly attributable costs. A regular way purchase or sale of financial assets is recognised and derecognised at the time an agreement is signed. Financial assets are derecognised when the Group's contractual rights to receive cash flows from the assets expire, or when the Group transfers the asset to another party and without retaining control or transfers substantially all risk and rewards associated with the asset. Financial liabilities are derecognised when the Group's obligation as specified by contract has been satisfied, discharged or cancelled.

Kongsberg – Annual Report and Sustainability Report 2006

Classification
The Group classifies financial assets and liabilities in the following categories:
i) fair value with changes in the value through the profit or loss (held for trading),
ii) financial assets and liabilities held to maturity,
iii) available-for-sale financial assets, and
iiii) other financial liabilities.
Receivables and liabilities related to running the business are measured at their amortised cost, which in practice implies their nominal value with any impairment for expected losses. The Group's borrowings are considered financial liabilities held to maturity. These are recognised at their amortised cost using the effective interest rate method.

All shares except for shares in subsidiaries or jointly controlled entities on the balance sheet at 31 December 2006 are defined as financial instruments available for sale. Available-for-sale financial assets are measured at fair value on the balance sheet date. Changes in the value of available-for-sale financial assets are recognised directly in equity, except for impairment loss that is recognised through profit or loss. See Note 4 for a more detailed description of how fair value is measured for financial assets and liabilities.

Impairment of financial assets
Where there is objective evidence that a financial asset's value is lower than its cost, the asset will be impaired through profit or loss. Impairment in the value of assets measured at amortised costs is calculated by taking the difference between the carrying amount and the net present value of the estimated future cash flows discounted by the original effective interest rate. As regards available-for-sale assets, an asset is impaired when its present fair value is lower than its cost and the impairment is regarded as significant or to be a prolonged decline. Ordinarily, we would consider an impairment of more than 20 per cent of the cost as significant and a prolonged decline in value as one lasting for more than nine months.

All impairments are recognised, including impairments in the value of available-for-sale assets. Accumulated losses recognised directly in equity will also be transferred through profit or loss on the impaired assets. Impairment can be reversed if the reversal can be related to objective events that have taken place after the impairment was recognised. For financial assets measured at their amortised cost and available-for-sale bonds, any reversal will be recognised through profit or loss. Upon the reversal of financial assets that are investments in equity instruments, the reversal will be recognised directly in equity.

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

The fair value of forward foreign exchange and currency options is estimated based on market rates on the date of balance sheet recognition. The fair value of interest swap agreements is estimated on the basis of prices obtained from the banks on the date of balance sheet recognition.

Hedging
Before a hedge transaction is conducted, the Group's financial affairs department determines whether a derivative (or another financial instrument) should be used to:
i) hedge the fair value of a recognised asset or liability or a firm commitment;
ii) hedge a future cash flow from a recognised asset or liability, an identified highly probable future transaction or, in the case of currency risk, a firm commitment; or
iii) hedge a net investment in a foreign operation. Foreign currency risk is hedged on the basis of the hedge instrument's forward price.
The Group's criteria for classifying a derivative or other financial instrument as a hedge instrument are as follows:
(1) the hedge is expected to be highly effective for counteracting changes in fair value or cash flows to an identified object – the hedging effectiveness must be expected to be very high;
(2) the effectiveness of the hedge can be measured reliably;
(3) satisfactory documentation has been presented upon establishing the hedge to show among other things that the hedge is effective;
(4) for cash flow hedges, that the forthcoming transaction must be probable; and
(5) that the hedge has been evaluated on an ongoing basis and has proven effective, usually within the interval of 80 to 125 per cent.

(i) The hedging of fair value (project hedges)
Kongsberg has a policy of hedging all contractual currency flows. Derivatives identified as hedge instruments are valued at fair value and changes in fair value are recognised gross to the balance, with a corresponding adjustment of the hedged item. The hedge designation will be discontinued if:
(a) the hedging instrument expires, or is terminated, exercised or sold;
(b) the hedge no longer satisfies the above-mentioned hedge accounting criteria; or
(c) the Group decides to discontinue hedge accounting for other reasons.

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

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

If hedging an expected transaction subsequently leads to the recognition of a financial asset or liability, the resultant gain or loss to equity will be reclassified on the income statement during the same period(s) as the asset or liability influences the result.

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

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

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

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

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

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

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

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

(ii) Costs related to equity transactions
Transaction costs directly linked to an equity transaction are recognised directly against equity less tax.

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

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

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

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

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

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

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

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

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

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

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

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

r) Segments
The Group is organised into two business areas: Defence & Aerospace and Offshore & Merchant Marine. The business areas constitute the basis for primary reporting by segment. Financial information concerning the segments and the geographical regions is presented in Note 6 'Information by segment'.

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

t) IFRS and IFRIC have been adopted by the EU/EEA but not yet implemented
IFRS 7, Financial instruments: Disclosure requirement: IFRS 7 introduces new disclosure requirements to improve reported information relating to financial instruments. The Group will be compliant with IFRS 7 and the amendment to IAS 1 for the annual accounts as from 1 January 2007.

IFRIC 8, scope of IFRS 2: Share-based payment: The statement examines more closely how share-based transactions in which some or all goods or services cannot be clearly identified. IFRIC 8 will apply to accounts presented as from 1 Jan. 2007.

IFRIC 9: Reassessment of embedded derivatives: Interpretation calls for a reassessment of whether embedded derivatives will be separated from the underlying host contract only when the contract is amended. IFRIC 9 will apply to accounts presented as from 1 Jan. 2007. The Group does not expect this interpretation to have any significant effects.

4 Fair value

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

Intangible assets

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

Property, plant and equipment

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

Inventories

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

Investments in equity instruments

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

Trade receivables and other receivables

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

Derivatives

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

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

Share-based payment

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

5 Changes in Group structure

Sale of business activities

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

The settlement from the sale of Simrad Yachting has not been finally closed.

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

Amounts in MNOK	*2006*	*2005*	*2004*
Sales revenue	-	451	625
Operating expenses	-	(429)	(603)
Operating profit	**-**	**22**	**22**
Net financial income	-	(7)	(8)
Earnings before tax	**-**	**15**	**14**
Gain on sale of operations before tax	-	47	-
Tax	-	(15)	(5)
Profit from sale of discontinued operations, net after tax	**-**	**47**	**9**

Business combinations

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

Gallium and Fantoft

Amounts in MNOK	*Recognised values at acquisition*	*Adjustments of fair value*	*Carrying amount prior to acquisition*
Property, plant and equipment	5	-	5
Other intangible assets and technology	144	143	1
Trade and other receivables	25	-	25
Cash and short-term deposits	2	-	2
Deferred tax liability	(5)	(5)	0
Pension liabilities	(4)	(4)	0
Other non-current liabilities	(4)	-	(4)
Trade payable and other current liabilities	(25)	-	(25)
Net identifiable assets and liabilities	**138**	**134**	**4**
Goodwill on acquisition	69		
Cash consideration paid, incl. acquisition costs	**207**		
Cash acquired	2		
Net cash out flow	**205**		

The value of the technology/software is based on the net current value of future licence revenues, as is our estimate of fair value on the date of acquisition. The estimates of licence revenues and the useful life are based on historic experience, technical valuations and management's estimates of the discount rate. The estimates are contingent on the fulfilment of assumptions. Changes in the assumptions may have a significant impact on future results. The useful life of Gallium's technology is 15 years for the core technology and 6 years for the remainder of the technology. The core technology accounts for 80 per cent of the total value of the technology. The balance sheet values are MNOK 98 and MNOK 25, respectively. The reason for distinguishing between core technology and support technology is that parts of the system experience a more rapid replacement of technology than the core technology. Licence revenues are expected to increase in the years ahead, and then to dwindle since future upgrading and development are not reflected in the estimates. The discount rate was 11.5 per cent after tax. The value of customer relations is approximately zero, and has been estimated on the basis of an excess earnings model. Maintenance and service revenues are assumed to be related to customer relations. The useful life is expected to be 2 to 4 years.

The useful life of the technology at Fantoft Process Technolgies is seven years. The value is based on the net current value of future licence revenues discounted by 14.3 per cent after tax and seven years. A useful life of seven years is based on uncertainty about how much of the acquired system or Kongsberg's original system is to be further developed and maintained in future. Customers are allocated a value of approximately zero, for the same reason as mentioned above in connection with Gallium.

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

Kongsberg has used independent advisers to assist the Group in identifying and estimating the fair value of the intangible assets.

Events after the balance sheet date

Sense Intellifield AS

On 27 December 2006, Kongsberg concluded an agreement to acquire 100 per cent of the technology company Sense Intellifield for cash consideration of MNOK 290. The consideration may be higher, depending on the company's performance in 2007 and 2008. Sense Intellifield delivers products in the field of integrated operations for the oil and gas market. Integrated operations are having a growing impact on the oil and gas industry in terms of exploration as well as production. The deal was closed on 23 January 2007. The agreement was contingent on some factors that have to be satisfied for the deal to be completed. The date of acquisition is therefore 23 January 2007. Consequently, the acquisition will not affect the income statement or balance sheet at 31 December 2006. Due to the short time from the date of acquisition to the date of issue of the financial statements it was impractical to make a preliminary allocation of the purchase price.

6 Information by segment

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

Business segment data

The Group's activities are divided into strategic business areas (BAs) that are organised and managed separately. The BAs sell different products, focus on different markets and feature different risk and return profiles.

Kongsberg is divided into two business areas:

- Offshore & Merchant Marine
- Defence & Aerospace

The company disposed of its involvement in yachting activities in October 2005. Those activities constituted the bulk of the former segment Yachting & Fishery. Simrad's fishery operations are now reported as part of the Offshore & Merchant Marine segment. For more details, see Note 5 "Changes in Group structure".

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

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

Transactions within the BAs are eliminated.

Geographical segments

The Group's activities are generally divided into the following regions: Norway, rest of Europe, America and Asia.

Business segment data

Income statement	Offshore & Merchant Marine			Defence & Aerospace			Unallocated/ Other activities			Eliminations			Total, continuing operations		
Amounts in MNOK	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*
Revenue from external customers	3 528	3 009	2 991	2 985	2 646	2 786	207	136	124	-	-	-	6 720	5 791	5 901
Intra-Group transactions	25	25	22	12	4	5	-	-	-	(37)	(29)	(27)	-	-	-
Total revenues	**3 553**	**3 034**	**3 013**	**2 997**	**2 650**	**2 791**	**207**	**136**	**124**	**(37)**	**(29)**	**(27)**	**6 720**	**5 791**	**5 901**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**412**	**338**	**324**	**254**	**211**	**69**	**(39)**	**(13)**	**17**	**-**	**-**	**-**	**627**	**536**	**410**
Depreciation	83	76	82	72	76	82	8	6	7	-	-	-	163	158	171
Earnings before interest, tax and amortisation (EBITA)	**329**	**262**	**242**	**182**	**135**	**(13)**	**(47)**	**(19)**	**10**	**-**	**-**	**-**	**464**	**378**	**239**
Amortisation	(2)	-	-	(14)	(7)	(3)	-	-	-	-	-	-	(16)	(7)	(3)
Segment results	**327**	**262**	**242**	**168**	**128**	**(16)**	**(47)**	**(19)**	**10**	**-**	**-**	**-**	**448**	**371**	**236**
Net financial expenses													(58)	(57)	(56)
Tax expenses													(138)	(99)	(71)
Profit from discontinued operations													-	-	-
Profit for the year													**252**	**215**	**109**

Cont., income statement	Total, continuing operations			Discontinued operations			Consolidated		
Amounts in MNOK	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*
Revenue from external customers	6 720	5 791	5 901	-	451	625	6 720	6 242	6 526
Intra-Group transactions	-	-	-	-	-	-	-	-	-
Total revenues	**6 720**	**5 791**	**5 901**	**-**	**451**	**625**	**6 720**	**6 242**	**6 526**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**627**	**536**	**410**	**-**	**22**	**46**	**627**	**558**	**456**
Depreciation	163	158	171	-	-	24	163	158	195
Earnings before interest, tax and amortisation (EBITA)	**464**	**378**	**239**	**-**	**22**	**22**	**464**	**400**	**261**
Amortisation	(16)	(7)	(3)	-	-	-	(16)	(7)	(3)
Segment results	**448**	**371**	**236**	**-**	**22**	**22**	**448**	**393**	**258**
Net financial expenses	(58)	(57)	(56)	-	(7)	(8)	(58)	(64)	(64)
Tax expenses	(138)	(99)	(71)	-	(5)	(5)	(138)	(104)	(76)
Profit from discontinued operations	-	-	-	-	37	-	-	37	-
Profit for the year	**252**	**215**	**109**	**-**	**47**	**9**	**252**	**262**	**118**

Assets and liabilities	Offshore & Merchant Marine		Defence & Aerospace		Other activities		Total, continuing operations	
Amounts in MNOK	*2006*	*2005*	*2006*	*2005*	*2006*	*2005*	*2006*	*2005*
Segment assets	4 069	3 453	2 341	2 003	-	-	6 410	5 456
Unallocated assets	-	-	-	-	-	-	946	1 130
Total assets	**4 084**	**3 453**	**2 348**	**2 003**	**-**	**-**	**7 356**	**6 586**
Segment, non-interest-bearing liabilities	2 203	1 621	2 291	1 859	-	-	4 494	3 480
Unallocated liabilities	-	-	-	-	-	-	1 178	1 601
Total liabilities	**2 203**	**1 621**	**2 291**	**1 859**	**-**	**-**	**5 672**	**5 081**
Investments in property, plant and equipment	103	84	110	35	8	9	221	128
Investments in intangible assets	69	-	173	40	-	-	242	40
Cash flow	221	248	(105)	165	(141)	150	(25)	563

Geographical segments (continuing operations)

	Norway			Rest of Europe			America			Asia			Other			Total		
Amounts in MNOK	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*	*2006*	*2005*	*2004*
Revenue from external customers	1 892	1 920	1 820	1 764	1 402	1 854	1 512	1 180	1 155	1 415	1 181	990	137	108	82	6 720	5 791	5 901
Revenue as a percentage of total	28%	33%	31%	26%	24%	31%	23%	20%	20%	21%	20%	17%	2%	2%	1%	-	-	-
Segment assets	6 066	5 703	-	380	286	-	555	320	-	355	277	-	-	-	-	7 356	6 586	-
Investments	266	157	-	11	2	-	178	5	-	8	4	-	-	-	-	463	168	-

7 Inventories

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

Amounts in MNOK	*31 Dec 06*	*31 Dec 05*
Raw materials	758	637
Work in progress	18	27
Finished products	236	183
Total	**1 012**	**847**
Impairment on inventories during the period	35	23

8 Personnel expenses and number of employees

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

Amounts in MNOK	*2006*	*2005*	*2004*
Salaries	1 778	1 610	1 648
Social security tax	267	248	233
Pension expenses, defined benefit plans (Note 9)	128	101	92
Pension expenses, defined contribution plans (Note 9)	8	5	9
Other benefits	145	79	78
Total personnel expenses	**2 326**	**2 043**	**2 060**

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

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

	2006	2005	2004
Norway	2 907	2 888	3 024
Europe	188	195	231
America	173	119	113
Asia	207	191	179
Other	10	6	5
Total	**3 485**	**3 399**	**3 552**

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

Options for employees

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

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

	2006	*2005*	*2004*
Number of options outstanding 1 Jan.	142 215	144 629	73 911
Number of options granted	41 999	71 497	70 718
Number of options exercised	(42 008)	-	
Number of options expired	(28 989)	(73 911)	
Options outstanding at 31 Dec.	113 217	142 215	144 629

MNOK 4, including social security, was recognised as expense for options for employees in 2006. The comparable amounts were MNOK 3 and NOK 0 in 2005 and 2004, respectively.

Outstanding options carry the following terms and conditions

Expiration date	*Strike price in NOK*	*Number*	*Value per option in NOK at 31 Dec 06*	*Liabilities in MNOK at 31 Dec 06*
2007	106	71 218	70	3.9
2008	168	41 999	20	0.2
Total options outstanding		**113 217**		**4.1**

The fair value of the options is estimated using Black-Scholes' option pricing model. The option value is calculated as the fair value on 31 Dec. 2006, as the options are cash-settled. The market value of the share was NOK 124 at 31 Dec. 2005 and NOK 175 at 31 Dec. 2006. The market value of the share on the date of exercise was NOK 148.50.

A volatility of 17 per cent is assumed, based on the Kongsberg share's historical volatility back to 1993. It is assumed that historical volatility is an indication of future volatility. The volatility of the share has been relatively similar from year to year. The calculation is based on a risk-free interest rate of 4.2 per cent and an estimated dividend share of 1.71 per cent. The estimated dividend yield is the average for the past two years. This is an estimate of the expected future dividend share.

It is assumed that all employees will exercise their options on their maturity date. The options' expected term to maturity is two years from the date on which the options were granted. The remaining terms to maturity are 5 and 17 months.

9 Pensions and other long-term employee benefits

The Group is required by the Act relating to obligatory service pensions to have a service pension plan. Kongsberg's service pension meets the requirement of the law and covers all Group employees in Norway. At 31 December 2006, 3 019 employees were covered by the scheme. Parts of pensions are covered by payments from the National Insurance Scheme. Such payments are calculated using the National Insurance Scheme's basic amount (G), stipulated annually by the Norwegian parliament. Pension benefits depend on the individual employee's number of years of service and salary level upon retirement. Pension costs are distributed over the employee's vested period. The scheme provides 65 per cent of salary, including National Insurance benefits, until the age of 77, then the pension level is reduced to 50 per cent.

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

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

	31 Dec 06	*31 Dec 05*	*31 Dec 04*
Financial assumptions			
Discount rate	4.5%	4.0%	5.0%
Expected return on plan assets	5.5%	5.0%	6.0%
Future salary increases	4.0%	3.0%	3.0%
Future base level increases	4.0%	3.0%	3.0%
Future pension increases	1.5%	3.0%	3.0%

	31 Dec 06	*31 Dec 05*
Demographic assumptions		
Mortality	K 2005	K 1963
Disability	IR 73	K 1963
Turnover	4% for all ages	3% for all ages
Early retirement	20% at age 62	20% at age 62

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

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

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

The disability rate in IR 73 was chosen because it offers the best approach to Kongsberg's disability statistics. For quite some time, the Group has been reimbursed for about 25 to 30 per cent of the annual premium through an international pool.

The year's pension costs were calculated as follows:

Amounts in MNOK	*2006*	*2005*	*2004*
Service cost	95	75	68
Interest cost on pension liabilities	63	63	58
Expected return on pension plan assets	(47)	(50)	(46)
Amortisation of past service cost	1	1	1
Accrued social security expenses	16	12	11
Total net pension expenses	**128**	**101**	**92**
Expenses related to defined contribution pension plans outside Norway	8	5	9

Change in net pension liabilities recognised on the balance sheet

	2006			2005		
Amounts in MNOK	*Funded*	*Unfunded*	*Total*	*Funded*	*Unfunded*	*Total*
Change, gross pension liabilities						
Gross pension liabilities at 1 Jan.	1 514	160	1 674	1 218	133	1 351
Net change in social security expenses	10	1	11	23	3	26
Acquisition/disposal of activities	11	-	11	(50)	(2)	(52)
Buy-out upon termination	(92)	-	(92)	-	-	-
Net current value of accruals for the year	87	8	95	66	9	75
Interest expenses on pension liabilities	58	5	63	58	5	63
Premium payments, plan changes	-	(14)	(14)	-	-	-
Actuarial loss/gain	54	22	76	217	17	234
Payment pensions/paid-up policies	(18)	(7)	(25)	(18)	(5)	(23)
Gross pension liabilities at 31 Dec.	**1 624**	**175**	**1 799**	**1 514**	**160**	**1 674**
Changes, gross pension fund assets						
Fair value, pension plan assets at 1 Jan.	1 005	-	1 005	882	-	882
Acquisition/disposal of activities	8	-	8	(30)	-	(30)
Buy-out upon termination	(92)	-	(92)	-	-	-
Expected rate of return on pension funds	47	-	47	50	-	50
Actuarial loss/gain	(30)	-	(30)	(29)	-	(29)
Premium payments	129	-	129	150	-	150
Payment of pension expenses/paid-up policies	(18)	-	(18)	(18)	-	(18)
Fair value, pension plan assets at 31 Dec.	**1 049**	**-**	**1 049**	**1 005**	**-**	**1 005**
Net pension liabilities	**(575)**	**(175)**	**(750)**	**(509)**	**(160)**	**(669)**
Unrecognised plan changes	-	3	3	-	4	4
Net capitalised pension liabilities at 31 Dec.	**(575)**	**(172)**	**(747)**	**(509)**	**(156)**	**(665)**

The percentage distribution of pension plan assets by investment categories at 31 Dec. 2006 and earlier was:

	2006	*2005*	*2004*
Long-term bonds	30%	27%	33%
Money market	5%	17%	17%
Bonds	20%	18%	18%
Shares	30%	23%	17%
Property	13%	12%	12%
Other items	2%	3%	3%

Actual investment performance, pension plan assets 2006, 2005 and 2004: 7.5%, 7.3% and 6.5%.

Amounts in MNOK	*2006*	*2005*	*2004*	*1 Jan 04*
Net obligation 1 Jan.	(665)	(456)	(381)	208
Net change in social security expenses	(11)	(26)	(9)	(73)
Recognised pension expenses	(112)	(87)	(81)	-
Premium payments	129	150	84	-
Premium payments, plan changes	14	-	-	-
Disbursements, early retirement	7	7	4	-
Downsizing process	-	3	-	-
Purchases/sales	(3)	16	-	-
Transition to proportionate consolidation method	-	(9)	-	-
Actuarial gain/loss on pension expenses	(106)	(263)	(73)	(516)
Net capitalised pension liabilities at 31 Dec.	**(747)**	**(665)**	**(456)**	**(381)**

Actuarial losses/gains are recognised directly in equity.

The age limit for taking an early retirement pension (AFP) is 62. The Group's extended pension liabilities are included in the accounts in accordance with actuarial standards based on a lower ordinary retirement age, 20 per cent signing propensity, 25 per cent employer financing and otherwise the same assumptions as apply to ordinary pensions. Changes in actual signing propensity as well as final funding can lead to changes in the final pension liabilities.

Pension expenses for the year are estimated based on the financial and actuarial assumptions that apply at the beginning of the year. Gross pension liabilities are based on the financial and actuarial assumptions made at year end. The gross value of pension plan assets includes an expected return of five per cent for 2006.

Pension premium payments for 2007 are expected to total MNOK 150.

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

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

The balance sheet shows net pension liabilities including social security.

Sensitivity analysis, pension calculations

The following estimates are based on facts and circumstances that applied at 31 Dec. 2006, provided all other parameters are constant. The actual results may deviate from these estimates.

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

Defined contribution pension plans

KONGSBERG's companies abroad have defined contribution plans that comply with local legislation. At 31 Dec. 2006, KONGSBERG had 646 employees outside Norway.

10 Remuneration to the auditor

Amounts in NOK 1000	*Parent company*	*Sub-sidiaries in Norway*	*Sub-sidiaries abroad*	*Total*
Corporate auditor Ernst & Young				
Mandatory audits	875	5 310	1 089	7 274
Other assurance services	0	550	0	550
Tax consultancy	0	503	75	578
Services other than auditing	-	1 217	0	1 217
Total fees, Ernst & Young	**875**	**7 580**	**1 164**	**9 619**
Others auditors				
Estimated auditing fees		110	273	383

11 Property, plant and equipment

Aounts in MNOK	*Machinery*	*Equipment*	*Land, buildings and other property*	*2006*
Cost				
1 Jan. 2005	525	850	942	2 317
Additions	20	74	34	128
Disposals	(2)	(24)	(10)	(36)
Disposals through the sale of businesses	(131)	(86)	(47)	(264)
Translation differences	1	(4)	(4)	(7)
31 Dec. 2005	**413**	**810**	**915**	**2 138**
Additions	58	92	71	221
Disposals	(123)	(9)	-	(132)
Additions through acquisition of businesses	3	9	-	12
Translation differences	3	(1)	(2)	-
31 Dec. 2006	**354**	**901**	**984**	**2 239**
Accumulated depreciation and impairment losses				
1 Jan. 2005	380	560	262	1 202
Depreciation for the year	25	98	35	158
Disposals	(1)	(17)	(5)	(23)
Disposals through the sale of businesses	(105)	(75)	(17)	(197)
Translation differences	1	(3)	(1)	(3)
31 Dec. 2005	**300**	**563**	**274**	**1 137**
Depreciation for the year	27	100	36	163
Disposals	(123)	(7)	-	(130)
Translation differences	2	(1)	-	1
31 Dec. 2006	**206**	**655**	**310**	**1 171**
Carrying amount at 1 Jan. 2005	145	290	680	1 115
Carrying amount at 31 Dec. 2005	**113**	**247**	**641**	**1 001**
Carrying amount at 1 Jan. 2006	113	247	641	1 001
Carrying amount at 31 Dec. 2006	**148**	**246**	**674**	**1 068**
Useful life	3-10 years	3-10 years	10-30 years	
Annual rent from off-balance sheet property, plant and equipment	4	13	137	154

12 Intangible assets

Amounts in MNOK	*Goodwill*	*Patents and licences*	*Technology*	*Proprietary R&D*	*Other intangible assets*	*Total*
Cost price						
1 Jan. 2005	1 685	43	-	-	10	1 738
Translation differences	-	-	-	-	-	-
Additions	-	4	-	-	-	4
Discontinued operations	(206)	-	-	-	-	(206)
Acquisition of businesses/minority interests	36	-	-	-	-	36
31 Dec. 2005	**1 515**	**47**	**-**	**-**	**10**	**1 572**
1 Jan. 2006	1 515	47	-	-	10	1 572
Translation differences	-	-	(3)	-	-	(3)
Additions	-	-	-	17	-	17
Acquisition of businesses/minority interests	72	2	144	8	-	226
31 Dec. 2006	**1 587**	**49**	**141**	**25**	**10**	**1 812**
Accumulated amortisation and impairment losses						
1 Jan. 2005	473	8	-	-	2	483
Amortisation and impairment losses	-	7	-	-	-	7
Discontinued operations	(53)	-	-	-	-	(53)
31 Dec. 2005	**420**	**15**	**-**	**-**	**2**	**437**
1 Jan. 2006	420	15	-	-	2	437
Amortisation and impairment losses	-	7	8	-	1	16
Discontinued operations	-	-	-	-	-	-
31 Dec. 2006	**420**	**22**	**8**	**-**	**3**	**453**
Carrying amount						
1 Jan. 2005	1 212	35	-	-	8	1 255
31 Dec. 2005	**1 095**	**32**	**-**	**-**	**8**	**1 135**
1 Jan. 2006	1 095	32	-	-	8	1 135
31 Dec. 2006	**1 167**	**27**	**133**	**25**	**7**	**1 359**
Useful life		**4–5 years**	**6–15 years**	**3–4 years**	**15 years**	
Remaining useful life		**2–3 years**	**5–14 years**	**3–4 years**	**10 years**	

Technology is largely attributable to the acquisition of Gallium and Fantoft, cf. Note 5 'Changes in Group structure'. With the exception of goodwill, intangible assets are amortised on a linear basis over their useful life.

Acquired R&D and patents and licences are related to the acquisition of Applied Radar Physics, where the Group increased its stake from 49.3 per cent to 53.6 per cent.

Acquisition of minority

Acquisition of minority share in Seaflex. MNOK 3 in excess value has been allocated to goodwill.

Research and development

Expenses related to self-financed research and development:

	2006			2005		
Amounts in MNOK	*Product maintenance*	*Development costs*	*Total*	*Product maintenance*	*Development costs*	*Total*
Offshore & Merchant Marine	71	219	290	64	200	264
Defence & Aerospace	16	101	117	2	59	61
Total	**87**	**320**	**407**	**66**	**259**	**325**

KONGSBERG's research and development activities cost the equivalent of about 11 per cent of operating revenues. Of that amount, MNOK 320 or about 4.8 per cent of operating revenues is self-financed development. Expenses related to product maintenance are expensed on an ongoing basis. Customer-financed projects entail permanent commercial rights. It is important that development activities be aimed at the Group's core areas.

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

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

13 Impairment test of goodwill

Goodwill obtained through business combinations is allocated to the following cash-generating units:

- Offshore & Merchant Marine
- Defence & Aerospace

The cash-generating units for impairment testing of goodwill were changed in 2006. Fishery became more closely integrated into the other activities at Offshore & Merchant Marine in 2006. Consequently, goodwill was reallocated to Offshore & Merchant Marine. Defence Communications was merged with Defence & Aerospace in 2006, and goodwill was therefore reallocated to this undertaking. Goodwill amounts attached to the acquisition of Fantoft and Gallium were allocated to Offshore & Merchant Marine (MNOK 44) and Defence & Aerospace (MNOK 24), respectively. These operations' cash flows are considered to be closely integrated with the cash flows from Offshore & Merchant Marine and Defence & Aerospace. See also Note 6 'Information by segment' for more detailed information about the business areas.

Amounts in MNOK	*Offshore & Merchant Marine*	*Fishery*	*Defence Communications*	*Defence & Aerospace*	*Total*
Carrying amount, goodwill 2005	951	43	59	42	1 095
Carrying amount, goodwill 2006	1 034	0	0	133	1 167

Value in use and the main assumptions

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

Offshore & Merchant Marine

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

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

The interest rate used for discounting cash flows is 10.1 per cent. The calculation of the discount rate is based on an interest rate on debt of 5.4 per cent and an interest rate on equity of 11.9 per cent. The Group's normalised debt-equity ratio is 27 per cent and the equity ratio is 73 per cent. The interest rate on equity is determined on the basis of a risk-free interest rate of 4.3 per cent (10-year government bond interest rate) plus a general market risk premium of 7 per cent, KOG beta of 0.8 and a specific risk premium of 2 per cent. The applied discount rate is calculated before tax and interest. Interest on debt is based on a three-year government bond interest rate plus 1 per cent, for a total of 5.4 per cent.

The terminal value is estimated using the previous plan-year's cash flow as a normalised cash flow and assuming nominal growth of 2 per cent. The nominal growth rate is estimated lower than the historical growth rate for Offshore & Merchant Marine. Significant shifts in the normalised net cash flow and growth rate will affect the overall value significantly.

Defence & Aerospace

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

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

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

Sensitivity

Offshore & Merchant Marine

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

Defence & Aerospace

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

14 Investments in jointly controlled entities

Kongsberg Satellite Services AS and Kongsberg Terotech AS are consolidated using the proportionate method as a result of a change in the policies applied to the consolidation of jointly controlled entities. Comparable figures for the income statement, balance sheet, statement of recognised income and expense, cash flows and notes for 2005 and 2004 have been adjusted as a result of the change in policies. The remaining associates are not of significant value, and the investments have now been reclassified as available-for-sale shares, cf. Note 18 'Available-for-sale shares'. The carrying amount of the reclassified shares is MNOK 2. The profit they produced was approximately 0. The figures for 2005 have been reclassified accordingly.

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

Amounts in MNOK	*Current assets*	*Non-current assets*	*Current liabilities*	*Non-current liabilities*	*Equity*	*Revenue*	*Profit for the year*
Jointly controlled entities							
Kongsberg Satellite Services AS 50% (Tromsø)	23	93	33	24	59	70	12
Kongsberg Terotech AS 50% (Kongsberg)	12	4	10	1	6	33	-

Kongsberg Satellite Services and Kongsberg Terotech show KONGSBERG's percentage of the items mentioned.
The companies are not listed, meaning they have no observable market values.

15 Net financial items

Amounts in MNOK	*2006*	*2005*	*2004*
Interest income	4	4	5
Gain on disposal of shares	2	5	31
Financial income	**6**	**9**	**36**
Interest expenses	(51)	(57)	(79)
Impairment loss on available-for-sale shares	(5)	-	-
Other financial expenses	(8)	(9)	(13)
Financial expenses	**(64)**	**(66)**	**(92)**
Net financial items	**(58)**	**(57)**	**(56)**

16 Income tax expense

Tax expense

Amounts in MNOK	*2006*	*2005*	*2004*
Tax payable	16	8	6
Change, deferred tax	122	91	65
Tax expense	**138**	**99**	**71**
Effective tax rate	35%	32%	40%

Amounts in MNOK	*2006*	*2005*	*2004*
Profit from continuing operations before tax	**390**	**314**	**180**
Estimated tax based on a tax rate of 28 per cent of the profit before tax	109	88	50
The effect of tax rate differences between Norway and other countries and unrecognised tax assets abroad	14	3	17
Other permanent differences	15	8	4
Tax expense	**138**	**99**	**71**
Profit from discontinued operations before tax	**0**	**15**	**14**
Tax on profit from discontinued operations	0	5	5
Tax on gain upon sale	0	10	0
Tax expense, discontinued operations	**0**	**15**	**5**
Tax expense on the income statement	138	99	71
Tax expense, discontinued operations	0	15	5
Tax expense	**138**	**114**	**76**

Deferred tax and deferred tax assets

Amounts in MNOK	*31 Dec 06*	*31 Dec 05*
Deferred tax assets		
Pension	209	184
Loss to be carried forward	-	115
Provisions	101	60
Deferred tax asset – gross	**310**	**359**
Deferred tax liability		
Goodwill, property, plant and equipment	134	123
Projects in progress	618	592
Financial instruments	31	26
Deferred tax liability – gross	**782**	**742**
Net recognised deferred tax liability	**(473)**	**(383)**

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

Amounts in MNOK	*31 Dec 06*	*31 Dec 05*
Translation differences	(2)	(7)
Pension	(34)	(86)
Cash flow hedges	5	(40)
Other	(1)	(3)
Total	**(32)**	**(136)**

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

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

17 Earnings per share

	2006	*2005*	*2004*
The net profit for the year attributable to the shareholders, in MNOK			
Profit from continuing operations, net after taxes	252	215	109
Minority share of the profit	3	2	(2)
Profit/(loss), discontinued operations	0	47	9
Net profit for the year/diluted profit attributable to owners of ordinary shares	**249**	**260**	**120**
Average weighted number of shares outstanding at 31 Dec. in millions of shares (Note 24)			
Ordinary shares issued at 1 Jan.	30.00	30.00	30.00
Effect of treasury shares	0.00	(0.06)	(0.20)
Average weighted number of ordinary shares at 31 Dec.	**30.00**	**29.94**	**29.80**
Effect of employee share-options	0.01	0.03	0.00
Average weighted number of shares outstanding at 31 Dec. - diluted	**30.01**	**29.97**	**29.80**
Earnings per share in NOK			
Earnings from continuing operations per share	8.30	7.19	3.66
Earnings from continuing operations per share, diluted	8.30	7.19	3.66
Earnings per share for the year	8.30	8.70	4.03
Earnings per share for the year, diluted	8.30	8.69	4.03

18 Available-for-sale shares

	Carrying amount	
Amounts in MNOK	*31 Dec 06*	*31 Dec 05*
Available-for-sale shares		
Listed shares	165	98
Unlisted shares (OTC list)	78	-
Shares valued on the basis of transaction price/issue price	5	19
Other shareholdings	15	21
Available-for-sale shares	**263**	**138**

Available-for-sale shares are recognised at fair value. Listed shares consist of 19 per cent of the shares in Kitron ASA. The shares are recognised at market price on the stock exchange. The excess carrying amounts were MNOK 67 in 2006 and MNOK 7 in 2005. Shares in Remora ASA, acquired in 2006 for MNOK 29, and Wavefield InSeis AS, acquired for MNOK 30 are quoted on the OTC stock list. The values of these shares were adjusted by MNOK 6 and MNOK 13, respectively, for 2006. As a percentage of total market value, listed and unlisted OTC shares accounted for 94 per cent of the available-for-sale shares. The change in fair value is recognised directly in equity. Other shares have no observable market value. A decrease of MNOK 5 was recognised in the value of available-for-sale shares. The change from 2005 to 2006 in the carrying amount of shares based on the transaction price is related to their reclassification from available-for-sale shares to receivables.

Other shareholdings include companies previously classified as associates; see also Note 14 'Investments in jointly controlled entities'.

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

19 Other non-current assets

Amounts in MNOK	*31 Dec 06*	*31 Dec 05*
Loans to employees	12	21
Receivables in connection with the disposal of businesses	80	64
Other non-current assets	25	31
Total other non-current assets	**117**	**116**

20 Receivables

Amounts in MNOK	*31 Dec 06*	*31 Dec 05*
Trade receivables	1 329	955
Other receivables	125	249
Prepayments to suppliers	30	29
Total	**1 484**	**1 233**

Amounts in MNOK	*31 Dec 06*	*31 Dec 05*
Trade receivables	1 383	1 003
Provision for bad debts	(54)	(48)
Total net trade receivables	**1 329**	**955**

21 Projects in progress

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

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

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

Amounts in MNOK	*31 Dec 06*	*31 Dec 05*
Projects in progress	1 208	1 253
Prepayments from customers	1 768	1 617
Net projects in progress	**(560)**	**(364)**

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

A summary of important contract data appears below:

Amounts in MNOK	*2006*	*2005*
Total orders	20 658	18 245
Operating revenues for the year	4 984	3 891
Accumulated operating revenues	15 026	13 513
Accumulated variable expenses	11 892	10 037
Recognised contract profit	5 632	4 732
Prepayments received	1 768	1 617
Remaining variable expenses on loss-making projects	26	-

The Naval Strike Missile (NSM) programme is divided into three main phases: development and qualification, the transition from development and qualification to production, and the production of missiles. In December 2004, a contract was signed to cover the cost of the transition phase from development and qualification to production. To optimise preparations for the production of missiles, activities with long lead-times have been initiated prior to the signing of a contract for the production phase. At year-end 2006, there was inventory valued at MNOK 144 related to the production phase. The comparable figure for 2005 was MNOK 68.

Uncertainty associated with estimates

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

22 Financial instruments

Corporate Policy

The Group deals with financial risk at the corporate level. The Board has adopted a 'Treasury Policy' that provides guidelines for the Group's financial risk management. Kongsberg aspires to optimise financial risk.

Interest rate risk

Kongsberg hedges its loans through fixed-interest loans and interest rate swaps.

At 31 Dec. 2006, the Group had the following fixed-interest loans and interest rate swaps (from floating to fixed interest):

	Due date	*MNOK*	*Years remaining*	*Interest rate*	*Excess (+)/ negative value (-) 31 Dec 06*	*Excess (+)/ negative value (-) 31 Dec 05*
Fixed rate agreements						
Bond loan ISIN 00101 9701.5	26 Sept 07	300	0.8	5.2%	(3)	(6)
Interest swap agreements						
Agreement 1	19 Dec 07	300	1.0	6.8%	(7)	(20)
Agreement 2	17 June 09	300	2.5	5.4%	(4)	(17)
Agreement 3	17 Dec 08	100	2.0	5.6%	(2)	(5)
Total interest rate swap agreements		**700**			**(13)**	**(43)**
Total		**1 000**			**(16)**	**(49)**

Interest rate swaps for a total of MNOK 700 are to cover interest rate risk on the floating part of the Group's debt portfolio, cf. the specification below on loans. Interest rate swap agreement 1 covers certificate loans (MNOK 300 at 31 Dec. 2006) and interest rate swap agreements 2 and 3 cover a bond issue with floating interest (MNOK 400 at 31 Dec. 2006). The interest hedges are defined as cash flow hedges and excess/negative values are recognised directly in equity. The fixed interest loan is measured at its amortised cost.

Other interest rate swaps

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

Of this interest rate swap, MNOK 110 is attached to the remainder of the sale and leaseback agreement, while the other MNOK 40 is an open position.

At 31 Dec. 2006, the interest rate swap agreement was as follows:

	Due date	*MNOK*	*Years remaining*	*Interest rate*	*Excess (+)/ negative value (-) 31 Dec 06*	*Excess (+)/ negative value (-) 31 Dec 05*
Interest rate swap agreements	2 Nov 11	150	4.8	6.3%	(10)	(20)

Funding risk and loan

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

Term to maturity	2006				2005			
	Nominal amounts at 31 Dec 06	*Due date*	*Nominal interest rate*	*To maturity*	*Nominal amounts at 31 Dec 05*	*Due date*	*Nominal interest rate*	*To maturity*
Certificate loan 1	100	21 Feb 07	3.7%	0.1	100	15 March 06	2.6%	0.2
Certificate loan 2	100	21 March 07	3.9%	0.2	100	15 March 06	2.6%	0.2
Certificate loan 3	100	21 April 07	4.0%	0.3	100	21 June 06	2.7%	0.5
Bond loan ISIN 00101 9701.4 (fixed interest)	300	26 Sept 07	5.2%	0.7	300	26 Sept 07	5.2%	1.7
Bond loan ISIN 00101 2638.4 (floating interest)	400	10 June 09	4.6%	2.4	400	10 June 09	3.2%	3.4
Other non-current loans	5				16			
Total loan	**1 005**			**1.3**	**1 016**			**1.9**
Overdraft facilities (undrawn borrowing limit)	800	1 March 09		2.2	1 100	1 March 09		3.2

The overdraft facility was a syndicated credit facility for a total of MNOK 800 in 2006. The agreement was signed with five banks: DnB NOR, Nordea, SEB, Fokus Bank and BNP. The agreement was made through the company Norsk Tillitsmann ASA and will mature in March 2009. The credit facility is currently undrawn. There was also an overdraft facility for MNOK 300 in 2005, and it could be renewed annually. As at 31 Dec. 2006, it had not been renewed.

At 31 Dec. 2006, certificate loans consisted of a total of three certificate loans, each for MNOK 100, maturing in February, March and April 2007, respectively.

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

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

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

b) Net interest-bearing debt should not exceed 3 times the EBITDA, but can be up to 3.5 times EBITDA for a maximum of three quarters.

The covenants in the loan agreements were satisfied as at 31 Dec. 2006.

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

Currency risk

Kongsberg has considerable foreign exchange exposure, earning more than 70 per cent of its revenues abroad. Kongsberg makes many of its procurements in foreign currencies. In addition, Kongsberg has operations outside Norway. This mitigates the Group's net foreign currency exposure by 30 to 40 per cent. The Group's net exposure is especially high in USD. Kongsberg's policy is to limit currency risk while actively assessing various currencies' importance as competitive parameters. All contractual currency flows are hedged (project hedging), and hedging is also used for prognosticated currency flows (hedges of forecasted sale). The Group also hedges loans granted by Kongsberg Gruppen ASA to foreign subsidiaries and, up to 2006, recognised equity in foreign subsidiaries.

Since the Group has hedged prognosticated currency flows and signed contracts in foreign currencies, only some consolidated operating revenues and profits are expected to be influenced by fluctuations in foreign exchange rates over the next one to three years.

At 31 December 2006, Kongsberg had no significant foreign currency loans.

Hedging takes place mainly through the use of forward foreign exchange contracts. Currency accounts in banks are used to hedge small amounts and for short terms to maturity. Options are also used under special circumstances.

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

Amounts in MNOK	*Value based on exchange rates*	*Excess (+)/ negative value (-) 31 Dec 06*	*Excess (+)/ negative value (-) 31 Dec 05*
Hedge category			
Hedges of forecasted sale (cash flow hedges)	3 694	57	55
Project hedges (fair value hedges)	3 679	24	(41)
Loan hedging (fair value hedges) *	128	-	-
Equity hedging (net invest. abroad)	-	-	(2)
Total	**7 501**	**81**	**12**

* Loan hedges are currency hedges attached to foreign currency loans.

Excess/negative values attached to cash flow hedges (hedges of forecasted sale) are booked to equity.

The CEO stipulates the parameters for the extent to which an individual division or business area can engage in hedging of forecasted sale. Hedges can cover up to 100 per cent of prognosticated new orders. The hedging ratio is reduced annually for up to three years in advance.

The following table shows how hedging of forecasted sale is distributed over time (net forward sale of foreign currency for hedging of forecasted sale at 31 Dec. 2006):

Net forward sales of currency for hedges of forecasted sale	2007		2008 and later		Total	
Amounts in MNOK	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 06*	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 06*	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 06*
EUR	880	(1)	538	(6)	1 418	(7)
USD	1 470	42	797	22	2 267	64
Other currencies	9	(0)	-	-	9	(0)
Total hedges of forecasted sale	**2 359**	**41**	**1 335**	**16**	**3 694**	**57**

Projects are fully hedged upon signing an agreement. Minor contracts and ongoing sales can be guaranteed through hedges of forecasted sale.

The following table shows how project hedging is distributed over time (forward sale of foreign currency for project hedging at 31 Dec. 2006):

Net forward sale of foreign currency for project hedging	2007		2008 and later		Total	
Amounts in MNOK	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 06*	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 06*	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 06*
EUR	883	(1)	507	(1)	1 390	(2)
USD	2 110	22	112	4	2 222	26
Other currencies	55	-	12		67	-
Total project hedges	**3 048**	**21**	**631**	**3**	**3 679**	**24**

Investments in companies other than subsidiaries, associates and jointly controlled entities

The shares shall be measured at market value on the balance sheet date. The market value is calculated as follows:
1) Latest traded price on the stock exchange or latest traded price on the OTC list (the Norwegian Securities Dealers Association's Over The Counter list).
2) The price of the final share transactions for the sale/purchase or issue of unlisted shares.
3) Valuation based on the discounted cash flow.
4) Cost of acquisition as an estimate of market value. This refers to investments that are not of significant value.
Of a total carrying amount of MNOK 263, shares measured at market price on the stock exchange or the price from the OTC list account for approx. MNOK 243 (94 per cent of carrying amount). Shares whose historical cost is used to estimate market value account for about 6 per cent of overall market value. See Note 18 'Available-for-sale shares' for a more detailed explanation.

Summary, financial instruments	Carrying amount		Market value	
Amounts in MNOK	*31 Dec 06*	*31 Dec 05*	*31 Dec 06*	*31 Dec 05*
Financial assets				
Cash and short-term deposits	711	736	711	736
Available-for-sale shares	263	138	263	138
Forward foreign exchange contracts, fair value hedges	53	26	53	26
Forward foreign exchange contracts, cash flow hedges	80	101	80	101
Currency options	2	-	2	-
Financial liabilities				
Interest-bearing debt	(1 005)	(1 016)	(1 008)	(1 022)
Interest rate swap agreements to hedge debt	(13)	(43)	(13)	(43)
Interest rate swap agreements attached to sale and lease-back	(10)	(20)	(10)	(20)
Forward foreign exchange contracts, fair value hedges	(29)	(68)	(29)	(68)
Forward foreign exchange contracts, cash flow hedges	(23)	(47)	(23)	(47)
Forward foreign exchange contracts, equity hedging	-	(2)	-	(2)

Changes in the fair value of financial instruments during the year, where the changes have been recognised directly in equity *Figures before tax in MNOK*	*Hedges of forecasted sale and deferred gains**	*Interest rate swap agreements*	*Available-for-sale shares*	*Total*
Excess/(negative) value at 1 Jan.	135	(43)	28	120
Changes in excess/(negative) value during the period	17	8	87	112
Recognised gain during the period	(28)	22	-	(6)
Excess/(negative) value 31 Dec.	124	(13)	115	226

* Deferred gain on cash flow hedges attributed to projects. The gains arise when the hedges of forecasted sale fall due and forward exchange contracts are agreed for the projects. Any gains/losses that arise are deferred and realised with the progress of the projects. For that reason, hedges of forecasted sale must be viewed in connection with deferred gains.

Credit risk

Kongsberg has about NOK 1 billion in trade receivables at any given time. These receivables entail different degrees of risk, depending on the customer, maturity, and whether payment guarantees, etc. were issued.

Customers largely consist of public undertakings, and larger commercial organisations and companies. Historically, the Group has had a relatively low percentage of bad debts. All in all, the Group's credit risk must be considered low. No credit insurance or credit derivatives are used in connection with credit risk.

Positions in the interest and foreign exchange market

Kongsberg's policy is that it takes limited positions in the interest and currency markets. All positions are recognised at market value. Actual gains/losses and changes in market value are recognised through profit or loss. The company's positions are handled in special portfolios, separate from hedge transactions.

With the exception of a currency option and an open interest position of MNOK 40 attached to the sale and lease-back activities discussed above, at 31 Dec. 2006, the Group had no interest rate or foreign currency positions.

Capital structure

Kongsberg aspires to have predictable funding, with a moderate debt-equity ratio. The debt-equity ratio, calculated as net interest-bearing debt as a percentage of earnings before interest, taxes, depreciation and amortisation (EBITDA), should ordinarily be less than 3. If debt-equity ratio were to exceed this, the goal would be to return to less than 3. The debt-equity ratio at 31 Dec. 2006 was 0.5.

23 Cash and short-term deposits

Nominal amounts in MNOK	*31 Dec 06*	*31 Dec 05*
Short-term investments in the money market	50	350
Bank deposits	661	386
Total	**711**	**736**

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

24 Share capital and share premium

Share capital

At 31 December 2006, the Group's share capital consisted of 30 000 000 shares with a nominal value of NOK 5 each.

Share capital trends *Type of expansion*	*Date*	*Number of shares*	*Nominal value*	*Amount MNOK*	*Adjustment factor*	*Share capital MNOK*
Stock Exchange listing	13 Dec 93	5 850 000	20	117		117
Private placement with employees	1996	6 000 000	20	3		120
Share split	1997	24 000 000	5		1:4	120
Share issue	1999	30 000 000	5	30		150

The principal shareholders at 31 Dec. 2006 *Shareholders*	*Number of shares*	*% share*
The Norwegian State as repr. by the Ministry of Trade and Industry	15 000 400	50.00%
The National Insurance Fund	2 722 060	9.07%
Arendals Fossekompani ASA	2 055 822	6.85%
MP Pensjon	1 203 200	4.01%
Skagen Vekst	941 350	3.14%
Odin Norge	915 600	3.05%
Odin Norden	798 737	2.66%
Ferd AS	650 000	2.17%
Orkla ASA	645 200	2.15%
Odin Offshore	283 050	0.94%
Total	**25 215 419**	**84.05%**
Other (stake < 0.94%)	4 784 581	15.95%
Total number of shares	**30 000 000**	**100.00%**

Shareholders, by size of holding *Number of shares*	*Number of owners*	*Holding (%)*
1 – 100	2 046	0.38%
101 – 1 000	2 035	2.33%
1 001 – 10 000	390	3.16%
10 001 – 100 000	42	7.37%
100 001 – 1 000 000	13	16.82%
More than 1 000 000	4	69.94%
Total	**4 530**	**100.00%**

Of the 4 530 shareholders at 31 Dec. 2006, 210 foreign shareholders owned a total of 3.98 per cent of the shares.

Treasury shares

At year end, Kongsberg Gruppen held 3 808 treasury shares for the employee share programme. The shares were purchased under the authorisation issued by the AGM, allowing the buy-back of up to 5 per cent of the shares outstanding. The purchases must take place at prices between NOK 70 and NOK 210 per share.

	Number
Holding of treasury shares at 31 Dec. 2005	2 547
Purchase of treasury shares	100 000
Treasury shares conveyed to employees	98 739
Holding of own shares at 31 Dec. 2006	3 808

Divestments of treasury shares take place at market value on the date of the sale, while the employee discount was booked as MNOK 2.5 in wages. A total of 113 217 options were issued to employees (including corporate management). The options have been awarded under the share programme conducted for all employees in the Group. For a more detailed description of the employee share-option programme, please see Note 8 'Personnel expenses and number of employees', and the chapter on 'Shares and shareholders'.

Dividends

	2006	*2005*
Dividend paid in MNOK	65	60
Dividend paid in NOK per share	2.15	2.00

The Board of Directors has proposed dividends for 2006 of MNOK 75. This is equivalent to NOK 2.50 per share.

25 Equity

Consolidated reconciliation of equity

	Equity holders of the parent									
Amounts in MNOK	*Share capital*	*Share premium*	*Treasury shares*	*Hedging*	*Shares, fair value*	*Translation differences for foreign currency*	*Other equity*	*Total*	*Minority interest*	*Total equity*
Equity at 1 Jan. 2005	**150**	**832**	**(1)**	**170**	**21**	**-**	**436**	**1 608**	**18**	**1 626**
Total recognised income and expenses				**(103)**	**7**	**(5)**	**35**	**(66)**		**(66)**
Treasury shares	-	-	1			-	12	13	-	13
Dividends	-	-	-			-	(60)	(60)	-	(60)
Dividend, minority interests	-	-	-			-	-	-	(3)	(3)
Change, minority interests	-	-	-			-	-	-	(5)	(5)
Equity at 31 Dec. 2005	**150**	**832**	**-**	**67**	**28**	**(5)**	**423**	**1 495**	**10**	**1 505**
Equity at 1 Jan. 2006	**150**	**832**	**-**	**67**	**28**	**(5)**	**423**	**1 495**	**10**	**1 505**
Total recognised income and expenses				**13**	**87**	**(20)**	**164**	**244**	**3**	**247**
Treasury shares	-	-	-			-	-	-	-	-
Dividends	-	-	-			-	(65)	(65)	-	(65)
Dividend, minority interests	-	-	-			-	-	-	-	-
Change, minority interests	-	-	-			-	-	-	(3)	(3)
Equity at 31 Dec. 2006	**150**	**832**	**-**	**80**	**115**	**(25)**	**522**	**1 674**	**10**	**1 684**

26 Provisions

Long-term provisions

Amounts in MNOK	*Sale and lease-back*
1 Jan. 2006	81
Provided	49
Dissolved	-
Provision used	(7)
31 Dec. 2006	**123**

Short-term provisions

Amounts in MNOK	*Guarantee*	*Other*	*Total*
1 Jan. 2006	119	58	177
Provided	208	21	229
Dissolved	(1)	-	(1)
Provision used	(78)	(39)	(117)
31 Dec. 2006	**248**	**40**	**288**

Long-term provisions

The subsidiaries Kongsberg Næringseiendom AS and Kongsberg Næringsparkutvikling AS have, in 1999, 2001, 2002 and 2006, sold some real estate in Kongsberg Industrial Park. The properties have been leased back on long-term leases that will apply until 2014, 2018, 2017 and 2021. In connection with sale and leaseback, subleases were signed at lower rents than the sum of hiring and technical and maintenance costs for the subleased buildings. In addition, the Group has undertaken operational and maintenance responsibility for subleased buildings. This net loss is considered a loss contract according to IAS 37 and the net current value of future losses is provided for in the accounts. A provision has also been set aside attached to the cessation of rent. The remaining need for provisions is considered each year.

Provisions for guarantees

Provisions for guarantees refer to guarantee liabilities on completed deliveries. Provisions for guarantees attached to projects in progress are listed as contract provisions. Unused provisions for guarantees dissolve at the end of the guarantee period. Typically, a guarantee period varies from 1 to 2 years for Offshore & Merchant Marine, and sometimes extends for somewhat longer for Defence & Aerospace. Provisions for guarantees are estimated on the basis of a combination of historical figures, specific calculations and best estimates.

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

Other provisions

Provisions are recognised when the Group has a commitment as a result of a past event, it is probable that there will be a financial settlement as a result of this commitment, and the size of that amount can be measured reliably. Provisions are made when there is disagreement with contracting parties, agents, or as an estimated settlement related to product liability.

27 Other current liabilities

Amounts in MNOK	*2006*	*2005*
Trade payable	456	426
Withholding tax, social security, VAT, etc.	162	146
Tax payable	14	12
Provisions for holiday pay	172	164
Other items	389	214
Total	**1 193**	**962**

Other items in 2006 included MNOK 68 in provisions for bonuses.

28 Assets pledged as collateral and guarantees

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

Assets pledged as collateral

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

Prepayment and completion guarantees

Consolidated companies have furnished guarantees for prepayments and 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.

Amounts in MNOK	*2006*	*2005*
Prepayments and completion guarantees for customers	885	675

Kongsberg Gruppen ASA has uncommitted framework agreements for guarantees with banks and insurance companies.

29 Sale and leaseback

The subsidiaries Kongsberg Næringseiendom AS and Kongsberg Næringsparkutvikling AS have, in 1999, 2001, 2002 and 2006, sold real estate in Kongsberg Industrial Park. The properties have been leased back on long-term leases that will apply until 2014, 2018, 2017 and 2021, respectively. The leasebacks are considered operational leasing agreements.

In addition to the rent, Kongsberg Næringsparkutvikling AS is responsible for certain expenses associated with fees on and maintenance of the properties. The leases have durations ranging from three months to 15 years. Of the property sold, about 15 per cent is rented to Group companies. Provisions attached to this are discussed in Note 26 'Provisions'.

Amounts in MNOK	*Year of sale*	*Amounts of sale*	*Rental 2007*	*Rental 2008–2012*	*Rental beyond 2012*	*Remaining term of lease*	*Rental sublease 2007*	*Weighted average leasing period*
Agreement 1 – A total of 28 800 m2 of industrial premises/offices	1999	304	32	170	73	8 years	33	7 years
Agreement 2 – A total of 43 800 m2 of industrial premises/offices	2001	265	28	152	206	12 years	29	2 years
Agreement 3 – A total of 6 200 m2 of industrial premises/offices	2002	55	6	30	33	11 years	6	4 years
Agreement 4 – A total of 10 000 m2 of industrial premises/offices	2006	180	15	78	167	15 years	17	15 years
Total			**81**	**430**	**479**		**85**	

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

30 Related parties

Remuneration to corporate management and the Board of Directors

The Board has drawn up separate guidelines for the stipulation of salary and other remuneration to key management personnel. The CEO's terms of employment are set by the Board. Each year, the Board undertakes a thorough review of salary and other remuneration to the CEO. The review is based on market polls of similar positions. The structure of the incentive system for the other members of corporate management is determined by the Board, and presented to the annual general meeting for an advisory vote. The terms are proposed by the CEO, and subject to the approval of the Chair of the Board. The Board's attitude to executive management's salaries is that they should be competitive and motivating, but not at the top end of the scale.

Members of corporate management had remuneration consisting of a fixed salary, pension rights, other remuneration and benefits, and performance-based salaries. The performance-based portion (bonus) was changed for the 2006 fiscal year. The new bonus system is described below. Beyond the term of notice, executives may be entitled to full salaries until they assume a new position, limited to up to one year after severance. Corporate management has an early retirement agreement from the age of 60. The benefits give them 90 per cent of their salary upon retirement at age 60, diminishing by 10 per cent per year to 60 per cent of their salary from age 63 to age 67. In 2003, a group of executives (13 individuals) with considerable leadership responsibility signed an agreement entitling them to early retirement from age 62, with remuneration equaling 65 per cent of their salary up to age 67. As of 2006, new rules apply to severance for new employees in such posts. The new rules entail that the opportunity not to work has increased by two years, while the accrual period has increased from 10 to 15 years, and benefits have been reduced to 65 per cent.

The new bonus system

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

The bonus system is linked to performance and expenditure. Bonuses are weighted between the separate spheres of responsibility and the overall level. In addition, a certain bonus will be paid for achieving personal, non-financial targets.

The bonus system rests on three independent components, of which the changes in this year's EBIT are the most important. Thus the accrued bonus will be positive when performance improves and negative in the event of significant setbacks. The year's accrued bonus, positive or negative, is credited to the bonus bank, and then 1/3 of any positive balance in the bonus bank will be paid out once the accounts have received final approval from the Board of Directors. The bonus system distinguishes between accrued bonuses (credited to the bonus bank) and paid bonuses (disbursed from the bonus bank). Individual participants' annual accrual to the bonus bank can account for a maximum of 75 per cent of their regular salary, while the disbursement of funds from the bonus bank can account for a maximum of 50 per cent of their regular salary. The bonus scheme is designed so that managers who perform well over time will earn a bonus of 20–30 per cent of their regular salary. The scheme encompasses 90 managers.

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

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

Amounts in NOK 1 000	*Wages*	*Paid bonuses*[1]	*Other benefits reported in fiscal year*[2]	*Total paid contributions*	*Options expensed*	*Accrued bonuses*[3]	*This year's pension service cost*	*Total expensed contributions*
Corporate management								
Jan Erik Korssjøen, CEO	2 644	426	143	3 213	12	1 875	706	5 806
Arne Solberg, CFO	1 466	207	142	1 815	12	1 042	207	3 076
Stig Trondvold, EVP, Business Development	1 416	197	137	1 750	12	993	770	3 525
Even Aas, EVP, Corporate Communications	1 099	175	173	1 447	6	788	440	2 681
Ellen Christine Orvin Raaholt, EVP, Human Resources	1 227	197	135	1 559	12	866	843	3 280
Total salary, bonus and benefits to corporate management, Kongsberg Gruppen ASA	**7 852**	**1 202**	**730**	**9 784**	**54**	**5 564**	**2 966**	**18 368**
Torfinn Kildal, President, Kongsberg Maritime	1 958	294	159	2 411	12	1 380	1 038	4 841
Tom Birch Gerhardsen, President, Kongsberg Defence & Aerospace	1 852	261	129	2 242	12	1 313	335	3 902
Total salary, bonus and benefits to corporate management	**11 662**	**1 757**	**1 018**	**14 437**	**78**	**8 257**	**4 339**	**27 111**

1) Bonus paid based on result from 2005. The bonus was expensed in 2006.

2) Benefits other than cash refer to expensed discounts on shares in connection with the employee share programme, the taxable portion of accident and industrial injury insurance, the interest rate advantage on car loans, and the advantage of having a free car for those who do not have a car loan.

3) Accrued bonuses are related to the new bonus system. Of the accrued bonus amount 1/3 will be paid out in 2007, while the remaining 2/3 is transferred to an individual's bonus bank, and future disbursements will be conditional upon future goal achievement, cf. the description of the new bonus system.

	Number shares	*Options granted in 2006*	*Options exercised*	*Strike price*	*Options outstanding*	*Terms for current share options*	*Car loan in NOK*	*Debt instruments from*	*Repayment plans*	*Outstanding amount in NOK*	*Interest rate*
Corporate management											
Jan Erik Korssjøen, CEO	6 553	125	196	93	323	See Note 8	547 000	31 Dec 04	10 years	437 584	1%
Arne Solberg, CFO	6 907	125	196	93	323	See Note 8	572 000	20 Jan 06	10 years	514 796	1%
Stig Trondvold, EVP, Business Development	2 732	125	196	93	323	See Note 8	539 000	20 April 04	10 years	377 288	1%
Even Aas, EVP, Corporate Communications	1 932	100	150	93	175	See Note 8					
Ellen Christine Orvin Raaholt, EVP, Human Resources	645	125	0		323	See Note 8	539 000	20 April 05	10 years	460 350	1%
Torfinn Kildal, President, Kongsberg Maritime	7 767	125	196	93	323	See Note 8					
Tom Birch Gerhardsen, President, Kongsberg Defence & Aerospace	6 215	125	196	93	323	See Note 8					

Shares owned by, and remuneration to the Board of Directors

	Number shares		*Board of Directors remuneration in NOK*
Board of Directors			
Finn Jebsen, chair of the Board of Directors	5 000	(through the company Fateburet AS)	300 000
Benedicte Berg Schilbred, deputy chair	17 500	(through Odd Berg AS)	160 000
Erik Must[1], director	100 000	(through the company Fondsavanse AS)	136 667
Erik Must[1], director	31 150	(personal)	-
Siri Hatlen, director	-		136 667
John Giverholt[2], director	-		136 667
Roar Marthiniussen, director	3 100		136 667
Jan Erik Hagen, director	477		136 667
Audun Solås, director	1		136 667
Total remuneration to the Board of Directors			**1 280 002**

1) Erik Must is chair of the Board of Arendals Fossekompani ASA, which owns 2 055 822 shares in KONGSBERG.

2) John Giverholt is CFO at Ferd AS, which owns 650 000 shares in KONGSBERG.

Expensed benefits, key management personnel

Amounts in NOK 1 000	*2006*	*2005*	*2004*
Short-term benefits	17 189	12 268	11 098
Pension benefits	4 339	3 895	3 619
Other non-current benefits	5 505	0	0
Share-based payment	78	47	0
	27 111	**16 210**	**14 717**

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

Transactions between related parties

The State as the largest owner

The State as repr. by the Ministry of Trade and Industry is the Group's largest owner (50.001 per cent of the shares in Kongsberg Gruppen ASA). The State as repr. by the Ministry of Defence is an important customer for the Group. Sales to the Armed Forces are regulated by the EEA agreement and the Procurement Regulations for the Armed Forces, which guarantee equal treatment for all vendors. At 31 Dec. 2006, KONGSBERG has a balance outstanding from State-owned customers of MNOK 61.

31 Contingent liabilities

Kongsberg Gruppen ASA has been sued for compensatory damages for losses due to the late payment of an amount awarded by the Court. Kongsberg Gruppen ASA won the case in the City Court. The plaintiff has appealed the case and the court date for the appeal has been set for May 2007.

32 List of Group entities

The following entities are included in the consolidated financial statements:

Company name	*Home country*	*Stake (%) 2006*	*Stake (%) 2005*
Kongsberg Gruppen ASA	Norway	Parent	Parent
Kongsberg Defence & Aerospace AS	Norway	100	100
Kongsberg Defence Communications AS	Norway	Merged	100
Kongsberg Spacetec AS	Norway	100	100
Kongsberg Satellite Services AS	Norway	50	50
Kongsberg Protech AS	Norway	100	100
Kongsberg Terotech AS	Norway	50	50
Kongsberg Procurement Center AS	Norway	100	100
Kongsberg Næringspark AS	Norway	100	100
Kongsberg Asset Management AS	Norway	100	100
Kongsberg Næringseiendom AS	Norway	100	100
Kongsberg Næringsparkutvikling AS	Norway	100	100
Kongsberg Næringsbygg 1 AS	Norway	100	0
Kongsberg Næringsbygg 2 AS	Norway	100	0
Kongsberg Næringsbygg 3 AS	Norway	100	0
Kongsberg Næringsbygg 4 AS	Norway	100	0
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 Marine IT AS	Norway	Merged	100

Company name	*Home country*	*Stake (%) 2006*	*Stake (%) 2005*
Marine IT Company AS	Norway	Merged	100
Kongsberg Norcontrol IT AS	Norway	100	100
SeaFlex AS	Norway	78.6	70.8
Applied Radar Physics AS	Norway	53.6	49.5
Simrad Horten AS	Norway	100	100
Fantoft Process Technologies AS	Norway	100	0
Navtek AS	Norway	100	0
Kongsberg Maritime Srl.	Italy	100	100
Kongsberg Maritime Holland BV	The Netherlands	100	100
Simrad Spain SL	Spain	100	100
Kongsberg Maritime Sweden AB	Sweden	100	100
Kongsberg Maritime GmbH	Germany	100	100
Kongsberg Reinsurance Ltd.	Ireland	100	100
Norcontrol IT Ltd.	UK	100	100
Seatex Ltd.	UK	100	100
Kongsberg Maritime Holding Ltd.	UK	100	100
Kongsberg Maritime Ltd.	UK	100	100
Simrad Leasing Ltd.	UK	100	100
Fantoft Process Technologies Ltd.	UK	100	0
Gallium Visual Systems Inc.	Canada	100	0
Kongsberg Maritime Simulation Ltd.	Canada	100	100
Kongsberg Mesotech Ltd.	Canada	100	100
Kongsberg Maritime Simulation Inc.	USA	100	100
Simrad North America Inc.	USA	100	100
Kongsberg Maritime Inc.	USA	100	100
Kongsberg Underwater Technology Inc.	USA	100	100
Kongsberg Defense Corporation Inc.	USA	100	100
Fantoft Process Technologies Inc.	USA	100	0
Kongsberg Asia Pacific Ltd.	Hong Kong	100	100
Kongsberg Maritime Ship Systems	South Korea	100	100
Kongsberg Maritime Korea Ltd.	South Korea	96.9	96.9
Control IT Pte.	Singapore	100	100
Kongsberg Maritime Pte. Ltd.	Singapore	100	100
Nanjing Norcontrol Electro-Mec. Co.	China	100	100
Kongsberg Maritime China (Shanghai) Ltd.	China	65	65
Control IT (India) Pvt. Ltd.	India	100	100
Fantoft Process Technologies	India	100	0
Norcontrol IT Pty. Ltd.	South Africa	100	100
Kongsberg Hungária Kft.	Hungary	100	100
Kongsberg Group, Middle East Branch	Abu Dhabi	100	100

33 Foreign exchange rates

	Exchange rate 1 Jan 06	*Average exchange rates 2006*	*Exchange rates 31 Dec 06*
Danish Kroner (DKK)	1.0703	1.0787	1.1049
Swedish Kroner (SEK)	0.8505	0.8698	0.9112
British Pounds (GBP)	11.6520	11.8044	12.2680
US Dollars (USD)	6.7687	6.4135	6.2551
Canadian Dollars (CAD)	5.8179	5.6527	5.3910
Singapore Dollars (SGD)	4.0682	4.0362	4.0778
Euro (EUR)	7.9850	8.0465	8.2380
South Korean Won (KRW)	0.0067	0.6718	0.6726
Chinese Yuan (CNY)	0.8387	0.8054	0.8014
Arab Emirates Dihrams (AED)	1.8398	1.7397	1.7067
Hong Kong Dollars (HKD)	0.8729	0.8256	0.8044
Indian Rupees (INR)	0.1496	0.1413	0.1415
Japanese Yen (JPY)	5.7487	5.5119	5.2495
South African Rand (ZAR)	1.0698	0.9535	0.8942
Hungarian Forints (HUF)	3.1580	3.1337	3.2720
Australian Dollars (AUD)	4.9569	4.8300	4.9356
Swiss Francs (CHF)	5.1347	5.1147	5.1266
New Zealand Dollars (NZD)	4.6236	4.1674	4.3995

34 Events after the balance sheet date

Conclusion of the Scanmar case

In September, the Agder Court of Appeals handed down a unanimous ruling in favour of Simrad Horten AS and two of its employees who had been accused of acting at variance with good business practice. The plaintiff was also ordered to pay legal costs amounting to MNOK 16.6. The case was appealed to the Supreme Court in October. The Appeals Committee of the Supreme Court rejected the appeal on 15 January 2007. The Agder Court of Appeals' ruling of 27 September 2006 is thereby legally binding.

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

Income statement for the year ending 31 December 2006

Amounts in MNOK	*Notes*	*2006*	*2005*
Operating revenues		**72**	**71**
Personnel expenses	4, 5	71	51
Depreciation		3	2
Other operating expenses	4	55	46
Total operating expenses		**129**	**99**
Operating profit/(loss)		**(57)**	**(28)**
Interest from Group companies		81	94
Gain on disposal of shares		2	5
Impairment on shares		(5)	-
Currency trading gains/(losses)		(9)	(24)
Interest to Group companies		(32)	(38)
Other interest expenses		(66)	(74)
Group contribution received		78	95
Net financial items		**49**	**58**
Earnings before tax (EBT)		**(8)**	**30**
Tax income/(expense)	6	(11)	(12)
Net profit		**(19)**	**18**
Distributable reserves and equity transfers			
Proposed dividend		(75)	(65)

Statement of cash flows

Amounts in MNOK	*2006*	*2005*
Earnings before tax	(8)	30
Depreciation	3	2
Impairment	5	-
Change in accrual items, etc.	(4)	2
Net cash flows from operating activities	**(4)**	**34**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(2)	(6)
Disbursements for the acquisition of shares, etc.	(65)	(21)
Cash flows from (used in) investing activities	**(67)**	**(27)**
Net cash flows from financing activities		
Repayment of loans	-	(178)
Payment of dividends	(65)	(60)
Net disbursement of funds/payment for the purchase/ sale of treasury shares	(3)	10
Change, intra-Group accounts	(238)	644
Change, overdraft facilities	77	(78)
Net cash flows from (used on) financing activities	**(229)**	**338**
Net increase (decrease) in cash and short-term deposits	**(300)**	**345**
Cash and short-term deposits at 1 January	**350**	**5**
Cash and short-term deposits at 31 December	**50**	**350**

Balance sheet at 31 December 2006

Amounts in MNOK	*Notes*	*2006*	*2005*
Assets			
Deferred tax assets	6	38	42
Property, plant and equipment		9	10
Shares in subsidiaries	3	2 101	2 002
Other shareholdings		108	82
Long-term loans to subsidiaries		1 817	2 108
Other long-term receivables		6	5
Total non-current assets		**4 079**	**4 249**
Receivables from subsidiaries		66	81
Cash and short-term deposits		50	350
Total current assets		**116**	**431**
Total assets		**4 195**	**4 680**
Equity and liabilities			
Share capital		150	150
Treasury shares		0	0
Share premium		832	832
Total paid-in equity		**982**	**982**
Retained earnings		422	537
Total retained earnings		**422**	**537**
Total equity	**2**	**1 404**	**1 519**
Pension liabilities	5	114	119
Long-term debt to subsidiaries		1 231	1 697
Liabilities to credit institutions	7	1 000	1 000
Total non-current liabilities		**2 345**	**2 816**
Provision for dividends		75	65
Other current liabilities		45	31
Overdraft facilities		326	249
Total current liabilities		**446**	**345**
Total equity and liabilities		**4 195**	**4 680**

NOTES KONGSBERG GRUPPEN ASA

1 Accounting Principles

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Reconciliation of equity

Amounts in MNOK	*Share capital*	*Share premium*	*Treasury shares*	*Retained earnings*	*Total equity*
Equity at 31 Dec. 2004	**150**	**832**	**(1)**	**588**	**1 569**
Net profit for the year	-	-	-	18	18
Treasury shares	-	-	1	12	13
Dividends for 2005	-	-	-	(65)	(65)
Actuarial gains/losses on pension expenses	-	-	-	(16)	(16)
Equity at 31 Dec. 2005	**150**	**832**	**-**	**537**	**1 519**
Net profit for the year	-	-	-	(19)	(19)
Treasury shares	-	-	-	-	-
Dividends for 2006	-	-	-	(75)	(75)
Actuarial gains/losses on pension expenses	-	-	-	(21)	(21)
Equity at 31 Dec. 2006	**150**	**832**	**-**	**422**	**1 404**

Other information about the company's share capital is provided in Note 24 to the consolidated accounts.

3 Shares in subsidiaries

Amounts in MNOK	*Year of acquisition*	*Main office*	*Stake/ voting interest %*	*Recognised on the balance sheet 31 Dec.*
Kongsberg Defence & Aerospace AS	1997	Kongsberg	100	392
Kongsberg Protech AS	1999	Kongsberg	100	114
Kongsberg Næringspark AS	1987	Kongsberg	100	5
Kongsberg Holding AS	1987	Kongsberg	100	0
Kongsberg Basetec AS	1992	Kongsberg	100	106
Kongsberg Maritime AS [1]	1992	Kongsberg	89	1 101
Kongsberg Forsvar AS	1995	Kongsberg	100	0
Kongsberg NFT AS	1995	Kongsberg	100	0
Kongsberg Asset Management AS	1995	Kongsberg	100	5
Norsk Forsvarsteknologi AS	1987	Kongsberg	100	0
Kongsberg Næringseiendom AS	1997	Kongsberg	100	199
Kongsberg Næringsparkutvikling AS	2005	Kongsberg	100	48
Kongsberg Næringsbygg 1 AS	2006	Kongsberg	100	0
Kongsberg Næringsbygg 2 AS	2006	Kongsberg	100	24
Kongsberg Næringsbygg 3 AS	2006	Kongsberg	100	24
Kongsberg Næringsbygg 4 AS	2006	Kongsberg	100	78
Nerion AS	2002	Trondheim	100	0
Kongsberg Hungária Kft. [2]	2003	Budapest	10	0
Autronica AS	2003	Trondheim	100	0
Kongsberg Reinsurance Ltd.	2001	Dublin	100	4
Kongsberg Procurement Center AS	2005	Kongsberg	100	1
Total				**2 101**

1) The remaining 11 per cent of the shares in Kongsberg Maritime AS are owned by Kongsberg Basetec AS.
2) The remaining 90 per cent of the shares in Kongsberg Hungária Kft. are owned by Kongsberg Defence & Aerospace AS.

4 Personnel expenses and remuneration

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

Auditor's fees

Amounts in NOK 1 000	*2006*	*2005*
Corporate auditor Ernst & Young		
Mandatory audits	875	850
Other assurance services	0	302
Tax consultancy	0	12
Services other than auditing	0	179
Total fees, Ernst & Young	**875**	**1 343**

Personnel expenses

Amounts in MNOK	*2006*	*2005*
Payroll expenses	38	28
Social security	9	7
Pension expenses	11	11
Other benefits	13	5
Total personnel expenses	**71**	**51**

5 Pensions

Kongsberg is required by the Act relating to Obligatory Service Pensions to have a service pension plan. Kongsberg's service pension satisfies the requirements under the law and covers all Group employees in Norway. At 31 December 2006, 3 019 employees were covered by the scheme. Parts of pensions are covered by payments from the National Insurance Scheme. Such payments are calculated using the National Insurance Scheme's basic amount (G), stipulated annually by the Norwegian parliament. Pension benefits depend on the individual employee's number of years of service and salary level upon retirement. Pension costs are distributed over the employee's vested period. The scheme provides 65 per cent of salary, including National Insurance benefits, until the age of 77, then the pension level is reduced to 50 per cent.

Members of corporate management have an early retirement agreement from the age of 60. The benefits give them 90 per cent of their salary upon retirement at age 60, diminishing by 10 per cent per year to 60 per cent of their salary from age 63 to 67.

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

	31 Dec 06	*31 Dec 05*
Discount rate	4.5%	4.0%
Expected rate of return	5.5%	5.0%
Wage adjustments	4.0%	3.0%
Pension base level adjustment	4.0%	3.0%
Pension adjustment	1.5%	3.0%
Turnover	4.0%	3.0%

The year's pension costs were calculated as follows:

Amounts in MNOK	*2006*	*2005*
Service cost	6	7
Interest cost on pension liabilities	4	4
Estimated return on pension plan assets	(1)	(2)
Amortisation, estimated deviation	1	1
Accrued social security expenses	1	1
Total net pension expenses	**11**	**11**

Amounts in MNOK	*2006*	*2005*
Total gross pension liabilities	(121)	(186)
Gross pension plan assets	17	78
Net pension liabilities	**(104)**	**(108)**
Unrecognised plan changes	3	4
Social security	(13)	(15)
Net pension liabilities/assets on the balance sheet	**(114)**	**(119)**

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

6 Tax

Tax expense

Amounts in MNOK	*2006*	*2005*
Tax payable	0	0
Change in deferred tax	11	12
Taxes	**11**	**12**

Amounts in MNOK	*2006*	*2005*
EBT - earnings before tax	**(8)**	**30**
Estimated tax based on a tax rate of 28 per cent of the profit before tax	(2)	8
Other permanent differences	13	3
Tax expence	**11**	**12**

Basis for deferred tax and deferred tax assets

Amounts in MNOK	*2006*	*2005*
Pensions	32	33
Losses to be carried forward	0	6
Other	6	3
Recognised deferred tax asset	**38**	**42**

7 Long-term liabilities to credit institutions

Amounts in MNOK	*2006*	*Due date*
Certificate loan 1	100	21 Feb 07
Certificate loan 2	100	21 March 07
Certificate loan 3	100	21 April 07
Bond loan ISIN 00101 9701.4 (fixed interest)	300	26 Sept 07
Bond loan ISIN 00101 2638.4 (floating interest)	400	10 June 09
Total	**1 000**	
Overdraft facilities (undrawn)	800	1 March 09

The certificate loans were issued in NOK and are listed on the Oslo Stock Exchange.

The overdraft facility is a syndicated credit facility for a total of MNOK 800. The agreement was signed with five banks: DnB NOR, Nordea, SEB, Fokus Bank and BNP. The agreement was made through Norsk Tillitsmann (Norwegian Trustee) and will mature in March 2009.

The credit facility is currently undrawn. It can be used to compensate for borrowing in the money market, if that market becomes less attractive or inaccessible, and it is a contingency reserve that can be used for small- and medium-sized acquisitions.

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

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

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

The covenants in the loan agreements are satisfied.

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

8 Guarantees

The subsidiaries Kongsberg Næringseiendom AS and Kongsberg Næringsparkutvikling AS have in 1999, 2001, 2002 and 2006 sold some pieces of real estate in Kongsberg Industrial Park. The properties have been leased back on long-term leases that will apply until 2014, 2018, 2017 and 2021, respectively. The leasebacks are considered operational leasing agreements.

The total rental for which the parent company has guaranteed, that is attached to the sale and leaseback agreements is MNOK 990.

Prepayment and completion guarantees

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

Amounts in MNOK	*2006*	*2005*
Prepayments and completion guarantees in respect of customers	885	675

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

AUDITOR'S REPORT FOR 2006

ERNST & YOUNG

Ernst & Young AS
Oslo Atrium
Postboks 20
NO-0051 Oslo

Tel.: +47 24 00 24 00
Fax: +47 24 00 24 01
www.ey.no

To the General Meeting of
Kongsberg Gruppen ASA

Auditor's report for 2006

We have audited the annual financial statements of Kongsberg Gruppen ASA as of 31 December 2006, showing a loss of NOK 19 million for the Parent Company and a profit of NOK 252 million for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The financial statements of the Group comprise the balance sheet, the statements of income and cash flows, the statement of recognised income and expense and the accompanying notes. The regulations of the Norwegian Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the Parent Company. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the Group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

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

In our opinion,

- the financial statements of the Parent Company are prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the Company as of 31 December 2006, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the financial statements of the Group are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2006, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the Company's management has fulfilled its duty to properly record and document the Company's accounting information as required by law and bookkeeping practice generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with law and regulations.

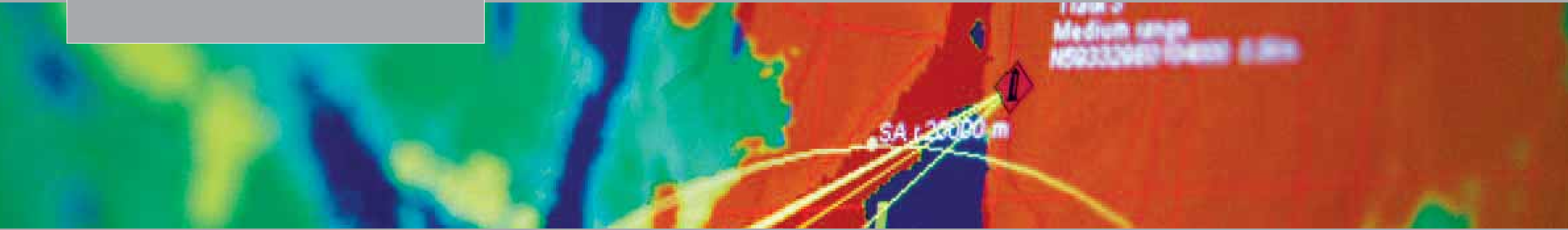
Oslo, 15 March 2007
Ernst & Young AS

Knut Aker
State Authorised Public Accountant (Norway)
(sign)

Note: The translation to English has been prepared for information purposes only.

BUSINESS AREA ACTIVITIES

The screen image is from the Graphic Mission Planning system for the Multi-Role version of the Joint Strike missile intended for the new fighter aircraft for the Norwegian Air Force. The system is a tool to help plan and analyse the missile's trajectory.



DECISION-MAKIN G TOOLS

Action calls for decisions. Decisions call for knowledge.
The right decisions require correct information when and where it counts.

KONGSBERG MARITIME

TORFINN KILDAL, PRESIDENT
KONGSBERG MARITIME

2006 has been a year with bustling activity and strong growth in most fields. Sales orders in the offshore industry and the merchant marine market were record-high, exceeding MNOK 4 400 in 2006. The backlog of orders at year-end 2006 came to MNOK 3 054, the highest ever. The EBIT came to MNOK 329, the best ever for the business area.

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

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

Improvements

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

Challenges

KONGSBERG is getting more involved in the offshore oil and gas industry.

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

The acquisition of Fantoft Process Technologies and Sense Intellifield also gives Kongsberg Maritime a broader portfolio of products in the rapidly growing market for integrated operations. Integrated operations are having a growing impact on the oil and gas industry with a view to both exploration and production.

Kongsberg Maritime has gathered our hydroacoustics activities into a single division, Subsea. We expect this to facilitate more efficient utilisation of technology. Products will continue to be marketed under the SIMRAD and KONGSBERG brands.

Kongsberg Maritime is constantly in search of new areas of application for our knowledge and technology.

The high level of activity at Kongsberg Maritime called for the recruitment of 200 new co-workers in 2006. This has brought us more new knowledge and, together with existing knowledge, has raised the company's level of expertise.

KONGSBERG MARITIME IN BRIEF

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

Kongsberg Maritime AS

Offshore & Merchant Marine

- Offshore & Marine
- Process Automation
- Subsea
- Positioning

Key figures

MNOK	*2006*1)	*2005*1)	*2004*2)	*2004*3)	*2003*3)	*2002*3)	*2001*3)
Operating revenues	3 553	3 034	3 013	3 638	3 470	3 742	3 689
EBITA	329	262	242	254	297	298	283
Operating margins (%)	9.3%	8.6%	8.0%	7.0%	8.6%	8.0%	7.7%
Backlog of orders	3 054	2 158	1 673	1 673	1 463	1 322	1 455
New orders	4 408	3 566	3 219	3 680	3 883	3 556	3 872

Number of employees	2 009
Number of employees, Norway	1 453
Number of employees, outside Norway	556
New employees, 2006	346
Turnover in %	5.1

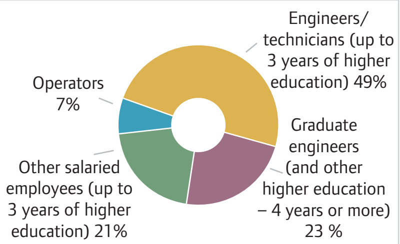
Kongsberg Maritime is a market leader in dynamic positioning systems, automation and surveillance systems, process automation, satellite navigation and hydroacoustics. Important markets include countries with significant offshore and shipyard industries.

In 2006, all divisions improved their performance, as new orders aggregated more than NOK 1 billion in each and every quarter of 2006.

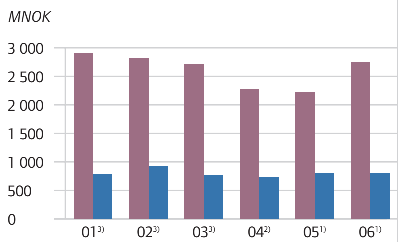
The BA posted operating revenues of MNOK 3 553 in 2006, compared with MNOK 3 034 in 2005. This translates into an increase of 17.1 per cent. The operating profit (EBITA) was MNOK 329 in 2006, as against MNOK 262 in 2005. The backlog of orders has expanded steadily for eight consecutive quarters. At year-end 2006, it reached a record-high MNOK 3 054. Revenues outside Norway aggregated MNOK 2 736 (77 per cent), compared with MNOK 2 227 in 2005. The BA accounted for nearly 53 per cent of the Group's total operating revenues.

At 31 December 2006, Kongsberg Maritime had 2 009 employees in 14 countries. That translates into 154 more employees than in 2005.

Employees by level of education



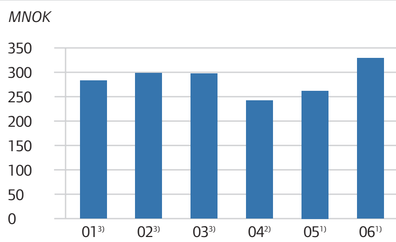
Operating revenues



Operating revenues, outside Norway

Operating revenues, Norway

Earnings before interest, tax and amortisation

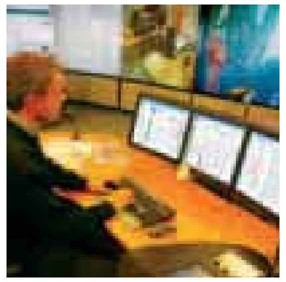


1) The figures are IFRS compliant (International Financing Reporting Standard) and jointly controlled operations are consolidated using the proportionate method.
2) The figures have been adjusted for effects at the transition to IFRS and the sale of yachting activities, and jointly controlled operations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

HIGHLIGHTS

Quarters 1-4, 2006
Burgeoning activity in 2006
Offshore & Merchant Marine had a very good influx of new orders in 2006. Business was booming in the offshore market and the market for commercial vessels, including gas carriers. The backlog of orders has grown for eight consecutive quarters, reaching a record-high MNOK 3 054 at year end. All divisions improved their performance relative to 2005.

Q2 2006
Acquisition of Fantoft Process Technologies
Fantoft Process Technologies AS was acquired for MNOK 67 in June 2006. The company makes dynamic process simulators and real-time systems for oil and gas fields, LNG installations and transportation pipelines. The acquisition is compatible with Kongsberg Maritime's strategy for placing more focus on the oil and gas industry. Fantoft is headquartered in Sandvika near Oslo.



Q4 2006
Acquisition of Sense Intellifield
Kongsberg Maritime acquired 100 per cent of the technology enterprise Sense Intellifield AS for approx. MNOK 290 on a debt-free basis. Sense Intellifield delivers products and services in the field of integrated operations, or e-field, for the international oil and gas market. Combined with the acquisition of Fantoft Process Technologies and Kongsberg Maritime's own businesses in oil and gas, the acquisition of Sense Intellifield will reinforce Kongsberg Maritime's position in the international oil and gas industry.

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

Q1 2007
Breakthrough in the cruise market
In January 2007, the company signed a contract with Aker Yards Finland for substantial deliveries of automation equipment to the world's largest cruise ship. Designated a Genesis Class vessel, the ship is being built for Royal Caribbean International. The first vessel is scheduled for delivery in 2009. The vessel is 360 metres long and can carry 5 400 passengers.

INTERVIEW

Lew Weingarth, Dynamic Positioning Superintendent, Transocean

DP LESSONS LEARNED

The dynamic positioning (DP) market has grown rapidly since 2000. Transocean has therefore created an experience-based 3-day "DP Lessons Learned" (DPLL) classroom course to improve DP Operator (DPO) knowledge in the primary causes of DP incidents, which measurably improved DPO performance. Believing that a hands-on simulator might promote further improvement, Transocean contacted several subcontractors. Kongsberg was the only one interested in developing this new simulator training.

How has Kongsberg helped Transocean?
In collaboration with Kongsberg, we have drawn up a new course plan featuring:
- Significant experience required for admission
- Classroom preview of simulations
- Hands-on simulations of major DP events
- Ability to play back simulations for review.

In accordance with specifications supplied by Transocean, Kongsberg developed a new simulator that creates realistic situations based on complex equipment failures beyond the capability of previous simulators. By simulating complex failure modes with play back ability, it is possible to dramatically improve the learning experience. Improved learning should reduce human error, preventing DP incidents and down-time.

What can Kongsberg do to further improve this training program?
Deepwater drilling and Dynamic Positioning are core competencies at Transocean. DP training is one of Kongsberg's core competencies, and Kongsberg has a world-wide organization that offers sophisticated training in every major offshore drilling market. Transocean is combining the knowledge gained through our internal training and quality improvement project 'DP lessons learned' with Kongsberg's training skills to produce this new simulation-based training and certification program. By combining core competencies, Kongsberg and Transocean plan to lead the industry in the creation of a new paradigm for advanced DPO training. This is an important project for Kongsberg's customers and for maintaining the strong global position the Group enjoys in this market.

KONGSBERG'S POSITION IN THE OFFSHORE MARKET

The offshore market encompasses exploration and production at sea, and the landing of oil and gas. It also includes support functions such as supplies and operative support, as well as maintenance and service on platforms and vessels. Kongsberg contracts for all segments of the offshore industry.

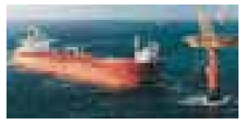
The world faces a shortage of energy. Oil and gas account for about 50 per cent of overall energy consumption. Economic growth in Asia will ensure growth in this area in the years ahead.

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

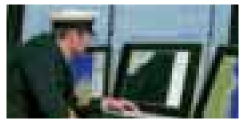
Dynamic positioning is one of Kongsberg's most important, most recognised products. New orders for dynamic positioning totalled about MNOK 1 000 in 2006.

To face increasing competition, especially in Asia, Kongsberg must maintain continuous emphasis on improving products and offering more complete solutions. Operations in Asia must also be improved, and Kongsberg expects to have 250 employees in this area by the end of 2007.

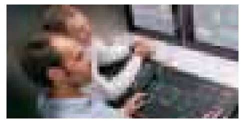
OUR MOST IMPORTANT PRODUCT AREAS ON THE OFFSHORE MARKET



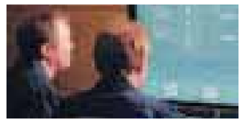
Dynamic positioning systems
- Control systems that make it possible to keep a vessel/platform in the same position under demanding weather conditions



Navigation systems
- Equipment for ships' bridges



Automation and surveillance systems
- Systems for surveillance and for controlling engines, cargo, manoeuvring and propulsion on vessels
- Simulators and training systems are also available for most of the system products



Process automation
- Systems for the control and coordination of operations on an oil platform or a production vessel
- Safety systems for alarms or the interruption of production due to system malfunctions, when people are in danger or in the event of fire and gas leaks
- Dynamic process simulators to design and verify processing facilities and control systems
- Integrated operations

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

MARKET DRIVERS AND TRENDS

Investment activity in the value chain
The investment level is cyclic and traditionally varies at a pace commensurate with the demand for and price of oil. Investment activity in the value chain varies considerably over time.
- Anticipated increase in future exploration, especially in the deepwater segment.
- A number of smaller fields are expected to be developed, provided oil prices remain at the current level.
- Increasingly more underwater activity drives the demand for hydroacoustics.

Growth in different geographical areas
Investments often vary considerably between different geographical areas. They are often determined by oil reserves and the level of exploration and production activities.
- Brazil and West Africa are international growth areas. In the not too distant future, the Barents Sea will be a growth area.
- The North Sea basin is increasingly considered a single area (which may make it more acceptable to foreign players).
- Several fields in the North Sea are expected to reach the tail production phase in the next five years.

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

KONGSBERG'S POSITION IN THE MERCHANT MARINE MARKET

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

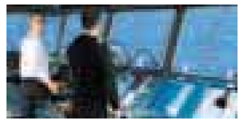
In 2006, Kongsberg registered significant growth in new orders for merchant vessels.

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

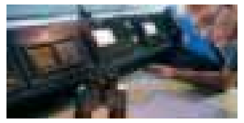
Kongsberg is a strong brand name in international maritime communities. The company has built up a comprehensive distribution and service network, and we have our own local subsidiaries in the main growth markets. It is important to be represented in these markets since vendors with a firm local footing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

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

OUR MOST IMPORTANT PRODUCT AREAS ON THE MERCHANT MARINE MARKET

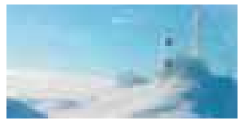


Dynamic positioning systems
- Steering systems that make it possible to keep a vessel/installation in the same position under demanding weather conditions

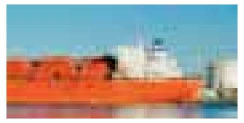


Navigation systems
- Equipment for ships' bridges

Automation and surveillance systems
- Systems for surveillance and the control of engines, cargo, manoeuvring and propulsion in vessels
- Simulators and training systems are also available for most of the system products



Positioning and identification systems
- Automatic system for recording vessel identification, position, movement and cargo (AIS - Automatic Identification System)
- GPS satellite positioning systems



Process automation
- Systems for the control and coordination of on board processes for gas transport (LNG)

MARKET DRIVERS AND TRENDS

Shipbuilding
- Shipyard capacity is growing exponentially at the moment, driven primarily by China and South Korea. Both countries are building new shipyards at the same time as productivity is rising among the established shipbuilders. In addition, new shipyards are being built in Vietnam, the Philippines and India.
- Leading shipyards in Asia now have well-filled order books through 2009, and mid-sized shipyards in South Korea and China have backlogs equivalent to more than two years' capacity.

Types of ships and geographical breakdown
It is of great importance to be in the vanguard of new trends. New trends facilitate growth that outpaces the growth in the general market. This applies to most types of vessels and in most geographical areas.
- The projected strong growth in LNG and long-distance transport over the next 20 years is supported by steep growth in orders for LNG vessels, continued growth in planned newbuildings, and a high level of activity relative to the planning and development of export and import terminals for LNG. Short-term stagnation is nonetheless expected in orders for LNG carriers owing to delays in the development of planned/indicated terminals.
- The anticipated asymmetry between the production of and the demand for oil will probably have positive consequences on the tank market in the longer term.
- The supply market is expected to be favourably influenced by burgeoning offshore activity.

DIVISION OFFSHORE & MARINE

Offshore & Marine is the largest division at KONGSBERG, delivering systems for dynamic positioning and navigation, marine automation, cargo management and level sensors.

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

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

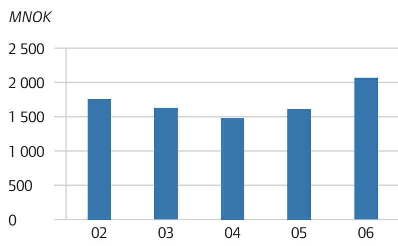
Marine automation (vessel automation) for merchant vessels and offshore vessels encompasses systems for controlling the engine, cargo and propulsion. There is a tremendous need for carriage, and we envisage robust growth in the merchant marine. KONGSBERG's tangible presence at and good relations with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

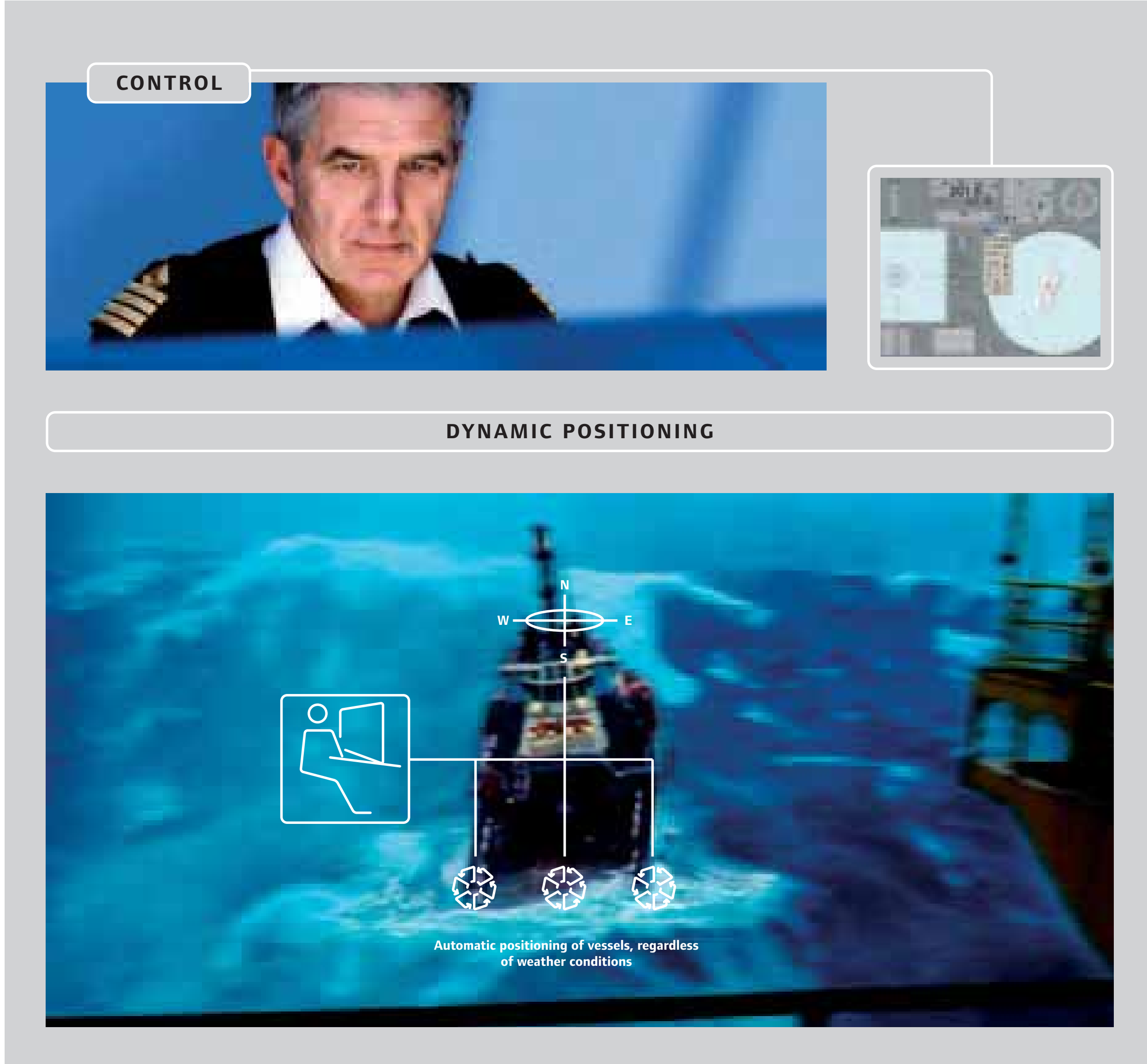
The market for automation and steering systems for LNG (Liquefied Natural Gas) carriers saw a high level of activity again in 2006. Kongsberg Maritime is currently involved in more than 70 LNG carriers on order, under construction or in operation. It is important for Kongsberg Maritime to be present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

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

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

Operating revenues
Division Offshore & Marine





DYNAMIC POSITIONING

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

KONGSBERG's dynamic positioning (DP) system made its breakthrough in the mid-70s, and is one of the Group's most important and widely recognised products. A total of more than 1 750 DP systems have been sold, and the technology was named the 20th century's second most important engineering feat in Norway.

These days, DP systems are used on many types of vessels, from drilling and production vessels to cruise ships. KONGSBERG supplies the full range of DP systems. The systems are designed to reduce fuel consumption and strain on the propeller system, while enhancing safety. The supply ships used in the oil and gas industry are examples of vessels that utilise dynamic positioning. Any collision between a supply vessel and an oil platform would be dramatic, not to mention disastrous. DP systems ensure that vessels remain at a safe, appropriate distance from platforms.

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

DIVISION POSITIONING

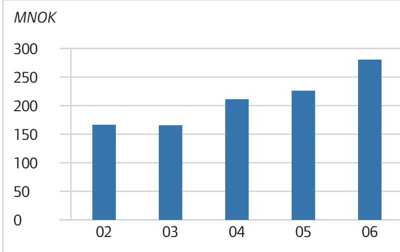
The division consists of two separate private limited companies: Kongsberg Seatex in Trondheim, which is wholly-owned by Kongsberg Maritime, and Seaflex in Asker, 80 per cent of which is owned by Kongsberg Maritime. Kongsberg Seatex delivers advanced position reference systems to maritime vessels and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

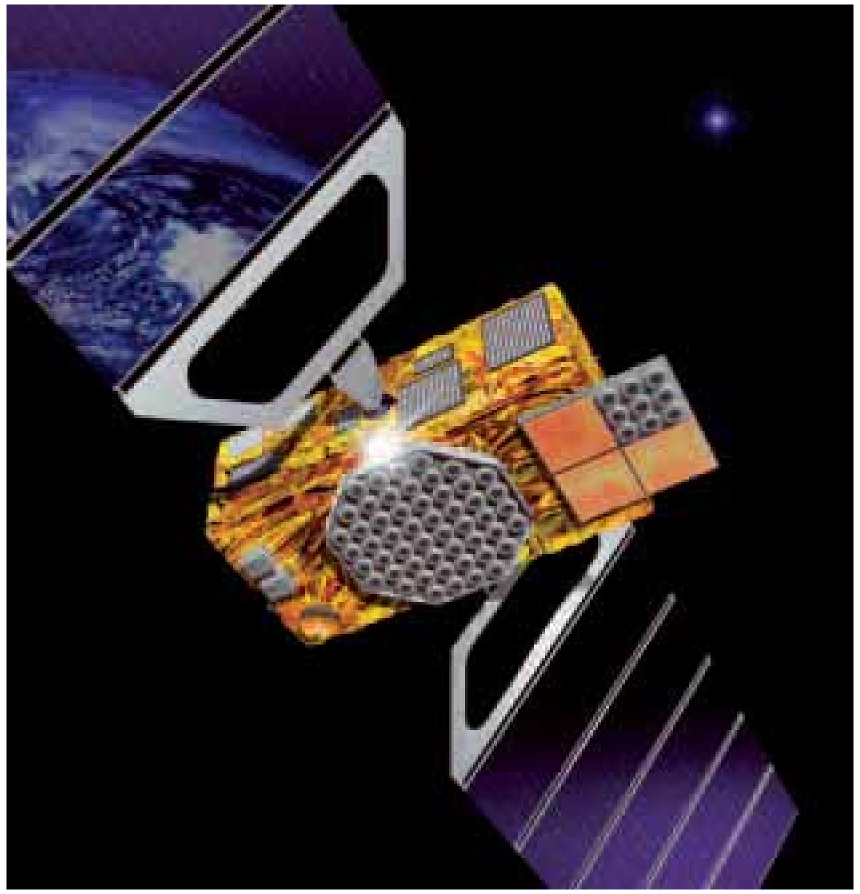
KONGSBERG is a European leader in satellite navigation. That has led to a prestigious contract with ESA (the European Space Agency) for Kongsberg Seatex. Seatex will be developing, building and supplying 22 reference stations for the Galileo satellite navigation system the world over.

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

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

Operating revenues Positioning Division





Facts – Galileo
The new European satellite navigation system Galileo will consist of 30 satellites. The test satellite GIOVE was launched from the Russian base at Baikonur, Kazakhstan, on 28 December 2005. Four satellites will be launched into Earth orbit in 2008, and the remaining 26 satellites will be launched in 2009 and 2010. Galileo will be fully active as from 2010. They are expected to have a life span of about two years.

A Galileo satellite measures 1.3 m x 1.8 m x 1.65 m and weighs 600 kg. It orbits at an altitude of 23 222 km above the Earth.

DIVISION SUBSEA

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

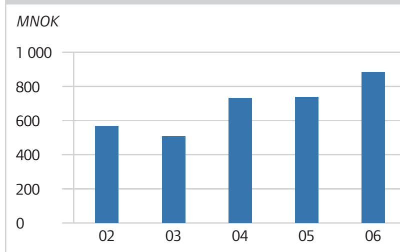
The Subsea Division operates within the product areas underwater positioning and communication (HiPAP), hydrography and seabed seismic (EM series), autonomous underwater vehicles (HUGIN) and sonars for offshore and defence.

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

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

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

Operating revenues Subsea Division



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

In addition, Kongsberg has also supplied a new type of positioning system called Hydroacoustic Aided Inertial Navigation, HAIN, which further improves positioning accuracy using inertial navigation.

DIVISION PROCESS AUTOMATION

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

In 2006, activities were burgeoning and the backlog of orders increased considerably.

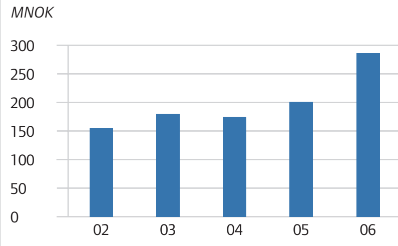
KONGSBERG's framework agreement with Statoil has resulted in new contracts relating to the modification of the process control systems for oil and gas production on Statfjord A, B and C. The facilities are moving into Late Phase, and new solutions will be developed for that. KONGSBERG has a strong position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

The company has a strong position in dynamic simulation in Norway. KONGSBERG has developed valuable simulation tools for numerous engineering tasks, operator training systems and maintenance support systems related to large-scale development projects such as Ormen Lange and Snøhvit. In 2006, KONGSBERG won contracts to supply process simulators and control systems for British Petroleum (BP). Besides maintaining a strong national position, our goal is to build up simulator activities at the international level.

With the acquisition of Fantoft Process Technologies, the division has strengthened its advanced simulation environment for design, engineering, training and the optimisation of the oil and gas processes.

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

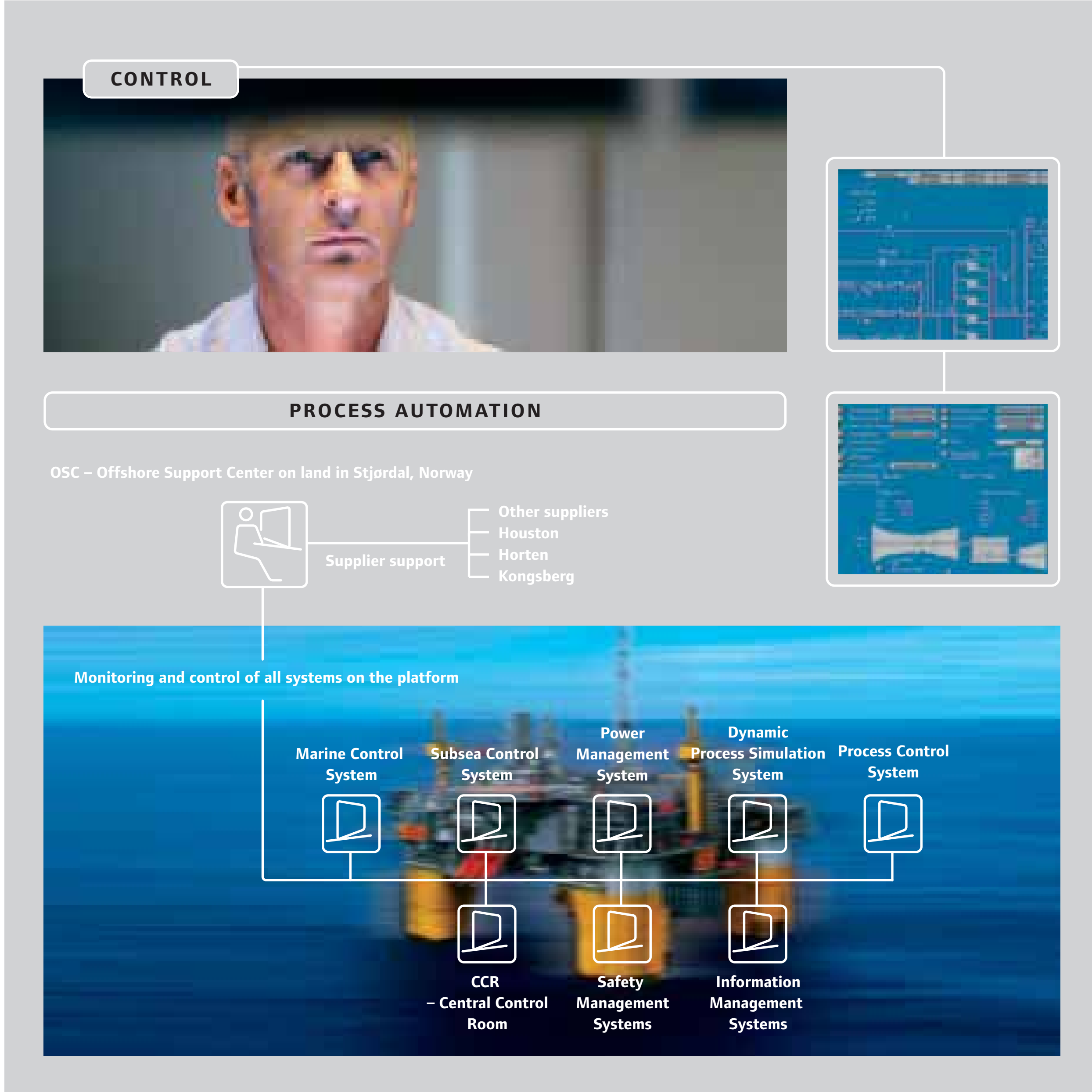
Operating revenues Process Automation Division



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

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

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



INTEGRATED OPERATIONS

The oil companies on the Norwegian Continental Shelf consider integrated operations to be high-priority strategic tools to ensure the companies' sustainable development. White Paper No. 38 defines integrated operations as "The use of information technology to change work processes to improve decisions, remotely operate equipment and processes, and to move functions and personnel onshore." Several of the companies user other, closely related terms for the same type of operations, e.g.: Smart Drift or Smart Operations (Petoro), eDrift or eOperations (Hydro), Smart Field (Shell), Field of the Future (BP), Real Time Operations (Haliburton), Smart Wells (Schlumberger), Digital Oil Field of the Future, or DOFF (CERA). The new feature of integrated operations is that IT is used on a broad front as a strategic tool to streamline duties and decision-making processes in the oil and gas sector.

Integrated operations entail total integration of the organisations that work offshore and onshore through comprehensive digitisation of all activities. Onshore- and offshore-based tasks melt into each other. Oil and gas fields can be operated and serviced from onshore, raising the prospect of entirely new forms of cooperation within the oil companies as well as between suppliers and the oil companies. This will have far-reaching consequences for how tomorrow's oil and gas fields will be operated. The goal of using integrated operations is to enhance recovery, accelerate and boost production, cut operating costs, extend life span and improve safety.

KONGSBERG DEFENCE & AEROSPACE

TOM GERHARDSEN, PRESIDENT
KONGSBERG DEFENCE & AEROSPACE

2006 was a good year for Kongsberg Defence & Aerospace in several respects. The development of the new NSM (Naval Strike Missile) is on schedule, and the Protector RWS (Remote Weapon Station) is a success. Profitability improved for the business area as a whole, and the backlog of orders increased from MNOK 3 124 to MNOK 3 253 during the year.

Our market success

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

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

Improvements

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

Our largest development project

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

Surveillance

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

Challenges

We expect to sign a production contract with the Norwegian Armed Forces for the NSM in 2007. The next step will be to sell the anti-ship missile to other countries. Integration of the NSM into any new fighter aircraft will further enhance export opportunities.

Another challenge is to continue developing and taking advantage of our position in the market for remote weapons systems. The market is large and growing, and the competition is keener than ever. For the moment, ours is the system of choice thanks to its performance, quality and technology. It is also important to take advantage of the spin-off effect on the sale of the RWS by adapting it to vehicles in different weight classes.

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

KONGSBERG DEFENCE & AEROSPACE IN BRIEF

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

Kongsberg Defence & Aerospace AS

Defence & Aerospace

- Missiles & Space
- Naval Systems
- Integrated Air Defence Systems
- Dynamic Systems
- Land Systems & Surveillance
- Defence Communication

Number of employees	1 547
Number of employees, Norway	1 389
Number of employees, outside Norway	90
New employees, 2006	129
Turnover in %	6.3

Key figures

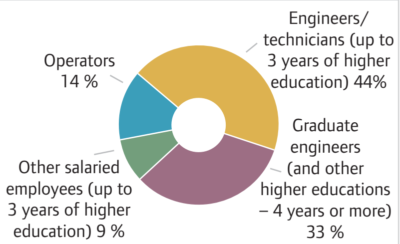
MNOK	*2006[1)]*	*2005[1)]*	*2004[2)]*	*2004[3)]*	*2003[3)]*	*2002[3)]*	*2001[3)]*
Operating revenues	2 997	2 650	2 791	2 704	3 084	3 084	2 388
EBITA	182	135	(13)	(43)	93	178	138
Operating margin (%)	6.1%	5.1%	(0.5%)	(1.6%)	3.0%	5.8%	5.8%
Backlog of orders	3 253	3 124	3 648	3 648	4 352	3 729	4 852
New orders	3 071	1 980	2 000	2 000	3 706	1 961	2 022

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

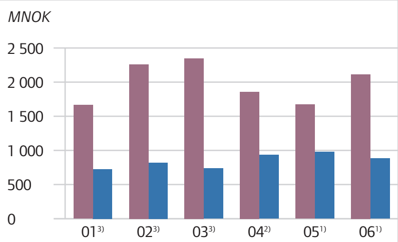
KONGSBERG's anti-ship missiles, command and weapons control systems and communications solutions have proven competitive on the export market, even though KONGSBERG is a small player by international standards. Alliances with major foreign defence enterprises are a key part of the BA's international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

During the year under review, the BA earned MNOK 2 997 in operating revenues, compared with MNOK 2 650 in 2005. This translates into an increase of 13.1 per cent. The year's operating profit (EBITA) was MNOK 182, compared with MNOK 135 in 2005. The backlog of orders climbed by 4.1 per cent, reaching MNOK 3 253 at year end, compared with MNOK 3 124 in 2005. Roughly 82 per cent of the orders booked in 2006 were for the export market. Kongsberg Defence & Aerospace had 1547 employees at yearend. This was an increase of 146 during the year.

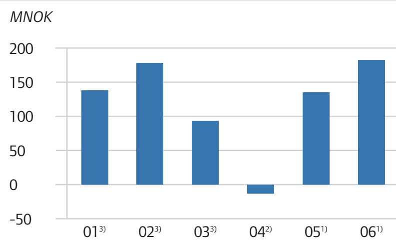
Employees by level of education



Operating reveues



Earnings before interest, tax and amortisation



1) The figures are IFRS compliant (International Financing Reporting Standard) and jointly controlled operations are consolidated using the proportionate method.
2) The figures have been adjusted for effects at the transition to IFRS and jointly controlled operations are consolidated using the proportionate method.
3) The figures are not adjusted for effects of the transition to IFRS, but are presented according to NGAAP. Jointly controlled operations are reported as associates.

HIGHLIGHTS

Quarters 1-4, 2006
The NSM missile is ready for serial production
In July/August 2006 and in early January 2007, a total of four successful test firings of the NSM (Naval Strike Missile) were conducted in California in the US. The NSM is now ready for serial production. Tipping the scales at just more than 400 kg, the anti-ship missile is highly manoeuvrable. It can follow the lay of the land and sea at extremely low altitudes and it can be used against surface and land targets alike. Moreover, the NSM is hard to detect on radar.

Quarters 1-4, 2006
Protector sold to seven countries
Deployed on armoured personnel carriers, the Protector Remote Weapon System (RWS) has been sold to a total of seven countries: USA, Canada, Australia, Finland, Norway, Ireland and Switzerland. Contracts valued at a total of NOK 1.2 billion were signed in 2006. Altogether, contracts valued at NOK 2.6 billion have been signed since the first delivery in 2000. The principle underlying the RWS is that the soldier can sit inside an armoured personnel carrier, and thus remain protected from enemy fire.

Q4 2006
NASAMS air defence system to the Netherlands
The Norwegian-developed NASAMS II (Norwegian Advanced Surface to Air Missile System) was sold to the Dutch Army. The contract is worth MNOK 345 and the system will be delivered in 2009. Part of the contract refers to maintenance of the system from 2009 to 2014. The Netherlands is considered an important customer reference as regards the possibility to sell NASAMS to other countries.

Q1 2007
Framework agreements related to JSF production
In January 2007, long-term framework agreements were signed with Lockheed Martin and Northrop Grumman of the US for the production of composite products for the new JSF (Joint Strike Fighter). The agreements are conditional upon Norway choosing the JSF in 2008. The framework agreements have an initial scope of MNOK 1300 and MNOK 650, respectively. The agreements have a duration of 8 years. Full-scale production will mean the scope can potentially increase to a total of NOK 6–8 billion.

Q1 2007
Marketing agreement for the aircraft version of the NSM
KONGSBERG has signed a joint marketing agreement for an aircraft version of the NSM with Lockheed Martin of the US. Called the Joint Strike Missile (JSM), the unit is designed to be carried inside and fired outside the F-35 Lightning II Joint Strike Fighter (JSF). The JSM will take advantage of both GPS and inertial navigation, combined with a unique imaging infrared seeker and data link, in addition to which the missile features automatic target recognition.

INTERVIEW

Halvard Flesland, Captain of the *KNM Fridtjof Nansen*

WANTS TO IMPROVE THE EFFICIENCY OF COMMUNICATIONS WITH SUPPLIERS

After a year on the Nansen, the conclusion is that the vessel is an exceptionally good product with a fabulous weapons system. The new Norwegian frigates are being built by the Spanish shipyard Navantia, and Lockheed Martin is the main contractor for the integrated weapons systems. KONGSBERG is an important supplier for Lockheed Martin, and works with its subcontractors to deliver weapon, sonar and navigation systems for the new Norwegian frigates.

How has cooperation with KONGSBERG been during your first year of operations?

Our cooperation with KONGSBERG has been good consistently. We have just embarked on the testing and integration of the various systems we carry. Thus far, they look very promising indeed.

What challenges do you envisage in connection with further cooperation with KONGSBERG, and what can KONGSBERG do to overcome the challenges?

As we see it, communication with the various suppliers is a challenge. Messages often have to pass through numerous links before reaching the right recipient. Many of our suppliers use several subcontractors. That makes good communication among subcontractors imperative, and the importance of this increases as the configuration work progresses. When changes are made in the software or hardware, it is essential that information about these variations reaches all involved parties.

What can be done to further streamline communication?

The Norwegian Defence Logistics Organisation (NDLO) and Navantia shipyard of Spain have already introduced measures to streamline communication in connection with guarantees. We believe these measures will also facilitate efficient communication in the integration work ahead.

KONGSBERG – ANNUAL REPORT AND SUSTAINABILITY REPORT 2006

KONGSBERG'S POSITION IN THE DEFENCE MARKET

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

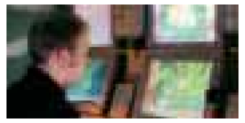
Kongsberg has carved out a position in the US market through direct deliveries of proprietary systems and through cooperation with US alliance partners. A total of about 25 per cent of Defence & Aerospace's earnings are derived from the US market.

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

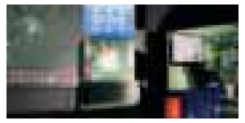
Kongsberg is Norway's premier defence enterprise in advanced, technological defence systems. We usually obtain a high proportion of the offset agreements generated by the Norwegian Armed Forces' procurements from foreign vendors.

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

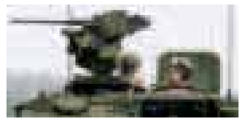
OUR MOST IMPORTANT PRODUCT AREAS ON THE DEFENCE MARKET



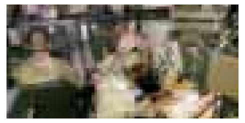
Command and weapons control systems
- Different types of command and control systems for land-, air- and sea-based defence



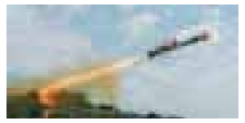
Surveillance systems
- Maritime and land-based surveillance systems for civilian, military and other public sector installations



Dynamic systems
- Remote weapon stations developed to protect troops in armoured personnel carriers



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



Anti-ship missiles
- Penguin anti-ship missiles and the new NSM (Naval Strike Missile)

MARKET DRIVERS AND TRENDS

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

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

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

Market protectionism
- Due to strict security requirements and the protection of different countries' domestic defence industries, it is often difficult for a defence supplier to win defence contracts outside its own borders.

  However, protectionism both in the US and Europe does not rule out possibilities through long-term relationships and niche products.

DIVISION NAVAL SYSTEMS

From the bridge of the *Fridtjof Nansen*. The new Norwegian frigates are replacing the aging (40+) Oslo class frigates. The new vessels will help strengthen the Norwegian Navy and Armed Forces in general. They are Norway's first naval vessels to carry helicopters.

The division delivers command and weapon control systems for naval vessels.

The division's results are good, and right in line with the targets set for the year. New orders were low in 2006. The division has several market prospects and an order backlog for 1–2 years.

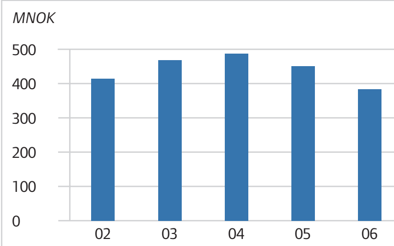
In 2006, the division was in a transitional phase. The development components of major projects, e.g. the delivery of sub-systems for the new Norwegian *Fridtjof Nansen* class frigates and the new Norwegian *Skjold* class missile torpedo boats (MTB), are in the process of being completed. Thus far, the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

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

Deliveries of command and weapon control systems to German and Italian submarines are nearing completion. The systems provided under these contracts are similar to those developed and delivered to Norway's *Ula* class submarines.

In 2006, the division has also entered into collaboration with the Norwegian Coastal Defence which is now testing a new marine version of the Protector RWS (Remote Weapon Station), called the Sea Protector.

Operating revenues
Naval Systems Division



The frigate project
The frigate project carries a total price tag of roughly NOK 21 billion, making it the Norwegian Armed Forces' largest investment project ever. The first frigate was delivered in spring 2006, and with one vessel delivery annually, all five frigates will be in service in 2010. The frigates are named after famous Norwegian explorers and scientists:
- F 310 *KNM Fridtjof Nansen*, spring 2006
- F 311 *KNM Roald Amundsen*, spring 2007
- F 312 *KNM Otto Sverdrup*, 2008
- F 313 *KNM Helge Ingstad*, 2009
- F 314 *KNM Thor Heyerdahl*, 2010

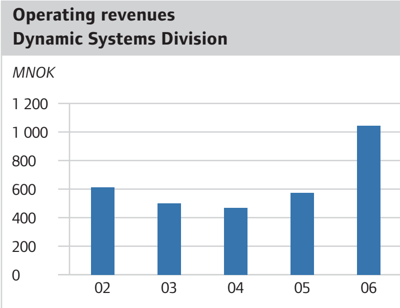
DIVISION DYNAMIC SYSTEMS

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

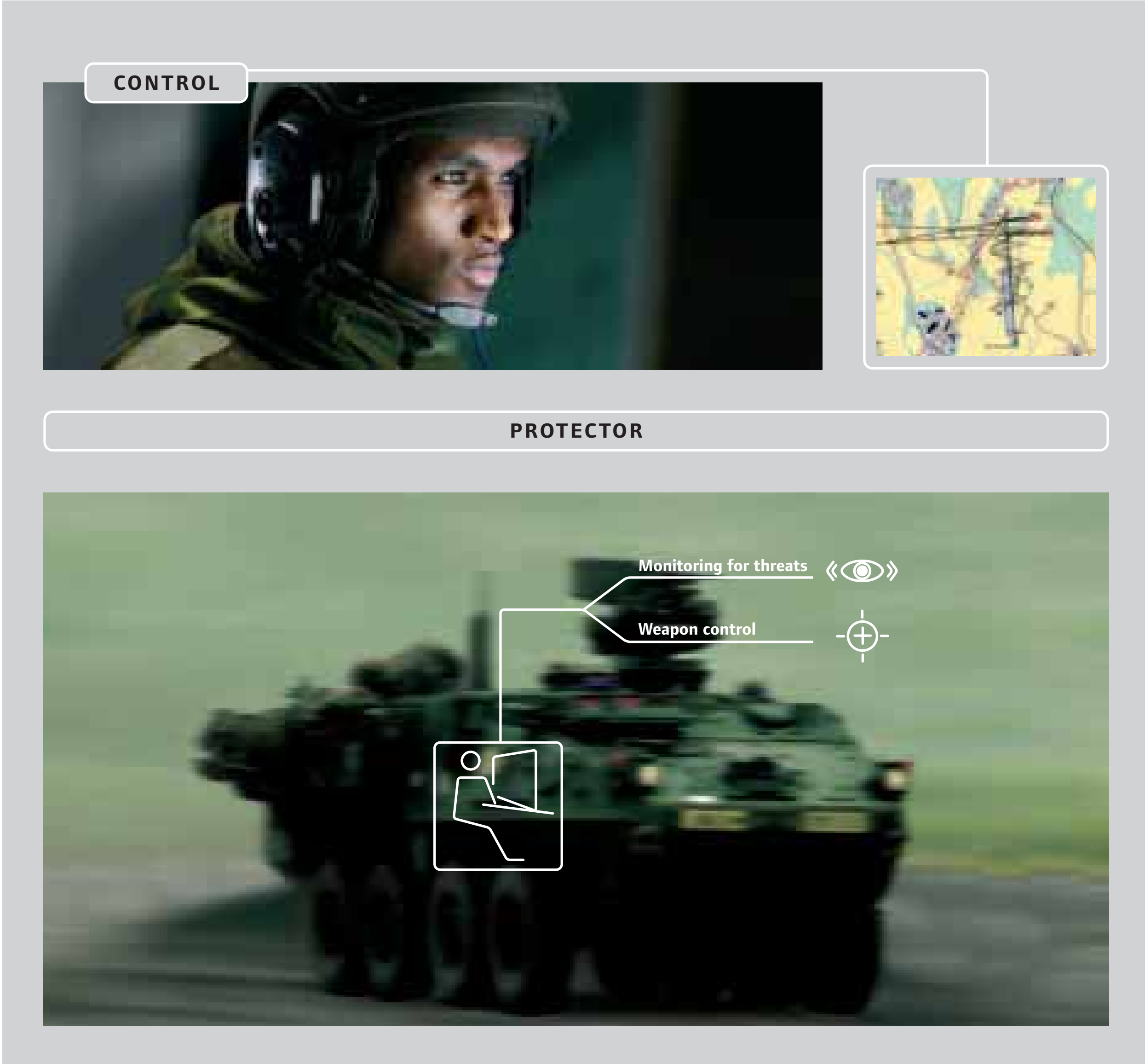
The division had an exceptionally good year. The influx of orders was good, and a substantial backlog of orders was built up during the year. Kongsberg has contracts for RWS deliveries to the Norwegian Armed Forces, the US, Canada, Ireland, Australia, Finland and Switzerland. Orders worth more than NOK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

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

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



Testing the Sea Protector during the winter exercise Cold Response.



PROTECTING MILITARY PERSONNEL

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

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

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

The RWS is being developed and improved on a continuous basis. The Protector series currently consists of four main products: Protector M151, Protector Lite, Protector NM 221 and Sea Protector. The M151 has been the high-volume product thus far. It is lightweight, easy to integrate and does not require any reduction in a vehicle's armour, offering great flexibility for customer-specific modifications. Protector NM 221 is the original product and differs from M151 and Lite in that the system allows the user to reload ammunition from the inside instead of using an external ammo box. Launched in 2006, Protector Lite is well suited for smaller vehicles and armoured trucks armed with smaller calibre weapons. Kongsberg is first in the world to offer this product, and it has been well received by the market. In addition, a version called the Sea Protector is being tested by the Norwegian Coastal Defence. Sea Protector is based on the M151 and has been modified to endure the climate at sea.

Kongsberg – Annual Report and Sustainability Report 2006

DIVISION INTEGRATED AIR DEFENCE SYSTEMS

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

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

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

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

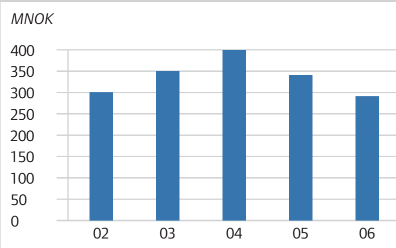
After-sales will be a target area for the division in the year ahead. The goal is to offer several countries maintenance contracts similar to the contract concluded with the Netherlands.

The division's systems are easy to conform to new sensors and weapons. KONGSBERG's command centre already has a large part of the software required to take advantage e.g. of microwaves instead of conventional missiles as weapons. This has opened up several opportunities for the division with a view to the Department for Homeland Security in the US, in cooperation with Raytheon. The goal is to develop a system for the defence of civilian airports in the US.

Facts

The division meets the CMM level 3 standard, meaning that it strives for continuous improvement. By running a CMM process, we can tell how to improve the efficiency of what we do at the same time as we focus on quality every step of the way.

Operating revenues
Integrated Air Defence Systems Division



DIVISION DEFENCE COMMUNICATION

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

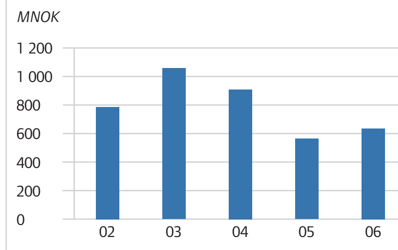
The tactical communication segment operates exclusively on the export market, in competition with large international companies on the commercial market. The largest markets are in the Middle East and Eastern Europe.

There have been fewer customer-financed development projects in recent years, and the division has largely financed product renewal from its own pocket. Several major contracts bear evidence to the fact that the division's communication solutions have a strong foothold in the market.

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

The division is in the final phase of deliveries to the Norwegian Armed Forces of tactical radios (Multi Role Radio (MRR) and Light Multi Role Radio (LFR). In Norway, KONGSBERG has also won less comprehensive new contracts for development, optional equipment and adaptations of previously delivered equipment.

Operating revenues
Defence Communication Division



DIVISION LAND SYSTEMS & SURVEILLANCE

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

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

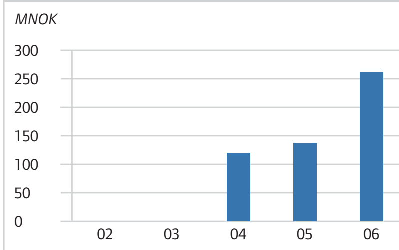
The surveillance of harbours, coastal waters and borders is a target area. NavTek has supplied a chain of coastal radars that form part of the Armed Forces' surveillance of the coast off Northern Norway. Kongsberg Norcontrol IT won a contract with the Norwegian National Coastal Administration for a new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

As a subcontractor for Boeing of the US, the division has also developed software for computer screens for operators on board AWACS surveillance aircraft. A long-term contract was signed between NATO and KONGSBERG for the maintenance and further development of this software. The agreement also includes training and maintenance of the systems. A corresponding agreement for software development services was concluded with Boeing for their B-737 surveillance aircraft. These systems were initially developed for Australia, but have also been sold to Turkey and South Korea.

In the market for tactical command systems, KONGSBERG has been the main contractor for the further development of NORTaC-C2IS, the Norwegian Army's command, control and information system. The system is adapted to international operations, improving Norwegian units' ability to exchange information with allied forces. The system has already attracted considerable international interest.

The segment for simulation and training has had a strong influx of new orders, due not least to the development of a simulator for the Protector RWS (Remote Weapon Station). The market is showing more and more interest in simulators of this type.

Operating revenues
Division Land Systems & Surveillance



DIVISION MISSILES & SPACE

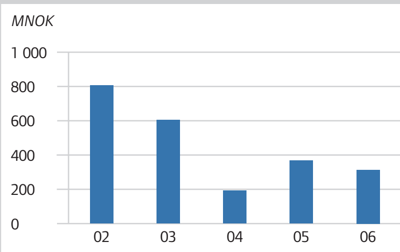
Missiles

The division develops and manufactures anti-ship missiles. In 2006, test firings of the new NSM (Naval Strike Missile) were conducted in California in the USA. The American test firing field offers missile testing over land and sea alike. This is essential in order to test several functions of the NSM not featured on any other anti-ship missile. The test firings were successful, reaffirming the missile's highly advanced properties. A 10-year development programme is approaching completion, and a contract for series production is expected to be signed in 2007.

As planned, the NSM will be ready for deployment on the new *Fridtjof Nansen* class frigates and the new Norwegian *Skjold* class missile torpedo boats.

The Penguin missile has been operational in Norway and the navies of several other countries for a number of years. The missile remains one of the world's leading anti-ship missiles and can be deployed on helicopters, aircraft and vessels. Sales orders were low in 2006, but the missile is still attractive on the market.

Operating revenues Missiles & Space Division



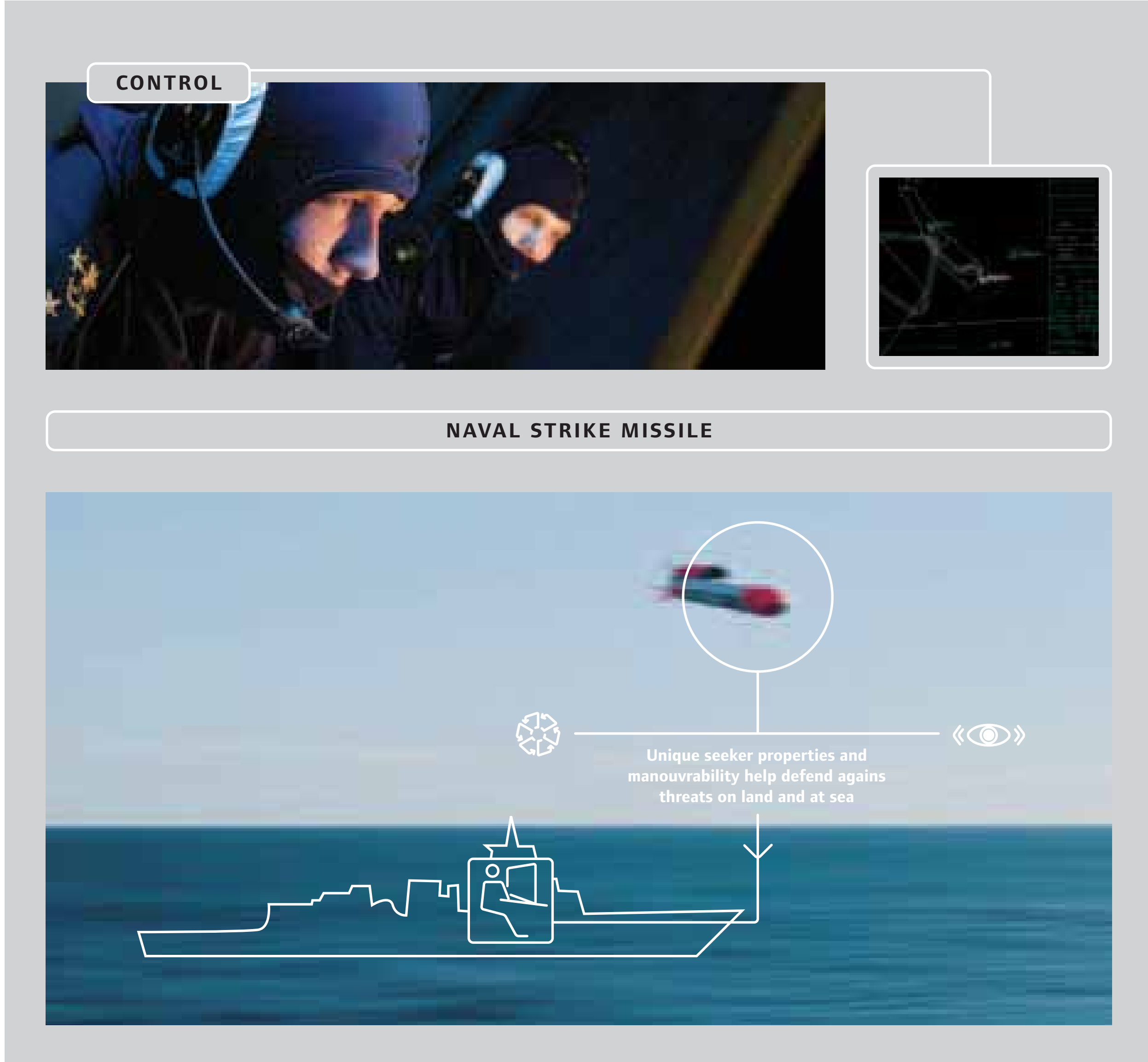
Space

Aerospace activities are divided between Kongsberg and Tromsø. Kongsberg Defence & Aerospace is Norway's largest supplier to the European Space Agency (ESA). The division has provided equipment for many space programmes, and for many of the satellites and booster rockets that carry satellites into outer space.

The subsidiary Kongsberg Spacetec in Tromsø delivers ground systems for earth observation satellites, and is the international market leader in the development of technology for ground stations for receiving and processing satellite data.

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

Kongsberg Satellite Services downloads and analyses satellite data. The company is headquartered in Tromsø, where it has several antennae, and has operations on Svalbard (Spitsbergen) and Antarctica.



NSM – THE MOST ADVANCED MISSILE OF ITS KIND

In December 1996, Kongsberg Defence & Aerospace concluded a contract with the Norwegian Navy for the development of a new Naval Strike Missile (NSM). The contract had a value of approx. NOK 1.5 billion. The NSM has been developed in collaboration with the Norwegian Defence Research Establishment and the Royal Norwegian Navy. It is one of Norway's most advanced development projects, having required approx. 2 million working hours over the past 10 years.

The NSM is a small autonomous aircraft that is 4 metres long and weighs about 400 kilos. It has a range of 185+ kilometres. The missile has properties that enable it to follow the terrain at a very low altitude at high subsonic speeds. The missile is built of composite materials and has a surface and shape that make it very hard to detect on radar.

The NSM is equipped with an infrared imaging seeker that represents the foremost seeker technology in the world. Using military satellite navigation (GPS), inertial navigation and a laser altimeter, the missile knows exactly where it is. The missile carries considerable computing power (corresponding to 15 powerful PCs). Using map data, the missile selects its trajectory to the target. The final phase of the flight pattern is unpredictable. The missile will continuously change directions, making it exceedingly difficult to shoot down.

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

CORPORATE GOVERNANCE AND FINANCIAL STATEMENTS

The screen image is from a simulator for the Protector Remote Weapon System (RWS). To make the right decisions, soldiers practice on realistic situations using simulators.

TEAMWORK DEFINITELY PAYS

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

Kongsberg – Annual Report and Sustainability Report 2006

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE AT KONGSBERG

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

Definition of the concept
Corporate governance deals with issues and principles linked to the distribution of roles between the governing bodies in an enterprise, and the responsibility and authority assigned to each of those bodies. Good corporate governance is characterised by responsible interaction between owners, the Board and management in a long-term, value-adding perspective. Corporate governance calls for effective collaboration between management and the Board, respect for the Group's other stakeholders, and open, honest communication with the communities in which the Group operates.

Treatment of the topic in 2006
The topic of corporate governance is subject to annual reviews and discussions by the corporate Board of Directors. Among other things, the Group's corporate governance documents are reviewed and revised annually and the text for this chapter of the annual report is reviewed in detail. When this chapter of the 2005 annual report was discussed, management was ordered to redress most of the points on which the Group deviated from the *Recommendation*.

Corporate governance at KONGSBERG

Owners

Shareholders
General Meeting
Nominating Committee

The General Meeting elects five shareholders' representatives to the Board based on nominations from the Nominating Committee. Two-year terms of office.

Board

Board of Directors
Compensation Committee
Audit Committee

Ultimate responsibility for strategy and management of the company. Advice regarding and oversight of routine management.

Management

CEO
Corporate Management

Executive management.

KONGSBERG'S CORPORATE GOVERNANCE POLICY

KONGSBERG aspires to comply with the 'Norwegian Recommendation for Corporate Governance' dated 7 December 2004 and most recently revised on 28 November 2006. KONGSBERG's compliance with and deviations, if any, from the Recommendation will be commented upon and made available to stakeholders.

The above decision was adopted by the corporate Board of Directors. The Norwegian State, which owns 50.001 per cent of the Group, also requires that all companies in which the State has stakes comply the Recommendation. Since the Norwegian State owns a stake of 50.001 per cent, the Group also complies with the White Paper No. 13 (2006/2007) – the 'Ownership Report', the State's 10 Principles for Good Corporate Governance and the OECD's Guidelines regarding State Ownership and Corporate Governance. These guidelines can be found on the Group's website at: www.kongsberg.com

The following elements underpin KONGSBERG's Corporate Governance Policy:

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

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

The following are the amended Articles of Association as they will be presented to the Annual General Meeting (AGM) on 8 May 2007. Compared with earlier Articles of Association, §8, point 7, is new and several amendments have been made to §9 which deals with the Nominating Committee.

ARTICLES OF ASSOCIATION FOR KONGSBERG GRUPPEN ASA

Most recently revised by the ordinary Annual General Meeting on 8 May 2007

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

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

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

§ 4 The Company's share capital is NOK 150 000 000, divided into 30 000 000 shares with a nominal value of NOK 5. The Company's shares shall be registered in the Norwegian Registry of Securities.

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

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

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

§ 8 The ordinary AGM shall:

1. Adopt the financial statements and the Annual Report, including the payment of dividends.
2. Discuss other matters which, pursuant to legislation or the Articles of Association, are the province of the AGM.
3. Elect the shareholders' representatives and their deputies to the corporate Board of Directors.
4. Elect the members of the Nominating Committee.
5. Elect one or more auditors, based on nominations made by the AGM.
6. Stipulate the Board's remuneration and approve remuneration to the Auditor.
7. Deal with the Board's declaration regarding the stipulation of salary and other remuneration to senior employees.

The convening letter shall state that shareholders who would like to participate in the AGM are to sign up by a deadline specified in the convening letter. The deadline shall expire no more than five days prior to the AGM. The AGM shall be chaired by the Chair of the Board or, in his/her absence, by the Deputy Chair. In the absence of both, the AGM shall elect a moderator.

§ 9 The Nominating Committee shall consist of three members who shall be shareholders or representatives of shareholders. The members of the Nominating Committee, including the chair, shall be elected by the ordinary Annual General Meeting. The Nominating Committee shall submit its roster of candidates to the AGM to elect the members of the Nominating Committee. The term of office is two years. Based on a recommendation from the Board of Directors, the AGM shall stipulate the remuneration to be paid to the Nominating Committee's members.
The Nominating Committee shall present to the AGM its recommendations for the election of and remuneration to the Directors and Deputy Directors on the Board. The Chair of the Board shall, without being enfranchised to vote, be called in to at least one meeting of the Nominating Committee before the Nominating Committee presents its final recommendation.

INTERVIEW

Jarl Ulvin, Director of Investment, Odin Forvaltning

GOOD CORPORATE GOVERNANCE IS A QUESTION OF 'FAIR PLAY'

The Board of Directors, management and we as owners must all be aware of the roles we play. All owners shall generally be treated equally. In dialogue with existing and potential portfolio companies, we place considerable emphasis on ascertaining that the ground rules are followed. Odin Forvaltning sets high standards and can disqualify companies that fail to demonstrate sufficient maturity.

We have held a stake in KONGSBERG for a number of years. This in itself is a vote of confidence. However, it does not mean that there is no room for improvement. Quite to the contrary. But before I elaborate on that, I would like to point out that it is first when we, and everyone else, are allowed full insight into a company's structures and factors that affect value creation, that we can fulfil our role as owner in a constructive manner.

Market needs
In our quest for good, preferably underrated, companies to invest our customers' money in, companies' ability to understand and accommodate the market's need for information is absolutely decisive. We see that KONGSBERG still has some room for improvement here. Where defence is concerned in particular, we and most other market players lack knowledge, meaning that KONGSBERG needs to be better at identifying factors that are critical to the enterprise. Stronger focus on this could help improve coverage in the market. It is too bad that so few analysts follow KONGSBERG actively.

Better dialogue
We have noted that the Board and management are attaching increasing importance to investor relations. This translates into better service and that is good. The fact that the State is the main owner is not a problem from the perspective of corporate governance. The ministry is a professional player. Some political quarters may have other agendas, but we can hardly blame the ministry or the company for that.

THE NORWEGIAN RECOMMENDATION

The following is a detailed discussion of each individual section of the Norwegian Recommendation. Each section starts by reiterating part of the text of the Recommendation. Then there is a description of KONGSBERG's compliance. For the complete annotated recommendation, see the Oslo Stock Exchange's website at: www.oslobors.no/ob/cg or NUES (the Norwegian Corporate Governance Committee): www.nues.no

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

1 Principles of corporate governance

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

The Group has drawn up a separate policy for corporate governance, and the Board has decided to follow the Norwegian Recommendation for Corporate Governance.

A discussion and clarification of the Group's value platform can be found in the Sustainability Report, page 117, and at www.kongsberg.com.

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

Departures from the Recommendation: None.

2 Activities

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

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

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

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

Departures from the Recommendation: None

3 Investment capital and dividends

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

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

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

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

Capital increases
The Board has not been authorised to undertake share issues.

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

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

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

Departures from the Recommendation: None.

4 Equal treatment of shareholders and transactions between related parties

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

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

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

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

Guidelines for directors and key management personnel
The corporate Code of Ethics discusses the topic under the heading conflict of interest, without this being said to be directly equivalent to the point in the Recommendation. Similarly, the Board's instructions, section 11 – independence and disqualification, apply.

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

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

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

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

Departures from the Recommendation: None.

5 Freely negotiable

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

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

Departures from the Recommendation: None.

6 Annual General Meeting (AGM)

The Board of Directors should try to ensure that as many shareholders as possible can exercise their rights by participating in the Group's AGM, and that the AGM is a good meeting place for shareholders and the Board, not least by making sure that:
- *The documents for the AGM, including the Nominating Committee's recommendation, are sent to shareholders at least two weeks prior to the AGM.*
- *The documents should be detailed enough for the shareholders to take a position on all items up for discussion.*
- *The final date for registration should be set as close to the meeting as possible.*
- *Shareholders who are unable to attend personally can vote by proxy.*
- *The Board of Directors, the Nominating Committee and the auditor will attend the AGM.*
- *There are routines in place to ensure independent chairing of the AGM.*

By virtue of the Annual General Meeting, the shareholders are guaranteed participation in the Group's supreme governing body. The AGM adopts the Articles of Association.

Shareholders representing at least 5 per cent of the shares can call for an extraordinary general meeting.

Notification
The Annual General Meeting (AGM) is ordinarily held by 1 June each year. The 2007 AGM is scheduled for 8 May. Notification is usually sent out three weeks in advance. This is one week earlier than the statutory minimum requirement (two weeks). It is important that the relevant documents, including the Nominating Committee's recommendation, contain all necessary information for the shareholders to take a position on all items up for discussion. The company's Articles of Association stipulate that the final date for registration cannot expire less than five days prior to the date of the AGM. Efforts are made to set the deadline as close to the meeting date as possible.

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

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

In 2006, the AGM was held on 9 May, and 79 per cent (76.91 per cent in 2005) of the aggregate share capital was represented.

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

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

7 Nominating Committee

- *The company ought to have a Nominating Committee; the AGM should elect the Committee's chair and members and stipulate its remuneration.*
- *The Nominating Committee should be enshrined in the Articles of Association.*
- *The Nominating Committee should represent a broad range of shareholders' common interests. The majority of the Nominating Committee should be independent of the Board of Directors and other key employees. At least one member of the Nominating Committee should not be a member of the Corporate Assembly, the Supervisory Board or the Board. A maximum of one member of the Nominating Committee should be a director and should not be up for re-election. The general manager and other key employees should not be on the Committee.*
- *The Nominating Committee nominates candidates for the Corporate Assembly and the Board of Directors and proposes fees for the members of these bodies.*
- *Grounds should be given for the Nominating Committee's recommendation.*
- *The company should provide information about who serves on the Committee and any deadlines for submitting nominations to the Committee.*

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

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

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

Composition
The current committee was elected by the ordinary AGM on 9 May 2006 and consists of:

- Anne Grethe Dalane, human resources director, Yara International ASA (re-election)
- Knut J. Utvik, director, the Ministry of Trade and Industry (new)
- Sverre Valvik, managing director, Arendals Fossekompani ASA (re-election)

Anne Grethe Dalane was elected chair of the Committee.

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

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

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

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

8 Board of Directors – composition and autonomy

- *The Corporate Assembly should represent a broad range of the Group's shareholders.*
- *The Board of Directors should be composed so that it will protect shareholders' interests, and meet the Group's need for expertise, capacity and diversity. Consideration should be taken to ensure that the Board can function as a collegial body.*
- *The Board should be composed so that it can act independently of special interests. At least half the shareholder-elected directors should be independent of the Group's management and important business associates. At least two of the shareholder-elected directors should be independent of the Group's principal shareholders.*
- *Representatives of management should not serve on the Board. If such representatives do serve as directors, this should be explained and have consequences on the organisation of Board work, including the use of Board Committees to contribute to the more independent preparation of items for the Board's attention, cf. point 9.*
- *The Chair of the Board should be elected by the AGM unless the Norwegian Companies Act requires that the person in question be elected by the Corporate Assembly or the Board, as a result of an agreement that the company not have a corporate assembly.*
- *Directors should not be elected for more than two years at a time.*
- *In the annual report, the Board should report on circumstances that can illustrate the directors' expertise and capacity, as well as which directors are considered independent.*
- *Directors should be encouraged to own shares in the company.*

Composition of the Board of Directors
The Board of Directors consists of eight members, and currently has the following composition: Finn Jebsen (chair), Benedicte Berg Schilbred (deputy chair), Siri Hatlen, Erik Must, John Giverholt, Roar Marthiniussen, Jan Erik Hagen and Audun Solås. The three latter directors have been elected by and from among the employees. Detailed information on the individual directors can be found on page 104.

It is essential that the Board as a whole be capable of dealing with Board work and the Group's main business activities. In addition, the directors are to have the capacity to carry out their duties. According to the Articles of Association, the Group shall have five to eight directors. At present, the Board consists of five external directors and three directors elected by and from among the Group's employees.

The CEO is not a member of the Board of Directors.

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

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

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

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

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

Three directors are elected directly by and from among the Group's employees.

Directors are elected for two-year terms and are eligible for re-election.

Directors' ownership of shares
Apart from the employee representatives, the following directors own shares in the Group: Finn Jebsen, Chair of the Board, owns 5 000 shares through his wholly-owned company Fateburet AS. Benedicte Berg Schilbred, deputy chair, owns 17 500 shares through Odd Berg AS. Erik Must owns 31 150 shares (personally) and 100 000 shares through Fondsavanse AS.

Departures from the Recommendation: None.

9 Board work

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

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

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

Instructions to the Board of Directors
The Board's instructions are extensive and were last revised on 12 February 2007. The instructions cover the following points:

Attendance (the figures in parentheses show the number of meetings held)

	Board meetings	Compensation Committee	Audit Committee
Finn Jebsen	12 (12)	4 (4)	1 (7)
Benedicte Berg Schilbred	11 (12) one by phone		
Siri Hatlen	11 (12)		7 (7) one by phone
Erik Must	12 (12)	4 (4)	
John Giverholt	9 (12)		7 (7) one by phone
Roar Marthiniussen	12 (12)	4 (4)	
Audun Solås	12 (12) one by phone		6 (7) one by phone
Jan Erik Hagen	12 (12)		

notification of Board meetings, deadlines for notification, administrative preparation, Board meetings, Board's decisions, keeping the minutes, the Board's expertise and items of business, the division of responsibilities between the Board and management, relations between subsidiaries and the parent company, independence and legal competence, the main principles for Board work in the event of a corporate takeover, confidentiality and professional secrecy, matters related to legislation, regulations and rules of procedure.

The Board of Directors can decide to deviate from instructions in certain cases.

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

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

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

All directors receive regular information about the Group's operational and financial progress well in advance of the scheduled Board meetings. The directors also receive monthly operations reports. The Group's business plan, strategy and risk are regularly reviewed and evaluated by the Board. The directors are free to consult the Group's senior executives as needed.

The Board draws up and establishes an annual plan, including themes for the Board meetings. Ordinarily, the CEO proposes the agenda for each Board meeting. The final agenda is decided in consultation between the CEO and the Chair of the Board. In addition to the directors, Board meetings are attended by the CEO, CFO and General Counsel (secretary of the Board). Other participants are summoned as needed.

The Board has decisions of particular importance to the Group, including the approval of the annual and quarterly accounts, strategies and strategic plans, the approval of significant investments (usually those in excess of MNOK 10), and the approval of business acquisitions and disposals.

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

Professional secrecy – communication between the Board and shareholders
The Board's proceedings and minutes are in principle confidential unless the Board decides otherwise or there is obviously no need for such treatment. This is pursuant to the rules of procedure for the Board of Directors.

Expertise
An extensive programme has been conducted to give new and old directors insight into the Group's business activities. In early 2007, the Board and corporate management toured the Group's operations in Northeast and Southeast Asia. The purpose of the trip was to improve the Board's insight into commercial activities in the area.

Legal competence
The Board is bound by the rules regarding disqualification as they appear in §6-27 of the Public Limited Companies Act. In 2006, there was one case from which a director disqualified himself from dealing with an issue. In connection with discussions of the acquisition of Sense Intellifield, employee director John Giverholt was disqualified based on Ferd's indirect stake in the company.

Use of Board committees
The use of a Nominating Committee is stipulated in the Articles of Association. Moreover, the Board set up two subcommittees in 2005: An Audit Committee and a Compensation Committee. Both committees prepare items for consideration by the Board. They are solely responsible to the full corporate Board and their authority is limited to making recommendations to the Board.

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

Members: John Giverholt, Siri Hatlen, Audun Solås. The terms of reference for the Audit Committee are on the Group's website at: www.kongsberg.com

The Board's Compensation Committee
The Committee's tasks revolve around the CEO's terms of employment, questions of principle related to wage levels, the bonus system, pension systems/terms, and employment contracts, etc. for key management personnel, as well as other matters related to compensation that the Committee believes to be of special importance to the Group. The Committee consists of the Chair of the Board, one shareholder-elected director and one employee-elected director. The CEO is entitled to participate in the Committee's meetings if he or she so desires, except when his or her own situation is under discussion. Four meetings were held in 2006. Members: Finn Jebsen, Erik Must, Roar Marthiniussen. The terms of reference for Compensation Committee can be found on the Group's website at: www.kongsberg.com

The Board's self-evaluation
Each year, a special Board seminar is organised on topics related to the Group's operations and the Board's duties and working methods. The Board's working methods and interaction are discussed on an ongoing basis, especially at the Board seminars. In this connection, the Board also evaluates its efforts in terms of corporate governance. Thus far, the Board has not found it expedient to take advantage of external consultants for its self-evaluation. The evaluation is made available to the Nominating Committee.

Departures from the Recommendation: None.

10 Risk management and internal control

- *The Board of Directors should ensure the company has good internal controls and expedient systems for risk management, given the scope and nature of the company's operations. The internal controls and systems should also embrace the company's value platform and Code of Ethics.*
- *The Board of Directors should undertake an annual review of the company's most important risk areas and the internal controls.*
- *In the annual report, the Board should describe the main elements of the company's internal controls and risk management systems in conjunction with the financial statements.*

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

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

The Board's reporting routines
The Board of Directors presents an in-depth review of the company's financial status in the Directors' Report. It also describes the main elements related to HSE and risk. Further, there is a statement about internal control activities under the heading Organisation and Governance on page 103.

Departures from the Recommendation: There are currently no separate internal control routines for following up the company's value platform and Code of Ethics. Meanwhile, the Group has set up an Ethics Council whose purpose is to contribute to high ethical awareness, promote good behaviour and ensure a good reputation in and for KONGSBERG.

11 Directors' fees

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

The Annual General Meeting stipulates the Board's remuneration each year. The proposal for remuneration will be made by the chair of the Nominating Committee. For 2006, total compensation to the Board added up to NOK 1 280 002 (NOK 1 208 000 in 2005). The remuneration breaks down as follows: Chair of the Board of Directors NOK 300 000, Deputy Chair NOK 160 000, other directors NOK 136 667. Members of the Board Committees receive no additional remuneration.

The directors' fees are not linked to performance, option programmes or the like. None of the Board's shareholder-elected directors work for the company outside their directorships.

Departures from the Recommendation: None.

12 Remuneration to key management personnel

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

Guidelines

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

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

The Board's attitude to executive management's salaries is that they should be competitive, but not leading.

The reward system consists of basic wages, bonuses, pensions, severance pay and benefits in kind.

Performance-based remuneration

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

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

Terms

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

Departures from the Recommendation: None

13 Information and communications

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

The annual report and accounts – periodic reporting

The Group normally presents provisional annual accounts in late February. Complete financial statements, the Directors' Report and the annual report are sent to shareholders and other stakeholders in March/April. Beyond this, the Group presents its accounts on a quarterly basis. The Group's Financial Calendar is published on the Group's website and in the Annual Report. The Sustainability Report is part of the Annual Report sent to all shareholders.

All shareholders are treated equally as a matter of course.

Other market information

Open investor presentations are conducted in connection with the Group's annual and quarterly reports. The CEO reviews the results and comments on products, markets and the prospects for the future. The Group's CFO also participates in these presentations, as do other members of corporate executive management from time to time.

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

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

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

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

Departures from the Recommendation: None.

14 Takeovers

- *The Board of Directors should draw up main principles for how to behave when presented with a takeover bid.*
- *During a takeover process, the bidders, the target company's Board and management have an independent responsibility to ensure that the shareholders in the target company are treated equally, and that the target company's operations are not disrupted unnecessarily. The target company's Board has a special responsibility for ensuring that shareholders have the information and time needed to take a position on the bid.*
- *The Board of Directors should not, without just cause, try to prevent or make it difficult for any party to make an offer for the company's operations or shares.*
- *Where an offer is made for the Group's shares, the Group's Board should not take advantage of its share issue authorisation or initiate other measures to impede the offer, unless this is approved by the AGM once the offer is made public.*
- *Where a bid is made for the company's shares, the Board should issue a statement containing an evaluation of the bid and a recommendation for whether the shareholders ought to accept or not. If the Board is unable to recommend to the shareholders whether they ought to accept the offer or not, an explanation should be furnished about why this is the case. The Board's statement about the offer should disclose whether the opinion is unanimous and, if not, state why directors have reservations about the Board's statement. The Board of Directors ought to consider getting a valuation from an independent expert. If the director, key management personnel, related parties or someone who recently held such a position are the bidder or have special interests in the offer, the Board of Directors ought to obtain an independent valuation. The same applies if the bidder is a major shareholder. The valuation should be attached, reproduced or cited in the Board's opinion.*
- *Transactions that are in reality disposals of business activities should be decided by the AGM, except where the law states that such decisions are to be taken by the Corporate Assembly.*

There are no defence mechanisms against take-over bids in the Group's Articles of Association, nor have other measures been implemented to limit the opportunity to acquire shares in the company. The Norwegian state owns 50.001 per cent of the shares. The marketability of these shares is subject to parliamentary discretion.

A new section has been added to the Board's instructions, and it refers to the main principles for how the Board of Directors should react to any takeover bid. The Board of Directors is responsible for ensuring that KONGSBERG's shareholders are treated equally and that operations are not disrupted unnecessarily.

Where a bid is made for the company, the Board of Directors shall make a statement containing a well-grounded evaluation of the bid. The evaluation shall specify how, for example, a takeover would affect long-term value creation at KONGSBERG.

Departures from the Recommendation: None.

15 Auditor

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

The auditor's relationship with the Board

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

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

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

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

The auditor has submitted to the Board a written statement on fulfilment of the Statutory Audit Independence and Objectivity requirement, cf. the Auditors Act.

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

The Group hired Arthur Andersen & Co. as its independent auditor upon its inception in 1987. In April 2002, Arthur Andersen & Co in Norway was merged with Ernst & Young. In addition to ordinary auditing, the company has provided consultancy services related to accounting, tax and due diligence. Reference is made to Note 10 to the consolidated accounts.

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

Departures from the Recommendation: None.

16 Management and internal procedures

This point is not covered by the Recommendation.

CEO
The CEO is in charge of the routine management of the business, including responsibility for the Group being organised, run and further developed pursuant to legislation, the Articles of Association and decisions taken by the Board and the AGM.

The Board adopts instructions for the CEO.

Corporate management
Corporate management currently consists of seven individuals. In addition to the CEO, the executive management group consists of the CFO, the presidents of the two main business areas (Kongsberg Maritime and Kongsberg Defence & Aerospace), and the executive vice presidents of Human Resources, Business Development, and Corporate Communications.

Corporate management usually meets once every fortnight, supplemented by routine contact on an operational basis. The Group subscribes to the paramount principle of making binding commitments to agreed targets. Consequently, it practises a decentralised form of corporate governance that gives individual units considerable freedom of action, accompanied by the responsibility that entails.

Corporate management's main responsibility is to manage the Group, where KONGSBERG's general situation governs the decisions that are made. Corporate management follows up earnings and budgets on a monthly basis with the various performance centres.

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

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

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

ORGANISATION AND GOVERNANCE

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

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

Budget
The budget process usually starts in mid-September. All profit centres take part in these efforts. Budgetary guidelines are drawn up at the corporate level, based on the strategy document and relevant external framework conditions. It is important to improve on past performance. The budget is subject to in-depth treatment by corporate management and the Board. The final budget is adopted by the Board in December, and then used as a tool for short-term financial management for the next year. The budget applies throughout the budget period, and has a binding effect on the managers of the individual units.

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

In addition, the Board receives a separate HSE report each quarter.

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

Internal control
The Group has no special unit for internal control.

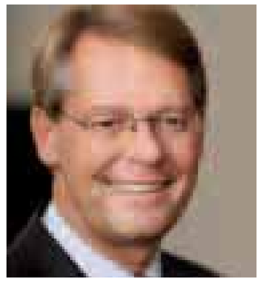
Accounting controls are handled through different divisions of responsibilities, guidelines and approval routines. The Group's central accounting service bears the overall responsibility for starting businesses and following up guidelines and principles. The introductions of IFRS and the new Bookkeeping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

Intra-Group financial transactions are subject to special control systems and routines. Financial risk is offset using appropriate financial instruments. Financial risk management is handled by the Group's central financial service.

Responsibility for the commercial content of contracts and agreements rests with the individual business areas.

Follow-up and control related to the Group's value platform, Code of Ethics and corporate social responsibility take place out in the line as part of routine operations. The Group has a special Ethics Council that addresses topics related to the corporate Code of Ethics.

THE BOARD OF DIRECTORS OF KONGSBERG GRUPPEN ASA



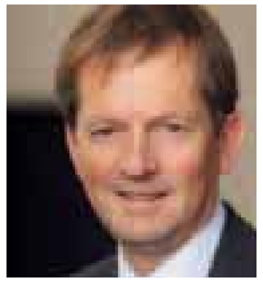
Finn Jebsen (57)
Chair of the Board
Position: Self-employed
Education: Economist, the Norwegian School of Economics and Business Administration in Bergen (1974), master's degree in Business Administration from the University of California, Los Angeles (1976)
Other: Previously CEO of the Orkla Group
Number of years on the Board: 2
Number of shares in Kongsberg Gruppen ASA: 5 000 (through the wholly-owned enterprise Fateburet AS)
Directorships outside Kongsberg: Chair of the Board of Kavli Holding AS. Deputy Chair of the Board of Cermaq ASA and KLP Forsikring.

Benedicte Berg Schilbred (60)
Deputy Chair
Position: Executive Chair of the Odd Berg Group
Education: The Norwegian School of Management (1969) and additional courses from the Norwegian School of Economics and Business Administration (1972)
Number of years on the Board: 6
Number of shares in Kongsberg Gruppen ASA: 17 500 (through the company Odd Berg AS)
Directorships outside Kongsberg: Chair of Odd Berg AS and Tos Lab AS. Director of Norway Pelagic Group AS, Fiskeriforskning AS, Norsildmel AL and Norsildmel Innovation AS

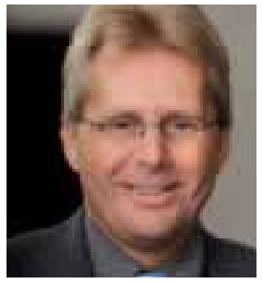
Erik Must (64)
Director
Education: Economist, Copenhagen School of Economics (1967)
Number of years on the Board: 2
Number of shares in Kongsberg Gruppen ASA: 100 000 (through Fondsavanse AS), 31 150 (personally)
Directorships outside Kongsberg: Chair of the Board of Fondsfinans ASA, Fondsfinans Kapitalforvaltning Holding AS, Arendals Fossekompani ASA and Erik Must AS. Director of Gyldendal ASA, Norges Handels- og Sjøfartstidende AS, Norwegian Museum of Cultural History, the Arenzt Legacy and Biotechnology Centre at the University of Oslo

Siri Hatlen (49)
Director
Position: Self-employed
Education: Graduate Engineer, the Norwegian Institute of Technology (1980) and additional courses (MBA) from INSEAD, Fontainebleau (1991)
Number of years on the Board: 4
Number of shares in Kongsberg Gruppen ASA: 0
Directorships outside Kongsberg: Chair of Health East, AS Vinmonopolet, the State Education Loan Fund, SIFA SF and Det Norske Samlaget Publishing House. Director of PGS ASA, NTNU and Det Norske Teateret

John Giverholt (54)
Director
Position: CFO, Ferd AS
Education: Economist, University of Manchester (1976), Registered auditors' examination, the Norwegian School of Economics and Business Administration (1979)
Other: Managerial positions in Orkla ASA, Den norske Bank ASA and Norsk Hydro ASA
Number of years on the Board: 2
Number of shares in Kongsberg Gruppen ASA: 0
Directorships outside Kongsberg: Director of Telenor ASA



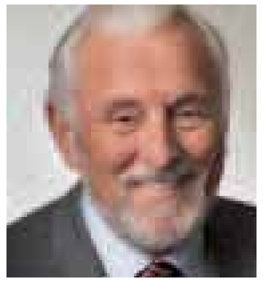
Roar Marthiniussen (50)
Director (employee representative)
Position: Sales and Marketing Manager at Kongsberg Maritime AS
Education: Engineer from the Horten College of Engineering
Number of years on the Board: 8
Number of shares in Kongsberg Gruppen ASA: 3 100



Jan Erik Hagen (48)
Director (employee representative)
Position: Shop Steward at Kongsberg Protech AS
Education: Kongsberg Vocational School, Tinius Olsen School and Kongsberg College of Engineering. Holds a guild certificate as a mechanical inspector
Number of years on the Board: 4
Number of shares in Kongsberg Gruppen ASA: 477

Audun Solås (48)
Director (employee representative)
Position: Chief engineer at Kongsberg Defence & Aerospace AS
Education: Graduate Engineer, Royal College of Technology, Stockholm
Number of years on the Board: 2
Number of shares in Kongsberg Gruppen ASA: 1

CORPORATE MANAGEMENT



Jan Erik Korssjøen (59)
Position: Chief Executive Officer
Education: Graduate Engineer from Norwegian University of Science and Technology (1972)
Other: Began his professional career at AS Kongsberg Våpenfabrikk, where he held several managerial positions. Subsequently president of Dresser Rand AS and Kongsberg Systems AS. Named president of Kongsberg in 1999 after 4 years at the helm of Kongsberg Maritime.
Number of years with Kongsberg: 12
Number of shares in Kongsberg Gruppen ASA: 6 553
Directorships and other offices outside the Group: SINTEF (Chair of the Board), Corporate Assembly of Telenor ASA (Chair), DNV Council (director)

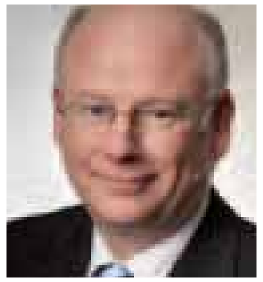
Arne Solberg (54)
Position: Chief Financial Officer
Education: Economist from the Norwegian School of Management (1980)
Other: Formerly in leading positions in finance/administration at Elektrisk Bureau AS
Number of years with Kongsberg: 20
Number of shares in Kongsberg Gruppen ASA: 6 907
Directorships outside the Group: SG Finans AS (member of board of directors), Kitron ASA (deputy chair)

Torfinn Kildal (52)
Position: President, Kongsberg Maritime AS
Education: Economist from the Norwegian School of Economics and Business Administration (1977)
Other: Began his professional career with AS Kongsberg Våpenfabrikk, then held managerial positions in the Simrad Group
Number of years with Kongsberg: 10
Number of shares in Kongsberg Gruppen ASA: 7 767
Directorships outside the Group: 0

Tom Gerhardsen (58)
Position: President, Kongsberg Defence & Aerospace AS
Education: Graduate Engineer from Norwegian University of Science and Technology (1971)
Other: Formerly employed by the Norwegian Defence Research Establishment and AS Kongsberg Våpenfabrikk
Number of years with Kongsberg: 20
Number of shares in Kongsberg Gruppen ASA: 6 215
Directorships outside the Group: 0

Ellen Christine Orvin Raaholt (51)
Position: Executive Vice President, Human Resources
Education: Law degree from the University of Oslo (1988)
Other: Former executive director of the ErgoGroup AS, where she was in charge of HR and strategic development initiatives
Number of years with Kongsberg: 2
Number of shares in Kongsberg Gruppen ASA: 645
Directorships outside the Group: Learning Network (Chair of the Board)

Even Aas (45)
Position: Executive Vice President, Corporate Communications
Education: Economist from the University of Oslo (1988)
Other: Formerly employed by the Norwegian Confederation of Trade Unions, political adviser and later state secretary for commerce and shipping at the Ministry of Foreign Affairs. Also employed by Telenor ASA.
Number of years with Kongsberg: 9
Number of shares in Kongsberg Gruppen ASA: 1 932
Directorships outside the Group: Norwegian Industry (a member of the Board and the Members' Council)



Stig Trondvold (53)
Position: Vice President, Business Development
Education: Graduate Engineer from Norwegian University of Science and Technology (1976), as well as MBA from IMD in Switzerland (1984)
Other: Began his professional career at SINTEF, followed by several managerial positions at AS Kongsberg Våpenfabrikk, Kongsberg Automotive AS, Kongsberg Automotive Technology AS, AP Kongsberg Ltd. and Kongsberg Techmatic AS
Number of years with Kongsberg: 7
Number of shares in Kongsberg Gruppen ASA: 2 732
Directorships outside the Group: Kongsberg Innovasjon AS (Chair of the Board), National Institute of Technology, Norway AS (Chair of the Board), Research Board for Innovation – The Research Council of Norway (director)

FINANCIAL STATEMENTS

SHARES AND SHAREHOLDERS

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

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

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

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

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

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

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

Dividends and earnings per share

Amounts in NOK	*2006[1]*	*2005[1]*	*2004[2]*	*2003[3]*	*2002[4]*	*2001[4]*	*2000[4]*	*1999[4]*	*1998[4]*
Earnings per share	8.30	8.70	4.03	4.23	7.21	4.18	(1.86)	8.84	7.04
Dividends	2.50	2.15	2.00	1.30	2.10	-	-	2.25	2.00

1) The figures are presented pursuant to IFRS.
2) The figures have been adjusted for the effects of the transition to IFRS and the sale of yachting activities.
3) The dividend for 2004 was proposed on the basis of earnings before MNOK 150 related to the NSM project was recognised as income.
4) Not adjusted for effects of the transition to IFRS, but presented according to NGAAP and including the yachting segment.

Share price data by quarter 2006

Amounts in NOK	*06Q4*	*06Q3*	*06Q2*	*06Q1*
Opening share price	150.00	138.50	150.00	124.00
Closing share price	175.00	150.00	138.50	150.00
Investment performance during the period	16.7%	8.3%	- 7,7%	21.0%
Highest closing share price	175.00	152.00	169.00	152.50
Lowest closing share price	145.50	135.00	135.00	122.00
Average closing share price	159.35	144.12	147.21	133.22
Median	158.00	145.00	148.50	128.50
Volume in 1 000 shares	287	557	613	1 533

Share price trend in 2006
Market capitalisation climbed from MNOK 3 720 to MNOK 5 250, or by 41.1 per cent during the year. KONGSBERG was launched on the Oslo Stock Exchange on 13 December 1993 with a market capitalisation of MNOK 643.

The total yield on the share since it was launched amounts to 536.4 per cent. During the same period, the Oslo Stock Exchange All-Share Index has climbed by 457.9 per cent.

The share saw a positive trend in 2006 and ended at NOK 175 for the year, compared with NOK 124 (41.1 per cent ex-dividend) at year-end 2005. The Oslo Stock Exchange All-Share Index and the Industrial Index increased by 32.4 per cent and 19.5 per cent, respectively, during the period.

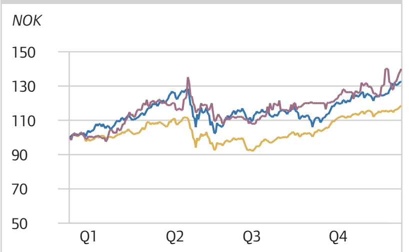
The share's liquidity
In 2006, 2 989 796 KONGSBERG shares were traded, divided among 1 980 transactions. The share's liquidity must be described as low. The company strives actively to promote interest in the share through activities aimed at investor relations.

Share capital
Kongsberg Gruppen ASA has share capital of MNOK 150, divided among 30 million shares with a nominal value of NOK 5 per share. There is just one class of shares, and there are no limitations on voting rights. When launched on the Stock Exchange on 13 December 1993, the Group had 5.85 million shares with a nominal value of NOK 20 each. In 1999, the number of shares was increased to 6 million in connection with a share issue directed at the employees. In May 1997, the share split into four, increasing the number of shares to 24 million with a face value of NOK 5 per share. All key figures for 1997 and earlier years have been adjusted accordingly. In July 1999, six million new shares were issued, bringing the total up to the current level of 30 million shares.

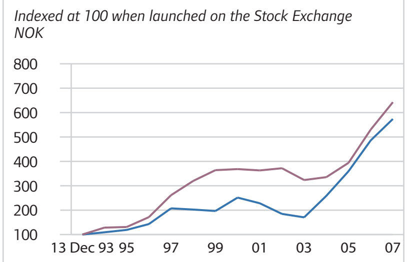
Share and option programmes for employees
The Group's annual employee share programme was conducted in spring 2006. This was the 10th time that all employees had an opportunity to purchase Group shares at a 20 per cent discount. In 2006, 83 987 shares were sold at a price of NOK 120. Shares were distributed to 378 employees. Options corresponding to half the number of shares purchased were allocated to all those taking part in the programme. The options are redeemable after two years.

In connection with the employee share programme in 2004, everyone who bought shares was awarded options corresponding to half the number of shares they bought. The strike price for these options was NOK 93. Upon exercise of the options, the share price was NOK 148.50. The employees could either purchase

Share price trends in 2006



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



INTERVIEW

Terje Mauer, Equity Research, DnB NOR

KONGSBERG IS IN CONTROL

KONGSBERG's defence segment is a world leader in several areas; it is global, has exciting niche products that the company is to some extent paid for developing, and has achieved a more appropriate cost structure. The stuff dreams are made of, really. Things are going well for Offshore & Merchant Vessels as well. The markets have developed very favourably, and the company has exploited the trend. The backlog is growing and there has been growth in volumes as well as margins.

Why has the share price failed to reflect this?
Part of the explanation may be the ownership structure, and the share's resultant low liquidity.

Part of the answer may also be that few analysts in Norway have sufficient insight into the defence industry. It is hard for the outside world to keep track of which contracts are up for tender, that is, to be aware of the nature, scope and margins on the leads the Group follows up. Perhaps communication about ongoing tenders would enhance visibility, on a quarterly basis at the aggregate level, for example?

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

Dynamics, or the lack thereof, is otherwise a recurring topic in discussions about KONGSBERG
Management appears to be reliable, and relatively conservative. However, there appears to be a lack of dynamism and willingness to take the type of proactive decisions that characterise modern value creation. Expectations of the new Board of Directors were higher in this area. Perhaps this is why the company seemingly wandered aimlessly on the departure platform without managing to board the 'acquisition train' in the offshore industry while the tickets were reasonably priced? Perhaps this is why they failed to take more basic structural initiatives?

KONGSBERG is an exciting enterprise with considerable potential. I believe that by making today's operations somewhat more commercial and bolder in thought, word and deed, it should be possible to generate significant value for the shareholders.

shares at the agreed price or receive a cash payment. 84 employees chose to purchase 14 752 shares in connection with this programme.

At 31 December 2006, more than 750 employees owned approx. 550 000 shares. This corresponds to 1.8 per cent of the shares in Kongsberg Gruppen ASA.

Treasury shares

KONGSBERG's ordinary Annual General Meeting, held on 9 May 2006, authorised the Board to buy treasury shares. The authorisation has a ceiling of 5 per cent of the share capital and applies for 12 months from the date of the general meeting. At 31 December 2006, KONGSBERG owned a total of 3 808 treasury shares. Acquired shares may only be disposed of on the market, as payment for acquisitions, or through the option and share scheme for employees.

Shares owned by directors and management

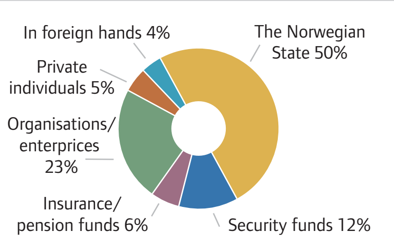
For information about the shares owned by directors and corporate management, see Note 30 to the consolidated accounts.

Investor relations

KONGSBERG furnishes the equity market with relevant, comprehensive information as the basis for a balanced, correct valuation of the share. The Group attaches importance to maintaining an open dialogue with the equity market and media through stock exchange bulletins, press releases and other media initiatives, as well as through presentations for analysts and investors. The Group's website, www.kongsberg.com, contains a separate section featuring investor information. The section contains the Group's annual reports, interim reports and presentation material. The Group has been awarded the Information Symbol (ID 1033 0 1) and the English Symbol (E) by the Oslo Stock Exchange.

Improvements are in focus every step of the way at KONGSBERG. This also applies to the way in which the Group's results and activities are reported. In 2006, KONGSBERG organised several presentations both in Norway and abroad. KONGSBERG aspires to be accessible to the market, and all or part of executive management is present at almost all such events. The annual and mid-year presentations are webcast. In September, KONGSBERG organised Capital Markets Day at its premises in Kongsberg. The event was well attended. Visitors were given presentations by several members of executive management, as well as a guided tour of the area and a demonstration of some products. Capital Markets Day will be organised again in 2007.

Ownership structure



Shares by size of holding at 1 March 2007

Number of shares	*Number of shareholders*	*% of number of shares*	*% of total number of shareholders*
1–1 000	4 230	90.07%	2.74%
1 001 – 10 000	389	8.34%	3.11%
10 001 – 100 000	56	1.20%	7.11%
100 001 – 1 000 000	14	0.30%	16.94%
Over 1 000 000	4	0.09%	70.10%

Historical share information

Amounts in NOK	*2006*	*2005*	*2004*	*2003*	*2002*	*2001*	*2000*	*1993*
Market capitalisation 31 Dec. (in MNOK)	5 250	3 720	2 850	3 180	2 715	2 895	2 550	6 432
Change during the year	41.1%	25.3%	(10.4%)	17.1%	(6.2%)	13.5%	(32.5%)	-
Closing share price 31 Dec.	175.00	124.00	95.00	106.00	90.50	96.50	85.00	32.25
Closing share price 1st trading day	125.00	99.00	104.00	90.50	102.00	86.50	127.00	27.52
Highest closing share price	175.00	132.00	116.00	110.00	118.00	115.00	127.00	32.5
Lowest closing share price	122.00	91.00	76.75	74.00	86.00	83.00	80.00	30.25
Average closing share price	145.79	108.34	92.21	88.97	102.26	99.80	101.30	31.10
Number of shares traded (in 1 000)	2 990	5 297	7 861	11 736	2 458	9 379	9 278	
As a % of bonus shares [1]	20%	35%	52%	78%	16%	63%	62%	
Number of transactions	1 980	3 345	4 552	4 329	1 558	2 274	3 305	
Number of trading days	225	247	252	238	218	231	250	

1) Of shares in circulation. The State's interest of 50.001 per cent (15 000 400 shares) is not included.
2) At Stock Exchange launch on 13 December 1993.

List of the principal shareholders at 1 March 2007

Shareholder	*Number of shares*	*% share*
The Norwegian State as repr. by Ministry of Trade and Industry	15 000 400	50.00%
The National Insurance Fund	2 722 060	9.07%
Arendals Fossekompani ASA	2 105 822	7.02%
MP Pensjon	1 203 200	4.01%
Skagen Vekst	940 000	3.13%
Odin Norge	886 850	2.96%
Odin Norden	813 287	2.71%
Orkla ASA	645 200	2.15%
Ferd AS	600 000	2.00%
Odin Offshore	250 000	0.83%
Total, 10 largest shareholders	**25 166 819**	**83.9 %**
Total number of shares	**30 000 000**	**100.0 %**

FINANCIAL RISK AND MARKET CONDITIONS

Currency

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

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

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

Foreign currency exposure is particularly strong in the offshore market, and many of our competitors are located in the US. In the market for commercial vessels, many competitors are in Europe, although a growing number of competitors are located in Asia. All new defence and aerospace tenders made by Kongsberg Defence & Aerospace will reflect prevailing exchange rates.

At 31 December 2006, the Group had currency hedges corresponding to a total of about NOK 7.5 billion, predominantly in USD and EUR.

Hedging by objective

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

See Note 22 to the consolidated accounts.

Funding

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

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

Norwegian certificate loans	MNOK 300	
Bond issue	MNOK 300	Due date Sept. 2007
Bond issue	MNOK 400	Due date June 2009

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

Interest

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

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

Amounts in MNOK	*Value based on agreed assets*	*Excess (+)/ negative (-) value at 31 Dec 06*	*Excess (+)/ negative (-) value at 31 Dec 05*
Hedges of forecast sales (cash flow hedges)	3 694	57	55
Project hedges (fair value hedges)	3 679	24	(41)
Loan hedges (fair value hedges) *	128	-	-
Equity hedges (net investments outside Norway)	-	-	(2)
Total	**7 501**	**81**	**12**

* Loan hedges are currency hedges associated with foreign currency loans.

IMPORTANT BALANCE SHEET ASSETS

Property

KONGSBERG manages substantial real estate through Kongsberg Næringseiendom AS. The business consists of property management of real estate owned or leased by the Group. The majority of the properties are located in Kongsberg and Horten.

Owned by KONGSBERG

	Projected gross rental income in 2007 – MNOK	*Area m²*
Kongsberg	68.8	82 800
Horten	20.0	27 700
Egersund	2.6	6 400
Total	**91.4**	**116 900**

The properties enjoy full occupancy, consisting mainly of KONGSBERG companies. The overall property area is reported after demergers in 2005 and 2006, and divided among several companies, all of which are wholly owned by Kongsberg Gruppen ASA and have an aggregate book value of MNOK 862.4. Rental revenues reflect market rates for comparable properties in the area.

Property rented for KONGSBERG's operations

In addition to the Group's own properties, 34 000 m² are subleased to Group companies. These properties are located in Oslo, Asker, Lillestrøm, Trondheim and Stjørdal.

Property owned by external owners, but managed by Kongsberg Næringseiendom

These properties were previously owned by KONGSBERG and were subsequently sold through sale-leaseback agreements, cf. Note 29 to the accounts. Collectively, these properties cover an area of 88 800 m². All in all, there are about 250 000 m² of real property under management.

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

Goodwill

Goodwill is an asset that arises in connection with acquisitions, and it represents the difference between the purchase price and the assets we identify and capitalise as underlying assets and liabilities.

Compared with other assets such as buildings, technology, receivables and stock in trade, goodwill is more abstract and consists of more elements. Our goodwill includes the value of acquired expertise and anticipated synergies ensuing from acquisitions. Synergies can consist of competency, additional market access and distribution, sales and administration, and cost reductions due to more efficient processes and the coordination of central functions. Rather than being amortised, goodwill is calculated annually to see whether the value is lower than the capitalised value. If the value is lower than the capitalised value, goodwill must be written down. At 31 Dec. 2006, goodwill accounted for approx. 16 per cent of KONGSBERG's total assets. See Note 12.

Other intangible assets

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

Costing about MNOK 320 in 2006, R&D accounts for a significant share of our costs. In addition, R&D valued at MNOK 17 was capitalised. The criteria for balance sheet recognition are strict. Extensive documentation is required and the R&D project must have a strong likelihood of success. At an early stage, there is normally considerable uncertainty about whether a project can be brought to fruition. For that reason, many costs are accrued before we satisfy the criteria for balance sheet recognition. Accordingly, the capitalised percentage is relatively low. Even though R&D is not capitalised, it is still of significant value to the company. The percentage of R&D relative to revenue is a dimension figure that indicates how much we invest in R&D.

Receivables

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

Amounts in MNOK	*31 Dec 06*	*31 Dec 05*
Accounts Trade receivables	1 329	955
Other receivables	125	248
Prepayments to suppliers	30	29
Total	**1 483**	**1 232**

Projects

The Group's main business objective is largely to develop and manufacture products and systems based on orders received. Balance sheet values attached to long-term production contracts are reported at gross values. Unpaid gross amounts from customers for contractual work are reported as assets.

Most of Offshore & Merchant Marine's projects have a duration of less than two years, and earnings on individual projects make a modest contribution to overall earnings. Defence & Aerospace's projects are of longer duration and total earnings on an individual project make a substantial contribution to the Group's activities. See Note 21.

KEY FINANCIAL FIGURES

Amounts in MNOK	*2006[1]*	*2005[1]*	*2004[2]*	*2003[3]*	*2002[3]*	*2001[3]*	*2000[3]*	*1999[3]*	*1998[3]*	*1997[3]*
Operations										
Operating revenues	6 720	5 791	5 901	6 651	6 980	6 176	5 296	4 412	4 404	3 674
- civilian	57%	59%	54%	54%	58%	63%	64%	73%	71%	71%
- outside Norway	72%	67%	69%	76%	72%	74%	74%	62%	62%	55%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	627	536	410	583	673	595	465	400	417	306
EBIT prior to amortisation (EBITA)	464	378	239	383	485	437	287	249	278	192
Earnings before tax (EBT)	390	314	180	190	291	191	188	205	279	121
Profit for the year	252	262	118	125	216	123	(56)	233	171	73
Effective tax rate	35%	32%	40%	34%	28%	38%	-	32%	33%	40%
Net cash flows from operating activities	605	631	328	83	264	321	46	409	423	358
Operating margin before interest, tax and amortisation (EBITA margin)	6.9%	6.5%	4.1%	5.8%	6.9%	7.1%	5.4%	5.6%	6.3%	5.2%
EBT margin	5.8%	5.4%	3.1%	2.9%	4.2%	3.1%	3.5%	4.6%	6.3%	3.3%
New orders	7 672	5 683	5 323	7 421	5 725	5 967	7 648	4 123	4 604	3 952
Backlog of orders	6 472	5 416	5 425	5 913	5 143	6 401	6 610	4 258	4 551	4 349
Equity-financed development	407	325	286	302	318	282	184	185	172	146
Equity-financed development as a % of operating revenues	6%	6%	5%	5%	5%	5%	3%	4%	4%	4%
Capital										
Total assets	7 356	6 586	6 258	6 008	5 597	5 629	5 371	4 012	3 949	3 412
Employed capital	4 072	3 715	3 930	3 698	3 260	3 078	2 942	1 796	1 959	1 798
Return on employed capital	8%	7%	4%	6%	9%	8%	7%	8%	7%	6%
Pre-payments from customers	1 768	1 617	1 044	931	818	1 028	957	858	552	555
Net interest-bearing debt	294	282	1 101	1 164	795	776	1 029	(330)	456	126
Net interest-bearing debt/EBITDA	0.5	0.5	2.7	2.0	1.2	1.3	2.2	(0.8)	1.1	0.4
Debt-equity ratio	17%	19%	68%	64%	46%	50%	73%	(22%)	41%	12%
Equity	1 684	1 505	1 626	1 830	1 741	1 538	1 406	1 490	1 106	1 042
Equity ratio	23%	23%	26%	30%	31%	27%	26%	37%	28%	31%
Investments	463	168	197	292	360	339	1 235	305	574	216
Depreciation	179	165	174	292	269	267	240	187	228	149
Employees										
Number of employees	3 650	3 372	3 495	4 176	4 208	4 012	3 765	3 382	3 333	3 262
Number of graduate engineers/engineers/technicians (incl. other educ. - 4 yrs or more)	2 898	2 426	2 898	2 904	2 871	2 633	2 294	2 106	1 990	1 901
Wage share	35%	36%	35%	33%	30%	30%	32%	32%	30%	33%
Owners' values										
Market capitalisation	5 250	3 720	2 970	3 180	2 715	2 895	2 550	3 780	1 824	1 824
Annual change in value	1 530	750	(210)	465	(180)	345	(1 230)	1 956	0	438
Earnings per share from continuing operations	8.30	7.19	3.44	4.23	7.21	4.18	(1.86)	8.84	7.04	3.04
P/E	21.08	17.24	27.62	25.06	12.55	23.09	-	16.20	10.80	25.00
Dividend per share in NOK	2.50	2.15	2.00	1.30	2.10	0.00	0.00	2.25	2.00	1.00

Definitions

EBITA margin	Earnings before interest, tax and amortisation (EBITA) as a % of operating revenues
Operating margin (EBIT)	Earnings before interest and tax (EBIT) as a % of operating revenues
EBT margin	Earnings before tax (EBT) as a % of operating revenues
Effective tax rate	Tax as a percentage of the profit/loss before tax
Net cash flows from operating activities	Please see the Statement of Cash Flows on page 32
Total assets	Aggregate assets
Employed capital	Total assets less current interest-free liabilities
Return on employed capital	EBT less tax as a % of average tied-up capital
Debt-equity ratio	Net interest-bearing debt as a % of shareholders' equity
Equity	Capitalised equity and subordinated loan capital from the State (MNOK 300 from 1996-98)
Equity ratio	Equity as a % of total assets
Wage share	Wages and social security expenses as a % of operating income
Change in value over the year	Change in share price compared with previous year
Earnings per share (EPS)	Net profit after tax divided by weighted average number of shares
P/E	Price/Earnings. Share price at 31 December divided by the profit or loss per share

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

SUSTAINABILITY REPORT

Galileo is the new European satellite navigation system. It will consist of 30 satellites. It will offer a positioning system under civilian control, independent of the US GPS system. The Galileo satellites will form a network around the Earth once the system is operational in 2010.

EQUILIBRIUM AN D BALANCE

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

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

INTRODUCTION

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

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

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

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

One of the new criteria in G3 is that the company is to report which G3 level it follows. We believe this report complies with the requirements for level B. The report has not been independently verified.

The answers regarding the indicators can be found directly in the running text or in special GRI tables. The last pages of the report provide references to the individual GRI indicators and refer to the relevant sections of the report.

GRI Model

		C	C+	B	B+	A	A+
Obligatory	Self-declared			Kongsberg			
Optional	Independently verified						
	GRI verified						

The Sustainability Report has in its entirety been reviewed by corporate management and the corporate Board of Directors.

KEY SUSTAINABILITY FIGURES

	Indicator	*2006*	*2005*	*2004*	*2003*	*2002*
Financial value added	*Value added*					
	Direct and indirect taxes to state/municipality (MNOK)	993	889	919	924	905
	Payroll expenses (net after tax) (MNOK)	1 206	1 060	1 198	1 212	1 167
	Share dividend (MNOK)	75	64,5	60	39	63
	Interest to lenders (MNOK)	51	54	86	89	101
	Retained earnings (MNOK)	177	197	(23)	86	153
Corporate social responsibility	*Level of education*					
	Civil engineers and other higher ed. (4 years +) %	26	25	27	25	25
	Engineers/technicians (up to 3 years' higher ed.) %	46	47	45	44	44
	Other salaried employees (up to 3 years' higher ed.) %	17	16	17	19	20
	Operators %	11	12	11	12	11
	Average age	42.5	43.2	43.2	42.9	42.9
	Number of employees	3 650	3 372	4 017	4 176	4 208
	Number of full-time employees	3 486				
	Number of part-time employees	164				
	Social responsibility					
	Donations to organisations, etc. (NOK 1 000)	1 785	1 640	1 350	1 500	1 450
	Diversity					
	Women as a % of the number of employees	19	20	22	21	21
	Women in leading positions as a % of total managerial positions (Norway)	12	9	11	10	10
	Shareholder-elected women on the Board (%)	40	40	40	40	20
	Age distribution					
	Number of employees under age 30 (%)	12				
	Number of employees between ages 30 and 50 (%)	60				
	Number of employees over age 50 (%)	28				
	Turnover (employees who have resigned)	335				
	– men	275				
	– women	60				
	Health and safety					
	Absence due to illness as a % of hours worked	2.7	3.1	3.2	3.2	3.3
Environment	*Waste*					
	Waste for recycling (metric tonnes)	606	494	519	611	339
	Residual waste (metric tonnes)	392	340	441	608	735
	Hazardous waste (metric tonnes)	60	60	157	91	105
	Chemicals					
	Environment-unfriendly and hazardous chemicals (metric tonnes)	19.1	23.0	59.4	18.5	
	Other categories (metric tonnes)	12.9	9.9	19.7	20.5	
	Energy consumption					
	Electricity (MWh)	39 534	37 670	42 840	42 030	41 670
	District heating (MWh)	11 957	12 470	15 670	18 230	17 340
	Gas/oil (MWh)	689	740	1 860	1 040	220
	Energy consumption (MWh/year) per employee, Kongsberg Defence & Aerospace	15.6	16.2			
	Energy consumption (MWh/year) per employee, Kongsberg Maritime	7.7	7.9			
	CO_2 emissions (metric tonnes) – excl. travel	3 547				

OUR VALUES

KONGSBERG's values are to be normative for how we behave and work, and should characterise our cooperation within and outside the company. Shared values are essential for building a strong corporate culture and a good reputation. This can help us bring out the energy in our organisation and support our vision: WORLD CLASS – through people, technology and dedication.

The customer
The customer remains the centre of attention at all times as we focus on how to enhance the customer's value creation. We are dependent on building up loyalty and confidence.

High standards
Reliability must permeate everything we do and make, so that customers have confidence in the Group's products and services. Supplying high quality is to be one of our hallmarks.

Boldness
Co-workers who think bold thoughts and managers who give these thoughts an opportunity to grow, could contribute to further innovation in our communities. Transparency is a key word when it comes to boldness.

Network building
Teamwork is essential within the Group and relative to all KONGSBERG's external relations. The coordination and the re-use of knowledge are profitable and motivating for co-workers, at the same time as they create excess value internally and externally.

KONGSBERG AND DEFENCE ACTIVITIES

KONGSBERG is Norway's premier supplier of high-technology defence systems and products. Defence activities account for 43 per cent of the Group's aggregate turnover.

Many would maintain that developing and manufacturing weapons and weapons systems is not compatible with running a sustainable, socially responsible business. I do not agree with that view.

There is broad political consensus that Norway should have standing armed forces and a defence industry. KONGSBERG is a cornerstone in this industry. First of all, this means that we, in line with current public opinion and policy, perform an important service to society with a view to our defence capability. Further, it means that we maintain and develop substantial technological expertise that also benefits the Group and the community through our civilian business areas.

The Norwegian authorities practise one of the world's most rigid sets of regulations for the export of defence products. The regulations, which are adopted by the Storting (Norwegian parliament), only allow us to sell our defence products to countries on an approved list. All exports require permits issued by the Royal Norwegian Ministry of Foreign Affairs. They also require a declaration from the end user. In other words, the government of the buyer country has to guarantee that the product will be used for the agreed purpose. Where a delivery from us is just a small part of a larger system, the export regulations of the recipient country apply. Not only are we subject to a strict export regime, we are also largely a systems supplier. It requires considerable national infrastructure for our products and systems to be functional. This, in turn, means that it is highly unlikely that our products and systems can get 'lost' in the shuffle.

The global defence industry is accused of being one of the most corrupt industries in the world. We are not part of that picture. Norwegian legislation outlaws corruption. That ban also applies to the Group's activities outside the country's borders. In keeping with KONGSBERG's corporate Code of Ethics, we are thoroughly opposed to all forms of corruption.

Jan Erik Korssjøen, CEO

INTELLECTUAL CAPITAL

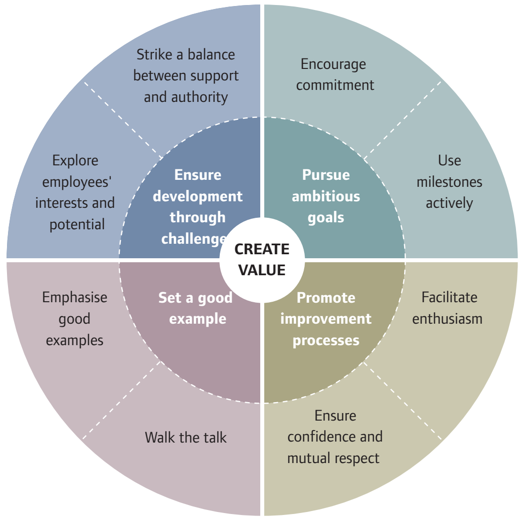
Intellectual capital and principles for improvement
KONGSBERG has elected to incorporate intellectual capital into the sustainability concept. The way we manage and develop our intellectual capital is crucial for our ability to innovate and add value over time.

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

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

LEADERSHIP PRINCIPLES AND REQUIREMENTS

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



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

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

Principle 1
Pursue ambitious goals
The pursuit of ambitious goals is indicative of a leadership style that follows up ambitions closely all the way to the target.

These leaders inspire commitment to goal achievement. The targets should be ambitious and binding. The key to success is motivating employees to get involved and shoulder responsibility.

Leaders who use milestones are leaders who get involved. Active involvement engenders learning and useful corrections. Milestones are also important for showing results and marking victories along the way.

Principle 2
Promote improvement processes
We must improve constantly if KONGSBERG is to succeed. Improvement involves enhancing our competitiveness along two axes. The one axis is linked to operations; improving routine processes and structures. The other is related to innovation; engaging in revitalisation and innovation.

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

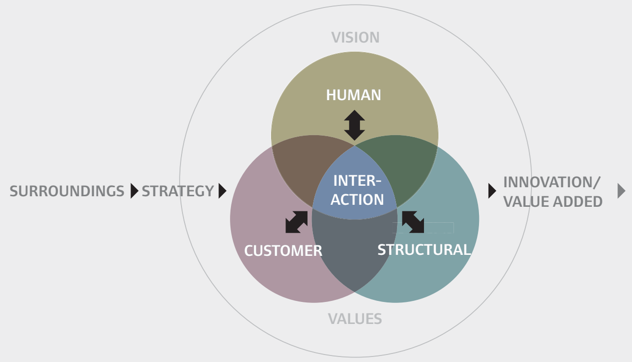
Principle 3
Set a good example
We believe leaders who set good examples are far more effective than those who use big words, but fail to set good examples.

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

Principle 4
Ensure development through challenges
This leadership principle says something about the importance we attach to the development of employees as an integral part of the role of leader.

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

The KONGSBERGS model for intellectual capital



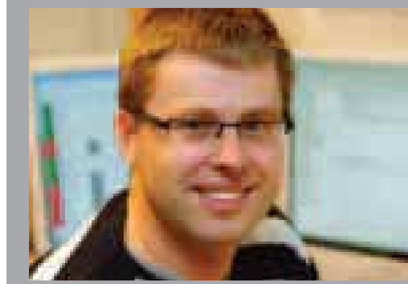
Interaction capital involves the ability to get the employees and organisation to work together internally, and to work with customers externally. This is decisive for our ability to revitalise and add value over time.

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

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

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

INTERVIEW



Ken Rune Nilsen, Vice President, Methods and QA, Kongsberg Spacetec, Tromsø

CREATING IMPROVEMENTS WITH 'AGILE METHODS'

Kongsberg Spacetec has begun to use 'agile' methods to improve its software development process. One agile method is based on employees working in 30-day cycles, with 15-minute project meetings every day, and a four-hour meeting every 30 days that is also attended by the customer. The system allows us to respond swiftly to any changes ordered and to deliver accordingly, rather than in accordance with contract specifications.

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

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

What are agile methods?
Kongsberg Spacetec is part of a national project entitled EVISoft. The project is aimed at improving the software development process, and the methods they employ are called 'agile methods' (Agile Software Development). Projects are built up around individuals and the interaction between them. That gives the individuals in the project more authority and responsibility, focusing on results rather than methods. The methods are customer-centric, and predicated on the understanding that changes are normal and that participants can make change into a useful process, see **http://agilemanifesto.org** for more detailed information.

THE WORLD OF KONGSBERG A BRIEF DESCRIPTION OF THE GROUP'S MAIN OPERATIONS

EUROPE

Norway
Svalbard
England
Greece
Italy
The Netherlands
Romania
Spain
Scotland
Sweden
Germany
Hungary

Number of employees
3 197

Operating revenues
MNOK 3 656

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

Kongsberg Maritime has facilities in Kongsberg, Asker, Horten, Oslo, Kristiansand, Stavanger and Trondheim. All these units engage in development, production, testing, sales and service.

Kongsberg Defence & Aerospace has its main base of activities in Kongsberg, and has facilities in Horten, Billingstad, Kjeller, Stjørdal and Tromsø, and on Svalbard (Spitsbergen). All these operations engage in development, production, testing, sales and support.

Great Britain
With oil activities concentrated in the North Sea, it is natural for Kongsberg Maritime's centre for offshore activities to be located in Aberdeen, Scotland. Product development and the specialised production of underwater cameras takes place at Wick, Scotland. Kongsberg Norcontrol IT has a sales and service office in Bristol.

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

ASIA

India
China
Singapore
South Korea
The United Arab Emirates
Oman
Kuwait

Number of employees
248

Operating revenues
MNOK 1 414

South Korea
Kongsberg Maritime has its main South Korean offices in Pusan. The company's responsibilities are sales, engineering, installation, commissioning and service/support, as well as some local production.

We are building up a local presence and expertise in what has become the world's largest shipbuilding nation. We want our customers to see us as a reliable local supplier that knows the customer's business operations and way of working, and communicates with the customer in his own language. Having well-qualified local employees often also eliminates the need to send staff out from Norway.

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

Singapore has one of the world's largest harbours and is a port of call for hundreds of vessels each day. For an enterprise that has equipment on board more than 15 000 vessels, it is essential to maintain a presence in such a maritime hub. Singapore is also a major shipping and shipbuilding nation, making it essential for Kongsberg Maritime to provide world-class service there.

Kongsberg Norcontrol IT makes significant deliveries to Singapore's vessel traffic monitoring systems, and is also represented there.

China
Kongsberg Maritime's activities in Shanghai are operated in collaboration with Hoi Tung, the company's long-standing partner in China. The intention is to operate as a local supplier to the Chinese shipyard industry. We also have a significant level of local production, mainly of cabinets and the equipment that goes into them. Given China's swiftly growing share of the global shipbuilding market, the company has the potential to become an increasingly important part of our international operations in the merchant marine sector.

India
Kongsberg Process Simulation in Mombay mainly makes simulator software. The scope of the undertaking is expected to increase in 2007, at the same time as the market in India is expected to be interesting for Kongsberg Maritime's other divisions.

NORTH AMERICA

USA
Canada

Number of employees
198

Operating revenues
MNOK 1 418

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

Kongsberg Defence & Aerospace has set up operations in Johnstown, Pennsylvania, to manufacture and maintain the Protector remote weapon system for armoured personnel carriers.

Canada
Kongsberg Maritime's main operation in Canada is located in Vancouver on the west coast. The unit there is engaged in proprietary product development and production. Operations in Vancouver are based on hydroacoustics-related technology, and are an integral part of Kongsberg Maritime's other hydroacoustics activities. In addition, Kongsberg Maritime has offices at two locations on the east coast, i.e. Nova Scotia and Newfoundland. Sales and customer support are provided at all locations.

Kongsberg Defence & Aerospace is represented through the company Gallium Visual Systems Inc. in Ottawa. The company is known for its map graphics tool for military command and control systems.

SOUTH AMERICA

Brazil

Number of employees
0

Operating revenues
MNOK 93

Brazil
Kongsberg Maritime's operations in Brazil are closely associated with REM, its local agent in Brazil. The office handles sales, service and commissioning of offshore vessels, in addition to user training.

Business is booming on the oil fields outside Rio de Janeiro. The shipping industry has grown formidably as the country's political and financial situation has developed. Kongsberg Maritime currently has a number of delivery and commissioning projects in the area that are handled by the local employees.

Kongsberg Maritime's training centre in Macaé near Rio de Janeiro offers a variety of training programmes for Brazilian crew members.

AFRICA

South Africa

Number of employees
7

Operating revenues
MNOK 32

South Africa
Kongsberg Norcontrol IT is represented in Johannesburg and Durban, South Africa, where the company is engaged in software development.

ACTIVITIES IN 2006

The following is a list of KONGSBERG's main goals and achievements in 2006.

What did we say in the 2005 report?	What have we accomplished?	Status	Performance
CORPORATE SOCIAL RESPONSIBILITY			
Expertise and awareness Improve intra-Group expertise and awareness of problems associated with corporate social responsibility	▪ Take advantage of external expertise ▪ Provide in-house information	▪ Arrange meetings with important customers ▪ Build networks ▪ Little done to improve general competency within the Group	☺
Identify challenges Identify the areas in which we face challenges related to corporate social responsibility	▪ Formulate a plan for addressing the challenges ▪ Seek the advice of others who work with similar issues	▪ Plans not drawn up ▪ Advice sought from Statoil	😐
Cooperation Consider cooperating with other organisations on initiatives to promote corporate social responsibility	▪ Study the consequences and identify the obligations inherent in cooperation	▪ KONGSBERG joined the UN's Global Compact initiative in July ▪ Other affiliations will be considered in 2007	☺
THE ENVIRONMENT			
The environment and hazardous chemicals Reduce the use of environment-unfriendly and hazardous chemicals	▪ Establish an interdisciplinary forum at Kongsberg Defence & Aerospace to continue developing environment-friendly designs for products ▪ The consumption of environment-unfriendly and hazardous chemicals at Kongsberg Maritime products is to be surveyed	▪ Forum established. Submitted report on the EU's RoHS directive, with an action plan. ▪ Survey completed	☺
Source separation Reduce residual waste	▪ Sorting residual waste was to be improved by 5% by the end of 2006 compared with the 2005 level. (The reduction must be seen in connection with level of activity in the Group)	▪ Sorting residual waste is going according to plan. Kongsberg Industrial Park has already reached the target of 5% reduction compared with the 2005 level. The percentage of source separation is now more than 65% of the total volume of waste.	☺
Energy Reduce energy consumption	▪ Decrease energy consumption in Kongsberg Industrial Park by 25% by the end of 2008, relative to the 2003 level. ▪ Implement energy conservation measures in respect of KONGSBERG-units outside Kongsberg Industrial Park.	▪ Kongsberg Industrial Park is on schedule with its target of a 25% reduction ▪ Still pending	😐



OBJECTIVES 2007

The following is a list of KONGSBERG's main objectives and activities for 2007.

Objectives	Activities
CORPORATE SOCIAL RESPONSIBILITY	
Strategy for corporate social responsibility Draw up a new strategy that can be integrated into the Group's other strategies	▪ Draw up and incorporate the strategy for corporate social responsibility into the Group's STP document in the early half of the year ▪ Get operative units involved
In-house expertise and external cooperation Improve in-house expertise and reinforce external networks	▪ Implement measures to improve in-house information and involvement ▪ Maintain and build external networks
External evaluation Use external expertise to evaluate the Group's position with a view to corporate social responsibility	▪ An evaluation will be conducted in autumn 2007
In addition to the above, further efforts will be made to achieve objectives from previous years	
ENVIRONMENTAL OBJECTIVES	
Climate measures Continued reduction of the Group's greenhouse gas emissions	▪ Organise a project to assess potential initiatives ▪ Involve employees in brainstorming efforts
Source separation Reduce residual waste	▪ The source separation of residual waste shall be maintained at today's level or better, i.e. 60 per cent of total waste.
Energy Reduce energy consumption (stands firm from 2006)	▪ Decrease energy consumption in Kongsberg Industrial Park by 25% by the end of 2008, relative to the 2003 level. ▪ Implement energy conservation measures in respect of KONGSBERG-units outside Kongsberg Industrial Park. ▪ Energy conservation at Kongsberg Defence & Aerospace
In addition to the above, further efforts will be made to achieve objectives from previous years	


FINANCES AND ADDED VALUE

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

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

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

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

Value added and distribution of profit

Amounts in MNOK	*2006*	*2005*
Operating revenues	6 720	5 791
Payroll and social security expenses	2 326	2 043
Payments to subcontractors	3 500	2 300
Interest to lenders	51	54
Support for organisations and public utility causes	1.8	1.6
Pre-tax operating profit and yield	**390**	**314**
Tax expense	138	99
Profit for the year	252	262
Dividends paid to the shareholders	75	65
Retained earnings	177	19

Payroll and social security expenses

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

Procurement of goods and services

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

Tax expense

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

Amounts in MNOK	*2006*	*2005*
Norway	99	91
Rest of Europe	9	1
North America	4	3
Asia	26	4
Total	**138**	**99**

Operating revenues

Consolidated operating revenues, by geographical area:

Amounts in MNOK	*2006*		*2005*		*2004*	
Norway	1 892	28%	1 920	33%	1 820	31%
Rest of Europe	1 764	26%	1 402	24%	1 854	31%
America	1 512	23%	1 180	20%	1 155	20%
Asia	1 415	21%	1 181	20%	990	17%
Other	137	2%	108	2%	82	1%
Total	**6 720**	**100%**	**5 791**	**100%**	**5 901**	**100%**

Based on the above, we see that a growing percentage of our operating revenues is coming from North America and Asia. This trend is expected to continue.

Dividends

The Board of Directors proposes to the AGM a dividend for 2006 of NOK 2.50 per share. If the proposal is adopted at the AGM on 8 May 2007, dividends will be paid as follows, provided the ownership structure at 1 March does not change:

Amounts in MNOK	*2006*	*2005*
The Norwegian state	37.5	30.2
Organisations/enterprises	17.2	14.2
Securities funds	9.0	10.3
Insurance/pension funds	4.5	3.8
Private individuals	3.8	3.2
Foreign owners	3.0	0.6
A total of	**75.0**	**64.5**

Climatic changes

The UN's Intergovernmental Panel on Climate Change (IPCC) has never been more certain that climatic changes are primarily ascribable to man-made emissions of greenhouse gases. According to researchers on the climate panel, thus far we have seen only the very beginning of climatic changes.

Climate-related challenges have not previously figured on the Group's agenda.

Given the major challenges facing the world as described in the UN's fourth report on the earth's climate situation, the consequences for KONGSBERG will be considered. In 2007, a project will be organised to evaluate climate-related risks and possibilities for KONGSBERG in the short and the long term.

This report presents KONGSBERG's direct CO_2 accounts for the first time. Read more about this on page 139.

Through the Group's aerospace activities, KONGSBERG contributes to conveying satellites into outer space, downloading data from the satellites to Earth and supplying virtually real-time satellite data and services to its customers. The satellites provide important information for studying the global environment and monitoring environmental changes. Read more about this on pages 141-142.

Financial support

KONGSBERG receives no financial support from the government authorities.

DIALOGUE WITH OUR STAKEHOLDERS

The following is a list of the groups of stakeholders with which KONGSBERG maintains an active dialogue:

Our customers

The customer is always the centre of our attention. We aspire to live up to customers' expectations of us. Customers' needs and expectations change constantly. Close dialogue is therefore a prerequisite for success. For several years, we have considered customers to be one of our four core value areas.

Our owners and investors

KONGSBERG's paramount objective is to enhance shareholder value. Transparency and trust are the basis of our dialogue with owners and investors. We strive to ensure that all players are treated equally. Our regular routines and channels are:

- Our website is always up-to-date with a view to investor information.
- We strive to ensure that our annual report always exceeds expectations.
- We have regular routines with a view to market presentations.
- We also make a number of investor presentations in Norway and abroad.

All the Oslo Stock Exchange's disclosure requirements are satisfied. KONGSBERG has earned the Stock Exchange's and distinctions for Good Information as well as for Good English.

Our employees

We emphasise maintaining an open, good dialogue with our employees through different types of committees where corporate management and union representatives meet regularly for briefings and discussion. We have regular works council meetings. Moreover, an annual meeting with corporate management is organised for all shop stewards.

Our suppliers

We collaborate closely with our suppliers. Our buyers are in the front lines of this contact. The corporate Code of Ethics states that suppliers are to be treated impartially and fairly and that they can rest assured that they compete for KONGSBERG contracts on an equal footing with other suppliers. The Group has started setting environmental standards for this group of stakeholders.

Our allies and partners

Both business areas work with numerous partners. They are crucial for product development and market contact. As a niche-player in the defence market, KONGSBERG is sometimes dependent on alliances to ensure market access for its products.

The authorities and society-at-large

A close dialogue with the authorities is essential for ensuring the best possible conditions for KONGSBERG as a player on the international market. The authorities are both the customer and the decision-maker for most major defence procurements. Accordingly, our dialogue with the authorities is based on trust, transparency and honesty. We conduct a close, good dialogue with the social partners. We work actively to make positive contributions to the local communities in which we are heavily represented.

SYSTEMS OF GOVERNANCE FOR CORPORATE SOCIAL RESPONSIBILITY

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

Annual General Meeting (AGM)

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

The Board of Directors

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

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

Corporate management

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

The business areas

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

Environmental Forum

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

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

Corporate Social Responsibility Forum

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

The Forum consists of two representatives of corporate management (EVP, Human Resources, and EVP, Corporate Communications), one representative of each business area and the Group's manager for corporate social responsibility.

For further information about KONGSBERG's governing bodies, see pages 92-103.

INTERVIEW

Jan Petter Sissener, CEO, Kaupthing Norge

CORPORATE SOCIAL RESPONSIBILITY PROMOTES EARNINGS

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

Corporate social responsibility can influence investor behaviour

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

Understanding the differences and acting accordingly presents opportunities and mitigates risk, clearly impacting profitability over time. Thus the ability to recognise, demonstrate and communicate CSR will be one of several factors that influence investor behaviour. Having said that, there is always a chance that ties to a local community or a special interest organisation can be so strong that they will make it difficult and costly to implement well-grounded measures.

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

Measures must be rooted in a company's own culture

Otherwise, words may fail to be translated into deeds. I believe we will see that the companies that manage to produce satisfied, well performing managers and employees will also be the ones to be aware of the role they play in society at large and to take the consequences.

CORPORATE SOCIAL RESPONSIBILITY

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

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

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

POLICY FOR CORPORATE SOCIAL RESPONSIBILITY

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

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

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

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

Ethics – KONGSBERG's employees shall comply with the Group's corporate Code of Ethics, which reflects attitudes that are accepted and expected by the community. The Code of Ethics will be updated to reflect trends in society.

INTERVIEW

Morten Ingebretsen, General Manager, Kongsberg Procurement Center

ESSENTIAL TO BE AWARE OF THE CORPORATE CODE OF ETHICS

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

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

How does KPC follow up KONGSBERG's environmental policy and requirements in respect of suppliers?
KPC requires that suppliers comply with KONGSBERG's environmental policy. This requirement applies to all our suppliers. We have not yet come across any suppliers that have not been willing to comply. Most suppliers have strict environmental standards of their own that are often even stricter than KONGSBERG's.

What else can KONGSBERG do to encourage suppliers to place more emphasis on the environment?
In the tender process, KPC can focus more on environmental standards than on price, for example. That would encourage suppliers to give priority to the environment and to supply products that are environmentally labelled or certified, as that would give them a competitive edge on other suppliers.

KONGSBERG'S CORPORATE SOCIAL RESPONSIBILITY

Within the Group

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

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

External

Sports and culture

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

Humanitarian organisations

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

THE UN'S GLOBAL COMPACT

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

KONGSBERG endorsed the initiative in July 2006. The table below indicates where the ten principles are dealt with in the report.

Human rights

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

Labour standards

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

Environment

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

Transparency and anti-corruption

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

HUMAN RIGHTS

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

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

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

Suppliers

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

Training

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

Discrimination

There have been no reports of episodes or incidents involving discrimination. KONGSBERG's corporate Code of Ethics states that: "We will not tolerate discrimination of any kind, e.g. due to gender, race, religion or sexual orientation".

Child labour and forced and compulsory labour

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

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

GRI	Indicator	Response
SO6	The total value of financial and other contributions to political parties, politicians, etc., by country	KONGSBERG does not make donations of this type.
SO7	Number of public sanctions as a result of breaches of the competition rules and types of sanctions	None
SO8	Fines and number of cases of sanctions as a result of breaches of public legislation and regulations	None

HEALTH, SAFETY AND THE WORKING ENVIRONMENT – HSE

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

Health and safety

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

Formal HSE bodies

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

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

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

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

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

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

Preventative measures

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

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

KONGSBERG has not established special programmes or preventative measures to ensure our employees and their families against severe diseases and epidemics. We adapt to the respective national public health service and supplement it through special corporate agreements as needed. Necessary vaccination programmes, preventative check-ups and emergency preparedness for extraordinary measures are part of our agreement with the company health service. Employees stationed abroad, their families and travelling personnel are given special attention by the company health service.

Formal agreements with the trade union movement

In Norway, many topics related to HSE are covered by formal agreements with the trade union movement and have been integrated for many years. Where this is not enshrined in formal agreements at our foreign undertakings, obviously, all personnel will receive satisfactory training, be issued personal safety equipment and have the right to refuse work they perceive as risky. It is equally natural to have local HSE committees, periodic inspections that include employees' representatives, and a system for reporting defects and deficiencies. Mishaps or accidents will always be investigated to determine the causes and find opportunities for improvement. It is of the essence that employees who are familiar with the duties in question and local conditions take part in these investigations.

Use of security personnel on international operations

Thus far, our international operations have not been of the type where it has been necessary to use special security personnel to ensure employees' safety.

Absence due to illness

Absence due to illness (as a percentage of the total number of working hours) was 2.7 per cent in 2006. This is in furtherance of a favourable trend in recent years, and well below the national average, which was 6.9 per cent at Q3 2006. We believe that the main reason for our low absenteeism is the emphasis placed on a good working environment, interesting work, good development opportunities and ever better follow up of those on sick leave. The number of people on long-term sick leave has also declined in recent years.

The frequency of injuries, occupational diseases, lost days and absence, and the number of work-related fatalities by region

There were 24 work-related accidents reported in the Group in 2006. Seven of them were minor accidents that did not call for any type of treatment or follow up. Twelve were accidents that required medical attention and three were near-accidents that called for follow up. Two accidents were classified as high-risk incidents that led to changes in routines.

No occupational diseases or work-related fatalities were recorded in 2006.

Total work-related accidents entailed 160.5 lost working days involving medical certificates.

The working environment and labour relations

Collective wage agreements

50.2 per cent of the Group's employees are covered by collective wage agreements. Freedom of association and the right to engage in collective bargaining are rights we take for granted, and they apply to all Group units in Norway and abroad. In Norway, this is handled in compliance with legislation and a system of agreements and is related to the Group's long traditions of close cooperation with the trade unions. As regards our foreign operations, our policy is that employees who would like to join unions are welcome to do so. A suitable cooperation structure will be established locally, and the necessary steps will be taken to raise the level of competence among trade union representatives and management.

No cases have been reported involving attempts to set aside the right to freedom of association or collective bargaining.

Local employment

In the local communities in which we operate, we aspire to be perceived as a quality employer and contractor. Each individual location hires people locally with the assistance of local managers. During the establishment phase, we have largely opted to use Norwegian managers at our international locations. Once routines are in place, our policy is to employ more local managers.

Starting salary

Before stipulating a starting salary, we investigate salary levels at comparable companies. Salaries are then stipulated on the basis of the prevailing competitive conditions. Our starting salaries are generally about the market average. We have operations in several countries with rapid economic growth. This also places pressure on the cost of labour.

Continuing education and senior policy

The Group offers an extensive range of further and continuing education through a combination of internal and external programmes and courses. These include technical courses as well as management development measures. KONGSBERG's employees should be able to move laterally as well as vertically throughout the Group. The Group also offers courses for seniors approaching retirement age.

Programmes related to the prevention of serious diseases

	Education/Practice		Consultancy		Preventative		Treatment	
Participant	*Yes*	*No*	*Yes*	*No*	*Yes*	*No*	*Yes*	*No*
Colleague	▪		▪		▪		▪	
Employee's family in general		▪		▪		▪		▪
Employee's family when stationed abroad	▪		▪		▪		▪	
Local population		▪		▪		▪		▪

DIVERSITY

KONGSBERG's corporate Code of Ethics as well as its endorsement of the UN's Global Compact Initiative, establishes that all individuals are created equal and that KONGSBERG will not tolerate discrimination of any kind. KONGSBERG's corporate Code of Ethics provides a value platform which applies to all employees, regardless of where in the world they work.

This is essential in a Group in which we strive for rich diversity to ensure the best possible decisions. This, in turn, should help improve the Group's competitiveness and goal achievement.

Our definition of diversity embraces variations in education, culture, nationality, gender and age.

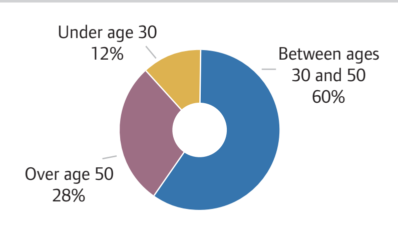
About 19 per cent of the Group's employees are women. It is a regrettable fact that few women choose to specialise in our main technical segments. The percentage of women among all those recruited in 2006 was 22 per cent, which is about the same as the percentage of women specialising in the fields most important to us. Women occupy 12 per cent of our managerial positions.

We have locations in 24 countries. KONGSBERG's employees include about 30 different nationalities.

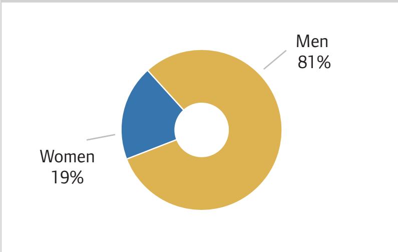
Competency is an important platform for KONGSBERG's business activities, and the Group has widely diverse expertise. We consider this to be a precious asset. Most technical disciplines are represented, and level of education ranges from guild certificates to PhDs. Competence is also acquired through including apprenticeship schemes, and on-the-job training and courses. Moreover, we have an immense diversity of complementary competencies in non-technical disciplines such as finance, law and management. This means we can set up interdisciplinary teams with cutting edge as well as broad competence adapted to the needs of different projects.

We strive for a balanced age distribution among our employees. Employees' average age was 42.5 years at year end, and there is a balanced distribution in the various age groups. Our youngest employees are apprentices and our oldest are just short of 70. We see good results from teams that combine long experience with fresh theory, and youthful vitality with mature prudence.

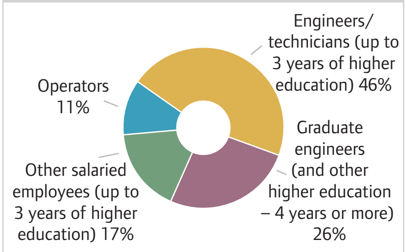
Employees, by age



Employees, by gender



Employees by level of education



ETHICS

KONGSBERG's attitudes to ethics

KONGSBERG's corporate Code of Ethics emphasises that all employees and the Group's Board of Directors shall maintain high ethical standards when performing their duties. Our Code of Ethics is first and foremost a tool designed to govern corporate conduct and culture. It is also distributed to all our partners and agents, and attached to all our contracts. We expect our partners, agents and contract partners to maintain the same high ethical standards as we expect of ourselves.

Working with ethics

Dedicated efforts have been made to implement the corporate Code of Ethics throughout the entire Group. The target for 2006 was that all Group employees were to complete the ethics programme. At year end, all Norwegian units had completed the programme, but some units outside Norway still remain. The programme will be conducted at the remaining units in 2007.

Altogether, about 2 800 co-workers have completed the programme. This accounts for more than 75 per cent of the Group's employees.

It is important to maintain and further develop the ethics programme, sustaining employees' interest and keeping the discussions going. Our work with ethics is a continuous process.

The Ethics Council

The Ethics Council had two meetings in 2006. At one of the meetings, two new ombudsmen were appointed as employee representatives on the Ethics Council. Breaches or suspected breaches of the corporate Code of Ethics should be reported to one's immediate superior. If that does not achieve the desired response, they should be reported to the next level in the organisation. Alternatively, employees can contact one of KONGSBERG's two ombudsmen. The ombudsmen put the cases before the Ethics Council. The last recourse for notification is the corporate Board of Directors. There were no reports of breaches or suspected breaches of the Code of Ethics in 2006.

KONGSBERG is opposed to corruption

KONGSBERG is opposed to all forms of corruption. Our attitudes to corruption are clearly expressed in KONGSBERG's corporate Code of Ethics and our support for the UN Global Compact. We work actively in both BAs to address issues relating to corruption. Both BAs operate in markets that are susceptible to corruption.

GRI	Indicator	Response
SO2	Total number and percentage of business areas where there have been risk assessments devoted to the issue of corruption	Both our business areas operate in markets defined as being susceptible to corruption. Active efforts are made to mitigate this risk.
SO3	Percentage of employees who have completed anti-corruption programmes	Roughly 2 800 of our employees have completed the Group's ethics programme, in which one of the topics is corruption. This accounts for 75–80 per cent of all employees.
SO4	• The number of employees who have lost their jobs or been reprimanded for breaching the anti-corruption provisions • Number of contracts not signed or renewed because business associates have breached the Group's anti-corruption provisions.	• None • None

THE ENVIRONMENT

KONGSBERG'S RESPONSIBILITY FOR THE OUTDOOR ENVIRONMENT

The Group works systematically to report data associated with energy consumption, waste treatment and the consumption of chemicals. This data makes it easier for us to remain cognisant of the challenges we face, allowing us to initiate improvement measures.

At the international level, the media attention devoted to global warming increased conspicuously in 2006. The Group's ordinary business activities cause little pollution of the outdoor environment. This year's report presents CO_2 accounts for the first time. This is the first step in a process that will enable us to determine what we can contribute to the efforts to stem climatic change.

The limitations of the report

- We report only on companies in which KONGSBERG owns 50 per cent or more.
- The environmental data encompasses all our Norwegian units, as well as all our production units and some offices abroad.
- The report does not include the following companies: Fantoft Process Technologies AS, Sense Intellifield AS, Kongsberg Defence Corp, Inc. These companies were acquired or founded in 2006, and will be an integral part of the report for the first time in 2007.

ENVIRONMENTAL POLICY

KONGSBERG aspires to be a responsible corporation in terms of how its activities impact the environment. This means we will strive to keep our direct influence on the environment to a minimum.

Employees – KONGSBERG strives to raise awareness and to get the organisation and individuals involved in environmental issues.

Stakeholders – KONGSBERG cooperates on environmental and safety issues with customers, partners and suppliers to find the most environment-friendly solutions possible in the short- and the long-term perspectives.

Products – Product development, production, distribution, and the use and re-use of KONGSBERG products shall be compatible with sustainable social development. KONGSBERG will strive to minimise product-related environmental burdens.

Information – KONGSBERG will maintain an open dialogue on environmental issues with the communities in which it operates. Naturally, KONGSBERG will be in full compliance with legislation and regulations. KONGSBERG will prepare and update environmental information on a regular basis, reporting on all significant environmental issues related to the Group. KONGSBERG will make this information available in printed form and on the Group's website at www.kongsberg.com.

Organisation – KONGSBERG's environmental policy will form a general framework for our environmental efforts. Responsibility for setting objectives, and the implementation and evaluation of environmental efforts rests with the individual business area and company. Systems, inspections and reporting routines will be adapted continuously to ensure that efforts in this area proceed in a satisfactory manner.

INTERVIEW

Siri Kalvig, Meteorologist and Offshore Marketing Manager, Storm Weather Center

THE NEED FOR A SUSTAINABLE WAY OF LIFE AND TECHNOLOGICAL INNOVATIONS

How serious are the climatic changes facing us?
Very serious indeed. The most recent report from the UN's climate panel emphasises that. This is the gravest threat ever against civilisation as we know it. Scientists say that stabilising the global temperature at a level we can tolerate, i.e. an average of about two degrees higher, will require a 50 to 80 per cent reduction in CO_2 emissions by 2050, compared with the 1990-level. Given that scientists are considering a scenario with a rise of as much as 6 degrees, the situation is very, very grave indeed.

Earth now has such huge population that we obviously need to achieve a more sustainable way of life. Access to energy is decisive. The solution must is lie in our way of life and technological innovations. However, we need more technologists and scientists for that.

What can Norwegian enterprises do to improve the situation?
We must be far more aware of the fact that meetings call for travel by air or car. Videoconferencing is a good alternative. For example, simply skipping one trip from Oslo to Amsterdam would reduce CO_2 pollution by 125 kg per person. It would also save a lot time and travel expenses.

When travel is necessary, companies should choose alternatives that are climate-neutral. For example, we can pay a CO_2 tax or buy pollution credits, where payments go to CO_2 reduction measures in developing countries.

What can KONGSBERG do to help?
I am familiar with KONGSBERG only through its products for aerospace and satellite technology. The Storm Weather Center uses satellites in which KONGSBERG is indirectly involved to forecast the weather reliably. The data can also be used to track environmental changes, as seen from outer space. Generally speaking, the data KONGSBERG helps provide is incredibly important for understanding nature, and for our ability to stand in awe of the fantastic diversity of our planet.

ENVIRONMENTAL ACCOUNTS

The environmental accounts give an overview of KONGSBERG's consumption of energy and chemicals and its production of waste.

WASTE

KONGSBERG generates waste from production and from office activities. Waste volumes are part of KONGSBERG's in-house environmental reporting. The report covers generated waste broken down by category of waste, and waste for recycling divided into recycling fractions. Our property company makes efforts to increase source separation among the companies located in Kongsberg Industrial Park.

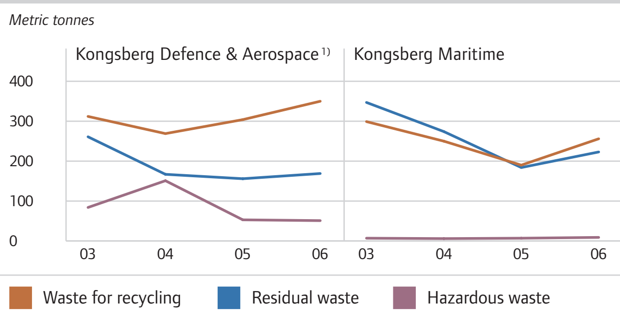
Kongsberg Defence & Aerospace	Kongsberg Defence & Aerospace has had steady growth in the volume of waste for recycling over the past three years, while the volume of residual waste and hazardous waste remained constant over the past year. Examining the recycling fractions separately, however, it becomes clear that EE waste and paper/cardboard are the only fractions increasing steadily. The recycling of metal and timber fluctuate more as they depend more on clean-up campaigns and the like. Plastic accounts for a small part of aggregate recycled waste.
Kongsberg Maritime	Kongsberg Maritime has seen an increase in waste for recycling and the volume of residual waste over the past year. This is mainly due to higher sales. This trend is reflected in all recycling fractions except for plastic. The decline in the recycling of plastic is ascribable to erroneous reporting last year.

ENERGY

KONGSBERG consumes energy in connection with production and office activities. The Group consumes energy derived from electricity, district heating, gas and oil. The district heating facility at Kongsberg Industrial Park supplies energy to several companies in the Group. Energy consumption is part of KONGSBERG's in-house environmental reporting. The district heating data includes KONGSBERG's own and external facilities. In respect of the companies located in Kongsberg Industrial Park and throughout the Group, our property company strives to reduce energy consumption and to convert to alternative energy sources.

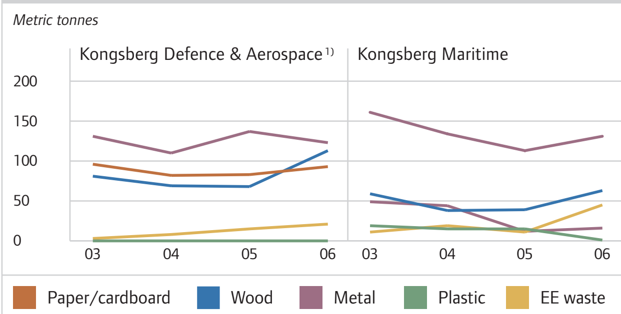
Kongsberg Defence & Aerospace	Kongsberg Defence & Aerospace saw an increase in energy consumption over the past year. This is because three new units were added to the environmental accounts. Looking at energy consumption relative to the number of employees or operating revenues, energy consumption declined over the past year.
Kongsberg Maritime	Kongsberg Maritime saw an increase in energy consumption over the past year. This is due to higher sales which have, in turn, resulted in more employees and the use of more space[1]. Looking at energy consumption relative to the number of employees or operating revenues, energy consumption declined over the past year.

Waste generated by business area by type of waste



1) Waste from the administration in Kongsberg Industrial Park, as well as from the corporate staff, is included under Kongsberg Defence & Aerospace.

Waste for recycling by business area by recycling fraction



1) Waste from the administration in Kongsberg Industrial Park, as well as from the corporate staff, is included under Kongsberg Defence & Aerospace.

CHEMICALS

KONGSBERG uses environment-unfriendly and hazardous chemicals in certain parts of its production. The consumption of chemicals is part of KONGSBERG 's in-house environmental reporting.

Kongsberg Defence & Aerospace	The consumption of chemicals mainly takes place at Kongsberg Protech and Kongsberg Defence & Aerospace in Kongsberg. Consumption was somewhat less than last year due to lower activity in the areas that use chemicals.
Kongsberg Maritime	The consumption of chemicals increased relative to 2005. The data in the reports is excerpted from information on the purchase of chemicals. As chemicals are bought in large quantities, there are formidable fluctuations in the reported data from year to year. The increase in the consumption of chemicals is also attached to higher revenues in 2006.

CO_2 accounting

Direct emissions of CO_2 originate from the combustion of oil at Kongsberg Industrial Park's district heating plant. This facility delivers district heating to three KONGSBERG enterprises in the Industrial Park as well as the corporate staff and Industrial Park itself. Altogether, this facility discharges 3 547 metric tonnes CO_2/year.

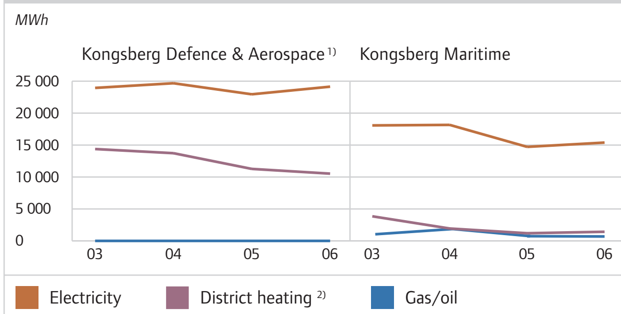
Company	*litres of heavy oil per year*	*metric tonnes CO_2 per year*
Kongsberg Defence & Aerospace	711 750	2 364
Kongsberg Protech	169 615	563
Kongsberg Maritime (Carpus)	96 030	319
Kongsberg Industrial Park/Property	74 108	246
Kongsberg Gruppen ASA	16 293	54
Total	**1 067 797**	**3 547**

Energy consumption

KONGSBERG's energy consumption increased over the past year. This is related to the company's increased revenues. However, energy consumption per employee decreased from 2005 to 2006. The table below illustrates the trend in energy consumption over the past two years, compared with operating revenues and number of employees at Kongsberg Maritime and Kongsberg Defence & Aerospace.

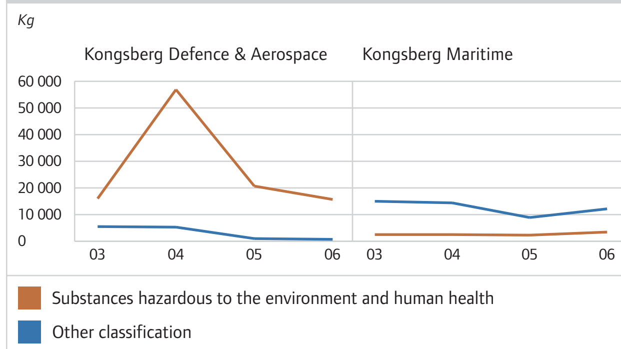
	Energy consumption (MWh/per employee)		*Energy consumption (MWh/MNOK operating revenue)*	
	2005	*2006*	*2005*	*2006*
Kongsberg Defence and Aerospace	16.2	15.6	8.7	8.1
Kongsberg Maritime	7.9	7.7	4.9	4.3

Energy consumption by business area by energy source



1) Energy consumption from administration in Kongsberg Industrial Park, as well as from the corporate staff, are included under Kongsberg Defence & Aerospace.
2) As from 2004, this figure refers solely to water-borne district heating. Other contributions are reported under gas/oil.

The consumption of chemicals by business area, by classification[1)]



1) Based on classification in CAS, the figures should be considered to be estimates.

THE ORGANISATION OF ENVIRONMENTAL EFFORTS

Responsibility
The Board bears the ultimate responsibility for the Group's impact on the environment. This includes the Group's commitment to establishing management and control systems and to organising environmental efforts.

KONGSBERG's environmental policy has been adopted by the Board. Corporate management is responsible for ensuring compliance and for setting and following up environmental goals, as well as for compliance with legislation and regulations.

The Group has established an environmental forum to coordinate its environmental efforts.

The operative and routine responsibility rests with the management of the various companies and units in the Group.

Follow up
The Group's Sustainability Report is submitted to and discussed by the Board.

Twice a year, reports are drawn up to describe the status of the Group's work with environmental and corporate social responsibility. The report is also submitted to corporate executive management.

The Environmental Forum, consisting of representatives of all main units in the Group, meets on an *ad hoc* basis. The Forum follows up the Group's environmental goals and helps facilitate environmental measures.

Environment-related problems are otherwise dealt with by the respective department managers in the operative units. Management is required to report any serious incidents to corporate management. One incident was reported in 2006. In connection with excavation work at Kongsberg Industrial Park, an oil tank was perforated, resulting in a spill of approx. 12 000 litres of light fuel oil. The polluted mass was removed and delivered to an approved landfill. The episode was reported to the authorities.

Environmental management
With the exception of Fantoft Process Technologies and Sense Intellifield, all Kongsberg Maritime's wholly-owned undertakings in Norway have earned environmental certification under ISO 14001.

Fantoft Technologies will be incorporated into Kongsberg Maritime AS in 2007. Thus the company will be part of Kongsberg Maritime AS by the next recertification.

Kongsberg Defence & Aerospace has not thus far opted to seek environmental certification pursuant to ISO 14001.

International presence
The Group has a number of companies outside Norway. Since these companies operate under different national and local regimes, there will be differences in their environmental approaches, depending on where they are located. Notwithstanding, our environmental policy applies to all units of the Group. Our companies therefore strive to be on their best possible environmental behaviour, given the local opportunities available.

Supplier standards
KONGSBERG uses a total of approx. 3 000 suppliers. They account for a very large, important contribution to the Group's value chain. It is important to us that our suppliers have an attitude to environmental issues that is commensurate with the expectations of society as well as KONGSBERG. We consider it an advantage that our suppliers have an explicit environmental policy and an established environmental management system.

We will follow up our suppliers by providing our environmental standards in our standard terms of business, in connection with quality audits of suppliers and through regular surveys.

Property
The Group's property company is responsible for source separation and the collection of rubbish at Kongsberg Industrial Park, where there are about 5 000 employees. Of that number, about 2 000 are employed by KONGSBERG.

All new projects will be conducted in accordance with the amendment to the technical provisions adapted to EU Directive 2002/91/EU. The directive's objective is to reduce energy consumption in old and new buildings. The use of alternative energy carriers will be considered in connection with new projects and biofuel may be an option.

KONGSBERG HELPS PROVIDE FASTER, BETTER INFORMATION ON CLIMATE CHANGE

Data from satellites help give the researchers who compiled the UN's Climate Report more and better observations of the climate and climate change. KONGSBERG contributes to this in several ways, e.g. by providing equipment and expertise in the satellites per se to control the satellites and to download data from satellites to ground stations on Svalbard, in Tromsø, in Grimstad and on Antarctica.

The UN Climate Report states clearly that we have only seen the beginning of the climate change. The average global temperature is on the rise. Glaciers, snow cover and permafrost are diminishing.

The ocean temperature and water level are increasing, and the pace of change is gaining momentum. One sign of this is that we increasingly often and with ever more intensity are experiencing extreme weather such as floods, heat waves and severe droughts.

Serious consequences
The researchers on the UN's Climate Panel who have compiled the UN Climate Report have never been more certain that these climate changes are primarily ascribable to human emissions of greenhouse gases. Depending on future pollution trends, researchers have calculated that the earth could become 1.1–6.4°C warmer by 2100. This will have dramatic consequences for life on land and in the sea. Anthropogenic climate changes represent the most serious challenge of our time. The UN's Climate Panel states this explicitly in the UN's fourth environmental report.

The European Space Agency (ESA) and the EU have signed a collaboration agreement for a joint programme they have called Global Monitoring for Environment and Security (GMES) to ensure access to more and better observations of climate trends. The goal of the programme is to ensure access to environmental data on a global, regional and local basis. GMES will focus on global changes, environmental encroachments and catastrophes, natural as well as man-made, using satellites, aircraft and ground-based infrastructure.

GMES encompasses recently developed and already initiated and operative systems such as ENVISAT and the MetOp satellites, and is already contributing to the production of large volumes of valuable data on climate change. KONGSBERG is Norway's largest supplier to ESA, the European Space Agency.

Deliveries to ENVISAT and MetOp
ENVISAT is the largest, most advanced Earth observation satellite launched to date. KONGSBERG has supplied the reference unit for one of the 12 instruments on ENVISAT that provides information

Envisat has been observing Earth since 2002.

The UN's Intergovernmental Panel on Climate Change (IPCC)
- The UN's Intergovernmental Panel on Climate Change (IPCC) was founded in 1988 by the UN Environmental Programme (UNEP) and the World Meteorological Organisation (WMO).
- The reports presented by the UN's Climate Panel are considered the most important technical platform for international climate policy.
- The three earlier assessment reports were presented in 1990, 1995 and 2001.

about how much oxygen and ozone, for example, there are in different strata of the Earth's atmosphere. KONGSBERG has also supplied about 50 per cent of the satellite structure for the earth observation satellite. It consists of composite panels made of carbon fibre. Using ENVISAT, researchers can study weather, climate, pollution, land and sea territories, grazing resources for animals and many other important areas.

MetOp is the world's most advanced weather and climate satellite. Successfully launched into orbit in October 2006, the satellite will begin generating weather and climate data for meteorologists and climate researchers in early April 2007. Kongsberg Spacetec has supplied receivers and processing systems for MetOp. The equipment is installed on Svalbard in the Arctic and in Darmstadt, Germany. Kongsberg Defence & Aerospace has delivered mechanisms to unfold the antennae on the wind radar and the receiving unit for the instrument that measures temperatures and humidity in the troposphere and the lower stratosphere.

Kongsberg Satellites Services' facility on Svalbard is the control station for the ENVISAT and MetOp satellites that pass over the poles approx. every 101 minutes. All data from the satellites is downloaded to antennae on Svalbard and then transmitted by Kongsberg Satellite Services in Tromsø to EUMESAT headquarters in Darmstadt, Germany.

Real-time data on our planet's state of health

Besides MetOp and ENVISAT, ESA is in the process of developing a new series of satellites called Sentinel for the GMES programme. These satellites will be supplying real-time satellite data from environmental surveillance of land, sea, atmospheric and ice areas. KONGSBERG will be participating in this project, and has established a good dialogue with ESA.

KONGSBERG also supplies equipment and services to a variety of space programmes. Aerospace research is the environmental research of the future, providing knowledge about the geological history and future of our planet.

The fourth assessment report

The IPCC's fourth assessment report was published in 2007. The report consists of four sub-reports:

1. The physical science basis of climate change
2. The effects of climate change on nature and society and adaptive measures
3. Measures and instruments to counter climate change and reduce emissions of greenhouse gases
4. A Synthesis Report that collocates the conclusions of the three sub-reports about the questions most relevant for the framing of future climate policy.

- In the six years since the preceding assessment report, more than 2 500 of the world's leading climate researchers from some 130 countries have reviewed and summarised climate research.
- Earlier reports have formed the basis for the Kyoto Protocol, among other important documents.

THE GLOBAL REPORTING INDEX (GRI)

The following matrix offers an overview of the GRI indicators, with references to the relevant pages in this report. The individual indicators are described in simple terms and very briefly. For more information, please see KONGSBERG's website at: www.kongsberg.com

NR - Not relevant
NA - Not addressed
PA - Partially addressed
ID - Insufficient data

Indicator		See page(s)
	Profile	
1	**Strategy and Analysis**	
1.1	Statement from the most senior decision-maker of the organization about the relevance of sustainability to the organization and its strategy	6 (PA)
1.2	Description of key impacts, risks, and opportunities in relation to sustainability	NA
2	**Organizational Profile**	
2.1	Name of the organization	1
2.2	Primary brands, products, and/or services	8–10, 68–89
2.3	Operational structure of the organization	1
2.4	Location of organization's headquarters	8–33
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	120–121
2.6	Nature of ownership and legal form	33, 108
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	70–77, 82–89
2.8	Scale of the reporting organization, including: Number of employees; Net sales (for private sector organizations) or net revenues (for public sector organizations); Quantity of products or services provided	1–3, 111, 116
2.9	Significant changes during the reporting period regarding size, structure, or ownership	NA
2.10	Awards received in the reporting period	NA
3	**Report Parameters**	
	Report profile	
3.1	Reporting period for information provided	
3.2	Date of most recent previous report	
3.3	Reporting cycle	
3.4	Contact point for questions regarding the report or its contents	
	Report scope and boundary	
3.5	Process for defining report content	NA
3.6	Boundary of the report	115
3.7	State any specific limitations on the scope or boundary of the report	NA
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations	NA
3.9	Data measurement techniques and the bases of calculations	NA

Indicator		See page(s)
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	NA
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	NA
	GRI content index	
3.12	Table identifying the location of the Standard Disclosures in the report	143–145
	Assurance	
3.13	Policy and current practice with regard to seeking external assurance for the report	115
4	**Governance, Commitments, and Engagement**	
4.1	Governance structure of the organization, including committees under the highest governance body	92
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	97
4.3	State the number of members of the highest governance body that are independent and/or non-executive members	97
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	NA
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives and the organization's performance	55, 100 (PA)
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	99
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environmental, and social topics	NA
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	137, 129, 135
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance	NA
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	NA
	Commitments to external initiatives	
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organization	130 (PA)
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses	130

Indi-cator		See page(s)
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizatons in which the organization: Has positions in governance bodies; Participates in projects or committes; Provides substantive funding beyond routine membership dues; or Views membership as strategic	NA
	Shareholder engagement	
4.14	List of stakeholder groups engaged by the organization	126
4.15	Basis for identification and selection of stakeholders with whom to engage	126 (PA)
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	126 (PA)
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	NA
	Economic Performance Indicators	
	Economic performance	
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	125
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	126 (PA)
EC3	Coverage of the organization's defined benefit plan obligations	NA
EC4	Significant financial assistance received from government	126
	Market presence	
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	133
EC6	Policy, practices, and proportion of spending on locally-based suppliers at signifiant locations of operation	125 (PA)
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	133 (PA)
	Indirect economic ipmpacts	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	NA
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts	NA
	Environmental Performance Indicators	
	Materials	
EN1	Materials used by weight or volume	138–139 (PA)
EN2	Percentage of materials used that are recycled input materials	NA
	Energy	
EN3	Direct energy consumption by primary energy source	138–139
EN4	Indirect energy consumption by primary source	138–139
EN5	Energy saved due to conservation and efficiency improvements	122
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	NA
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	NA
	Water	
EN8	Total water withdrawal by source	NA
EN9	Water sources significantly affected by withdrawal of water	NA
EN10	Percentage and total volume of water recycled and reused	NA
	Biodiversity	
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	NA

Indi-cator		See page(s)
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	NA
EN13	Habitats protected or restored	NA
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	NA
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	NA
	Emissions, effluents and waste	
EN16	Total direct and indirect greenhouse gas emissions by weight	139
EN17	Other relevant indirect greenhouse gas emissions by weight	NA
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved	NA
EN19	Emissions of ozone-depleting substances by weight	NA
EN20	NO, SO, and other significant air emissions by type and weight	NA
EN21	Total water discharge by quality and destination	NA
EN22	Total weight of waste by type and disposal method	138
EN23	Total number and volume of significant spills	140 (PA)
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	NA
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff	NA
	Products and services	
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	NA
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	138 (PA)
	Compliance	
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations	140 (PA)
	Transport	
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce	NA
	Overall	
EN30	Total environmental protection expenditures and investments by type	NA
	Labor Practices and Decent Work Performance Indicators	
	Employment	
LA1	Total workforce by employment type, employment contract, and region	116 (PA)
LA2	Total number and rate of employee turnover by age group, gender, and region	116 (PA)
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	NA
	Labor/management relations	
LA4	Percentage of employees covered by collective bargaining agreements	133
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	NA
	Occupational health and safety	
LA6	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs	132
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region	133

Indi-cator		See page(s)
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	132
LA9	Health and safety topics covered in formal agreements with trade unions	132 (PA)
	Training and education	
LA10	Average hours of training per year per employee by employee category	NA
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	133 (PA)
LA12	Percentage of employees receiving regular performance and career development reviews	NA
	Diversity and equal opportunity	
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	116 (PA)
LA14	Ratio of basic salary of men to women by employee category	NA
	Human Rights Performance Indicators	
	Investment and procurement practices	
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	NA
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	131
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	131
	Nondiscrimination	
HR4	Total number of incidents of discrimination and actions taken	131
	Freedom of association and collective bargaining	
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	NA
	Child labour	
HR6	Operations identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor	131
	Forced and compulsory labor	
HR7	Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	131
	Security practices	
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights that are relevant to operations	133
	Indigenous rights	
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	NA
	Society Performance Indicators	
	Community	
SO1	Nature, scope, and effeectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting	NA
	Corruption	
SO2	Percentage and total number of business units analyzed for risks related to corruption	135 (PA)
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures	135
SO4	Actions taken in response to incidents of corruption.	135 (PA)
	Public policy	
SO5	Public policy positions and participation in public policy development and lobbying	126 (PA)
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	131

Indi-cator		See page(s)
	Anti-competitive behavior	
SO7	Total number of legal actions for anticompetitive behavior, anti-trust, and monopoly practices and their outcomes	131
	Compliance	
SO8	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations	131
	Product Responsibility Performance Indicators	
	Customer health and safety	
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	NA
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	NA
	Product and service labeling	
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	NA
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes	NA
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	NA
	Marketing communications	
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	NA
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	None
	Customer privacy	
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	None
	Compliance	
PR9	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	None

Source: GRI

Kongsberg – Annual Report and Sustainability Report 2006

CONNECTIONS BETWEEN PROFIT CENTRES/DIVISIONS AND PRODUCTS

Kongsberg Defence & Aerospace

Missiles & Space
- Penguin anti-ship missiles
- Naval Strike Missile (NSM)
- Aerospace mechanisms
- Advanced composite materials
- Systems to download satellite data to ground stations
- Meteorological systems for presenting satellite data

Naval Systems
- Command/control systems for surface vessels (frigates, missile torpedo boats, minehunting vessels)
- Command/control systems for submarines

Integrated Air Defence Systems
- Command/control systems for air defence (ground-to-air)
- Anti-aircraft launchers (launch platforms)

Land Systems & Surveillance
- Simulation and training
- Software for surveillance aircraft
- Command/control systems for army applications
- Kongsberg Norcontrol IT - surveillance systems

Defence Communication
- Tactical mobile communication networks
- Military VHF radios (MRR, LFR)
- Dedicated networks

Dynamic Systems
- Weapon stations (RWS)
- Engineering production for demanding applications, primarily offshore
- Helicopter maintenance

Kongsberg Maritime

Sales, marketing and international operations
- Central sales and marketing function, and field offices, except for China and South Korea.

Offshore & Marine
- Automation systems for cargo management and machinery
- Navigation systems
- Automation systems for platforms
- Automation systems for LNG
- Dynamic positioning systems
- Electronic log books
- Companies in China and South Korea

Process Automation
- Process automation systems for platforms and offshore vessels
- Fantoft Process Technologies

Subsea
- Hydroacoustic systems
- Seabed surveying
- Underwater vehicles
- Seafloor reference systems for dynamic positioning
- Sonars
- Fish finding and research products
- Sonars and echosounders
- Advanced underwater cameras

Positioning
- Motion sensors for dynamic positioning
- Measurement and positioning systems for drill strings
- AIS – Automatic Identification System

ADDRESSES

Kongsberg Gruppen ASA
Kirkegårdsveien 45
P.O. Box 1000
NO-3601 Kongsberg
Norway
Telephone: +47 32 28 82 00
Telefax: +47 32 28 82 01
Website: www.kongsberg.com
E-mail: office@kongsberg.com
Org. no. 943 753 709

Kongsberg Maritime AS
Kirkegårdsveien 45
P.O. Box 483
NO-3601 Kongsberg
Norway
Telephone: +47 32 28 50 00
Telefax: +47 32 28 50 10
E-mail: km.office@kongsberg.com

Kongsberg Defence & Aerospace AS
Kirkegårdsveien 45
P.O. Box 1003
NO-3601 Kongsberg
Norway
Telephone: +47 32 28 82 00
Telefax: +47 32 28 86 20
E-mail: kda.office@kongsberg.com

Kongsberg Næringspark AS
Kirkegårdsveien 45
P.O. Box 1001
NO-3601 Kongsberg
Norway
Telephone: +47 32 28 82 50
Telefax: +47 32 28 83 00
E-mail: knp.firmapost@kongsberg.com

FINANCIAL CALENDAR 2007

Annual General Meeting
The ordinary Annual General Meeting will be held on Tuesday, 8 May 2007, at 2 p.m. Venue: The Conference Centre, Kongsberg Industrial Park, Kongsberg

The dividend will be paid out on 22 May 2007

Presentation of quarterly results
Q1: 8 May
Q2: 14 August
Q3: 22 October

If you have views on or questions related to this report or the topics discussed in it, please contact Nils Molin, head of corporate social responsibility at Kongsberg at *nils.molin@kongsberg.com*
Otherwise, you are invited to follow along with the Group's development at www.kongsberg.com

Text
Kongsberg Gruppen,
Bernt Bangstad (BearingPoint Norway),
Kathrine Kirkevaag (Godt Sagt Kommunikasjon)

Concept and design
Anisdahl, Sand & Partnere

Print
Mediehuset GAN

Photos
Tommy Normann, Tor Aas-Haug, Bård Ek, Getty Images, Dag Myrestrand (Statoil), Solstad Offshore, Ole Musken, Jørn Grønlund, Scanpix, Nils Molin, Bjørn-Owe Holmberg, Den europeiske romfartsorganisasjonen (ESA), ESA/J. Huart, Patric Wittnanna.

Translation to English
Linda Sivesind, Informatic Translations

Disclaimer
In the event of any discrepancy between the Norwegian and English versions of Kongsberg's Annual Report, it is the Norwegian version that is valid.

KONGSBERG GRUPPEN ASA

P.O. Box 1000
NO-3601 Kongsberg
Norway
Telephone: +47 32 28 82 00
Telefax: +47 32 28 82 01
E-mail: office@kongsberg.com

www.kongsberg.com