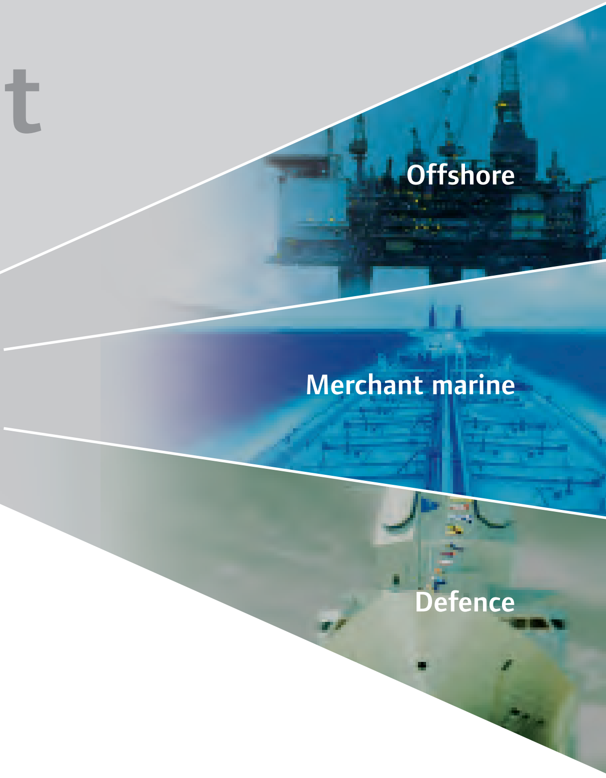
Annual Report 2005

KONGSBERG

Our most important markets

Advanced technology in complex systems



Kongsberg

Kongsberg Gruppen (Kongsberg) primarily targets offshore, merchant marine and defence markets. The bulk of the Group's activities address the international arena, with Europe, the USA, the Middle East and Asia as the most important markets.

Kongsberg Gruppen ASA

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

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Key figures

- Improved profits
- Strong market for offshore and merchant marine
- Yachting segment sold - focus on core activities

Amounts in MNOK		*2005[1)]*	*2004[2)]*	*2004[3)]*	*2003[3)]*	*2002[3)]*	*2001[3)]*	*2000[3)]*	*1999[3)]*
Operations									
Operating revenues		5 705	5 814	6 439	6 651	6 980	6 176	5 296	4 412
– Civilian	%	58	53	58	54	62	63	64	73
– Outside Norway	%	67	69	71	76	72	74	74	62
Earnings before interest, tax and amorisation (EBITA)		360	221	223	383	485	437	287	249
EBITA margin	%	6.3	3.8	3.5	5.8	6.9	7.1	5.4	5.6
Profit before tax		311	179	85	190	291	191	188	205
Net profit/(loss) for the year		262	118	37	125	216	123	(56)	233
Backlog of orders		5 416	5 425	5 425	5 913	5 143	6 401	6 610	4 258
Number of employees		3 372	3 495	4 017	4 176	4 208	4 012	3 765	3 382
Owner's value									
Market capitalisation		3 720	2 970	2 970	3 180	2 715	2 895	2 550	3 780
Earnings per share after tax in NOK		8.70	4.03	1.38	4.23	7.21	4.18	(1.86)	8,84
P/E		14.25	24.57	71.74	25.06	12.55	23.09	-	16.22
Equity ratio	%	23	26	30	30	31	27	26	37
Equity		1 505	1 626	1 812	1 830	1 741	1 538	1 406	1 490
Dividends		2.15	2.00	2.00	1.30	2.10	0.00	0.00	2.25

Amounts in MEUR (NOK/EUR = 7.9850)	*2005[1)]*	*2004[2)]*	*2004[3)]*	*2003[3)]*	*2002[3)]*	*2001[3)]*	*2000[3)]*	*1999[3)]*
Operations								
Operating revenues	714	728	806	833	874	773	663	553
Earnings before interest, tax and amortisation (EBITA)	45	28	28	48	61	55	36	31
Profit before tax	39	22	11	24	36	24	24	26
Owner's value								
Earnings per share after tax in EUR	1.09	0.50	0.17	0.53	0.90	0.52	(0.23)	1.11

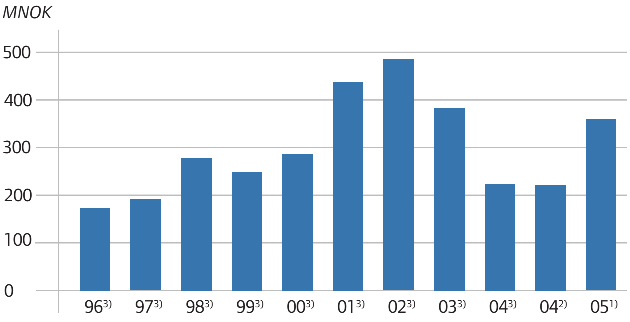
Notes to the tables and graphs on pages 2 and 3

1) The figures are IFRS compliant (International Financial Reporting Standards).
2) The figures have been adjusted for the effects of the transition to IFRS and the sale of Yachting activities.
3) The figures have not been adjusted for the effects of the transition to IFRS, but are presented pursuant to NGAAP and include yachting activities.

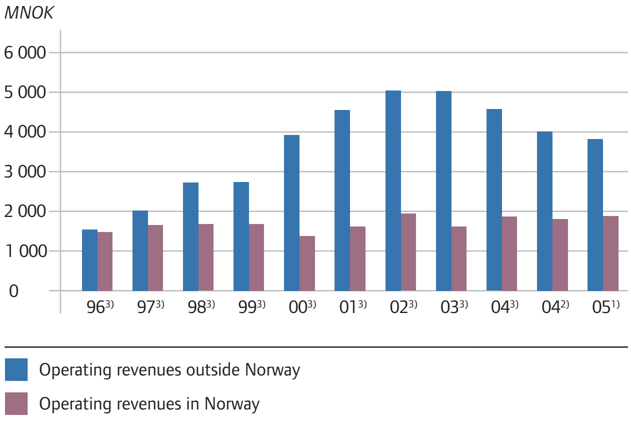
Key figures by business segment

Amounts in MNOK	Operating revenues *2005*	Operating revenues *2004*[2]	Operating profit *2005*	Operating profit *2004*[2]
Offshore & Merchant Marine	3 034	3 013	262	242
Defence & Aerospace	2 564	2 704	117	(31)
Other/eliminations	107	97	(19)	10
Group	5 705	5 814	360	221

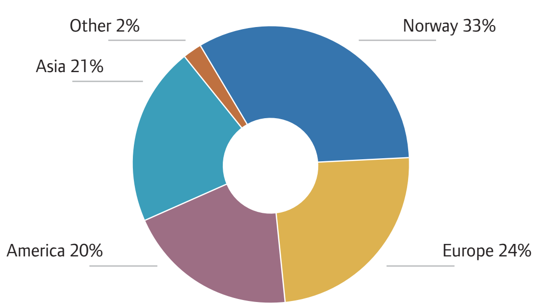
EBITA



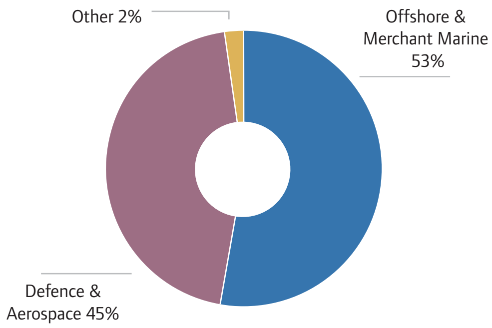
Operating revenues



Operating revenues by region



Operating revenues by business activity



Chief Executive Officer

An important step forward

Group performance was far better in 2005 than in 2004. Several of our markets have developed favourably, and comprehensive adjustment measures resulted in more focus on business administration and cost cutting.

Offshore & Merchant Marine had a record year due to a high investment level in the oil and gas industry. We are benefiting from the upturn in the rig market, as it offers opportunities for many of our products designed for the offshore industry. The shipping boom is continuing, and orders for new offshore, gas transport and traditional merchant vessels continue to be buoyant. Offshore & Merchant Marine ended 2005 with an all-time record backlog of orders – MNOK 2 158.

KONGSBERG sold its yachting activities in the autumn. The sale means a concentration of the Group's strategy in maritime operations, as we hone in on industrial customers with high performance standards and technical specification requirements.

The new Naval Strike Missile (NSM) is in the final testing phase and development is expected to be completed in 2006. The project is one of the most important ever for the Group, and we have great expectations for the production phase and the deployment of the missile on the Norwegian Navy's new frigates and missile torpedo boats (MTBs). The Protector Remote Weapon Station (RWS), used in armoured personnel vehicles, has proved highly efficient for protecting weapon operators. As a result, a total of five countries (Norway, the USA, Finland, Canada and Ireland) have now purchased the Protector RWS system for their armoured personnel vehicles. Altogether, contracts valued at MNOK 822 were signed for these systems in 2005.

Trends in the Group's defence activities depend on our success on international markets. The acquisition of Norcontrol IT, with its international subsidiaries, and Gallium Software Inc. of Canada, and the establishment of a production unit in Johnstown, Pennsylvania, USA, are initiatives that will help improve the business area's international competitiveness.

Improved profitability and new growth

We still stand firmly behind the target of a 10 per cent EBIT for the Group as a whole. An incentive system for managers will be introduced in 2006 to focus on further improving the operating margin and the way in which capital is employed. The objective is to get all units to think in terms of improvement, including those that already have an EBIT margin of more than 10 per cent.

The reorganisation process KONGSBERG has been through to adapt to changing market, competition and currency conditions is now beginning to pay off. This means we will once again have the time and capacity to give priority to new growth, both organic and through acquisitions.

The company's organic growth will come in response to increased emphasis on offshore activities. KONGSBERG intends to carve out a niche as a prominent supplier to the offshore oil and gas industry.

The high level of orders for vessels means we will also see growth for Merchant Marine. An ever larger share of this value creation is taking place outside Norway. Customer proximity is crucial, and we are expanding our workforces in China and South Korea.

We also see a potential for growth in the field of surveillance. Many countries have coastal areas that entail different surveillance needs: border surveillance, vessel traffic monitoring, environmental monitoring, monitoring of offshore installations, resource monitoring, etc. In this area, there is a lack of coordinated, integrated solutions. KONGSBERG offers solutions for most of these needs and recognises a significant market potential.

New opportunities on the defence market

The Norwegian Armed Forces is undergoing comprehensive restructuring. The goal of this restructuring is to reduce operating expenses to allow the expansion of investment parameters. This is basically a positive trend for KONGSBERG. Nonetheless, it is profoundly important for KONGSBERG that the Armed Forces continue to develop internationally competitive products in collaboration with Norwegian industry in the same way as it has done previously.

The Norwegian Armed Forces is on the threshold of taking major procurement decisions that will have a strong impact on KONGSBERG for many years to come. One of these involves the purchase of the new Naval Strike Missile (NSM), which I have mentioned previously. Another, and significantly larger project, is the purchase of the next generation of fighter craft. This could potentially be the largest single procurement the Armed Forces has made since World War II.

When major contracts for defence materiel are awarded to foreign companies, offset requirements are traditionally attached to ensure the participation of Norwegian industry. Consequently, KONGSBERG sees the fighter craft project as a great opportunity for new activities. Good offset solutions are contingent upon good coordination of the efforts made by industry, the Armed Forces and the authorities. I am pleased to see that the gap between the Norwegian stakeholders is narrowing all the time.

The Norwegian maritime industry is a world leader

Norwegian players, including the supply industry, are among the world's leading companies in offshore and merchant marine markets. We at KONGSBERG are deeply committed to protecting and further developing the strong industrial communities that already exist in Norway by actively participating in professional fora, industrial programmes and special interest groups. Norway's maritime industries have the possibility to achieve an even stronger international position. The authorities can contribute by paving the way for this, not least by supporting strong research and development communities and providing good framework conditions.

Product development is profitability development

KONGSBERG is a technology enterprise that supplies advanced products and systems for demanding applications. Comprehensive expertise and relatively high R&D investments (about 10 per cent of operating revenues) have translated into 'state-of-the-art' products in all our main product areas. A stable high level of product development activity is a prerequisite for achieving sustainable and growing profitability in future.

Our employees are our most important resource

KONGSBERG is a knowledge enterprise where almost all the value added is created by and among our human resources. For that reason, we attach the highest priority to the ways in which we recruit, organise and develop our human resources. We have and will continue to invest a great deal of effort in general human resource development, leadership development, attitude-shaping campaigns in relation to values and business ethics, and campaigns to encourage more cooperation between departments and business areas. It is gratifying to note that we are becoming increasingly better at coordinating and re-using technology across Group divisions. This has enhanced our competitiveness and improved our productivity in general.

I would like to express my gratitude to all my co-workers and other excellent partners for their sterling efforts in the year under review. Given the good market conditions we now enjoy and our gifted workforce, I am optimistic about the future.

Jan Erik Korssjøen
CEO

Highlights – The Group

The Group

Improved profitability in 2005

In 2005, KONGSBERG reported an annual profit before tax of MNOK 311 (MNOK 179). This marked a slight decline in revenues, but an improvement in profitability. Kongsberg Defence & Aerospace had a good second half, but delays in new orders in military communications affected the net profit for the year. Offshore & Merchant Marine had a strong influx of new orders, increasing the backlog of orders from MNOK 1 673 in 2004 to MNOK 2 158 in 2005, an increase of 29 per cent.

Kongsberg Maritime

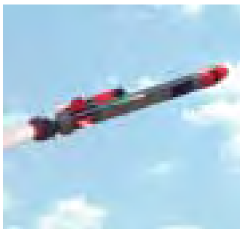
Strong influx of new orders

Continued market boom for shipbuilding in South Korea, China and Europe. The large number of orders, combined with limited shipyard capacity, has brought Kongsberg Maritime into 2006 with a backlog of orders valued at MNOK 2 158, and the BA is now signing contracts for deliveries in 2008 and 2009.

Kongsberg Maritime

Brisk activity in the offshore market

A major building boom for the largest, most complex, semi-submersible drilling rigs and drilling vessels has resulted in a deluge of new orders for Kongsberg Maritime. This applies to systems for dynamic positioning, hydroacoustic measurement systems, marine automation and security systems. Kongsberg Maritime has invested heavily in this market and won several contracts at shipyards in South Korea, China and Singapore.



Kongsberg Defence & Aerospace

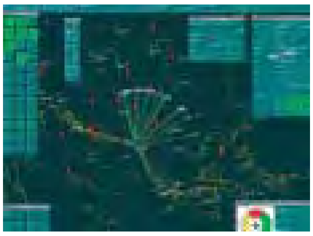
Progress for the new Naval Strike Missile (NSM)

The new NSM is on schedule and expected to be ready for deployment on the new Fridtjof Nansen class frigates as planned. A development shot was fired in June 2005, proving that important features of the missile function as expected. The project is now in a technical evaluation phase that calls for a number of tests to verify compliance with customer specifications. In December, a test firing was called off due to a malfunction in the launch ramp systems. This will not affect the financial status or progress of the project.

The Group

Cultivating its business areas

KONGSBERG's strategy for the maritime segment is to concentrate on industrial markets. It was therefore decided to sell the SIMRAD units that develop, manufacture and sell maritime electronics for use on yachts and commercial vessels. Following the sale, the Group can cultivate the business areas Kongsberg Maritime and Kongsberg Defence & Aerospace.



Kongsberg Defence & Aerospace

Acquired Canadian software company

Kongsberg Defence & Aerospace signed an agreement to buy the Canadian company Gallium Software Inc. for approximately MNOK 174. Gallium has 65 employees and specialises in electronic mapping systems. The company will be a welcome addition to Kongsberg Defence & Aerospace's core competencies in command and control systems. The acquisition of Gallium will also enhance the Group's surveillance system activities for civilian and military markets.

Kongsberg Defence & Aerospace

Major contracts for weapons control systems

Kongsberg Defence & Aerospace's weapons control systems for armoured personnel carriers continue to progress. Contracts valued at MNOK 822 were signed in 2005. The system is currently being used by the U.S., Canada, Australia, Finland, Norway and Ireland.

Kongsberg Defence & Aerospace

Establishing a satellite station in the Antarctic

Kongsberg Satellite Services began work in March 2005 on TrollSat, a new ground station for satellite data in Antarctica. With satellite stations in Antarctica, Tromsø and the Arctic (Svalbard), Kongsberg Satellite Services will be the first and only company in the world to offer satellite-based services from both the Arctic and the Antarctic.

Kongsberg Maritime

A contract for control systems for gas carriers worth MNOK 100

Kongsberg Maritime received orders for control systems for eight LNG (Liquefied Natural Gas) carriers in 2005. The total scope of the orders is approximately MNOK 100, and deliveries are scheduled from early 2006 to late 2007. Kongsberg Maritime is supplying systems to a total of 67 LNG vessels that are on order or under construction.

Vision, objectives and strategy

Objectives

KONGSBERG shall be an internationally-oriented technology enterprise, headquartered in Norway. By taking advantage of its high level of expertise to develop attractive solutions for the market and its constant operational improvements, the Group will safeguard and enhance shareholder value by:

- Engaging in a programme of continual improvement measures with a view to boosting profitability.
- Generating growth and profitability, both organically and through acquisitions and structural initiatives.
- The Group is to be organised in a way that allows it to exploit coherence and potential synergies.
- The Group shall be operated in an ethical, environment-friendly and socially responsible manner, projecting a distinct image and safeguarding its good reputation.

Vision

WORLD CLASS – through people, technology and dedication

Strategy

Important initiatives for achieving the objectives include:

Markets – KONGSBERG's markets are characterised by high standards for performance, quality and operational reliability. About 70 per cent of the Group's operating revenues were earned outside Norway. KONGSBERG consistently strives to develop a marketing system that can 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. When conditions are right for divestments, the Group makes a meticulous assessment to protect assets insofar as possible.

Acquisitions – Acquisitions are a key part of the corporate growth strategy in the core areas. The goal of acquisitions is to exploit common technology and achieve market synergies. This 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 vital role in its acquisition strategy.

Expertise – Knowledge and expertise are KONGSBERG's most important competitive parameters. Offering all employees comprehensive human resources development opportunities is crucial to positive performance trends, making it a high priority. To recruit and retain personnel, the company must offer attractive, challenging jobs. The Group offers a systematic management development programme.

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 sustainable development.

Technology – KONGSBERG generally 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 be equity-financed. The needs of the market will invariably govern the direction of, and the ambitions and solutions associated with product development. KONGSBERG's products are largely based on the following core competencies: software development, engineering cybernetics, systems integration and signal processing.

Financial strategy – Corporate management attaches importance to having the financial strength needed 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 is primarily aimed at increasing predictability and reducing risk.

KONGSBERG's employees

Diversity

KONGSBERG operates around the globe. With the exception of Australia, we are located on every continent. Our employees represent a broad diversity of training, cultures, nationalities, ages and previous experience. Our ability to benefit from this diversity all across the Group will be decisive if we are to reach our goals for the future.

KONGSBERG is an international technology corporation. We seek specialists with different types of technical backgrounds. Regrettably, few women choose studies in such areas. Accordingly, it is a challenge for us to increase the percentage of women. At the end of 2005, women accounted for 19.5 per cent of the Group's co-workers. Meanwhile, women accounted for 26 per cent of our new employees in 2005. The percentage of women in management is low (9.2 per cent). We have focused on improving this percentage and, in 2005, women accounted for 28 per cent of the participants in the Group's management development programmes.

Age distribution

The average age of all Group employees is 43. We find that students in 'our' fields are older now when they graduate than they were just a few short years ago. Only 8.2 per cent of our employees are between the ages of 20 and 30, while employees over the age of 60 account for 6.9 per cent.

Health and the working environment

A good working environment is essential for the individual employee and crucial for reaching our targets. KONGSBERG measures employee satisfaction at regular intervals. The last survey was conducted in 2004, and a new survey is scheduled for spring 2006.

Absence due to illness has traditionally been low at KONGSBERG. From 2004 to 2005, it was reduced further bringing it down to 3.1 per cent. This was half the nationwide average in Norway.

In 2005, 55 individuals were registered as being on long-term sick leave (more than 8 weeks). In 2004, the figure was 72.

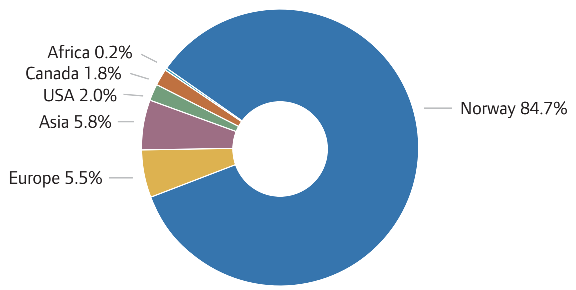
Injuries

A total of six injuries were registered in the Group in 2005. Three of them were of a serious nature (car accident on a business trip in Poland), but luckily no one was permanently injured. There were also three minor injuries: two hand injuries and one minor head injury from a fall. Measures have been taken to avoid repetitions.

Intellectual Capital

KONGSBERG has chosen to define its own model for intellectual capital. The model is based on traditional terms: human, structural and customer capital. In addition, the model incorporates the concept 'interaction capital' (read more about this in the Sustainability Report, page 18). Human capital encompasses KONGSBERG's human resources and consists of employees' knowledge, skills and attitudes. Continuous targeted knowledge development is one of our most important jobs. Human resources development in the Group should facilitate competitiveness and profitable development. The most important type of development is the kind intended to improve ways of working, methods and professional expertise for the individual and the various organisational units.

Employees, by region



This is KONGSBERG

Kongsberg Gruppen (KONGSBERG) is an internationally-oriented knowledge-based corporation headquartered in Norway. The Group is one of Norway's leading technology enterprises. The Group has two business areas (BAs): Kongsberg Maritime mainly addresses the offshore industry and merchant marine, while Kongsberg Defence & Aerospace's operations are directed at the defence and aerospace markets. The bulk of the Group's operations address international markets, with a strong and growing geographical distribution of earnings. In 2005, the Group posted total operating revenues of NOK 5.7 billion. KONGSBERG has facilities at 36 locations in 21 countries, and has 3 372 employees, 516 of whom work outside Norway.

Products

The Group is one of Norway's largest industrial engineering communities, and the range of products is characterised by a high technology content. The products have to function under demanding conditions; from equipment for surveying the seabed down to a depth of 11 000 metres to the solar panels on space probes orbiting through outer space for several years. Accordingly, reliability requirements are high.

Markets

KONGSBERG has a good geographic spread in sales. Markets outside Norway account for an ever larger, more important share of KONGSBERG's total operating revenues. In 1995, MNOK 799 (40 per cent) of sales were generated abroad. In 2005, operating revenues from other countries accounted for 67 per cent of total consolidated operating revenues. 24 per cent of the operating revenues were generated in Europe, 20 per cent in America and 21 per cent in Asia.

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

Business areas

KONGSBERG's two business areas, Kongsberg Maritime and Kongsberg Defence and Aerospace, are engaged in the same areas of technology. They both have their core competencies in signal processing, engineering cybernetics, software development services and systems integration. Following the sale of yachting activities, the two business areas have become more dedicated, aiming at commercial customers on a global market. Both offer decision-support systems, ranging from command and weapons control systems to communications solutions and automation and surveillance systems.

Kongsberg Maritime

Kongsberg Maritime delivers products and systems for positioning, navigation and automation to merchant vessels and offshore installations, as well as products and systems for seabed surveying and monitoring, and for fishing vessels and fisheries research. The business area is a market leader in these areas. Important markets include countries with large offshore and shipyard industries.

Kongsberg Maritime emphasises the advantages of using the Group's common technology base to consistently stay at the forefront with new products and applications.

In 2005, Kongsberg Maritime posted operating revenues of NOK 3.0 billion and had 1 855 employees. 73 per cent of its operating revenues were earned outside Norway.

Kongsberg Defence & Aerospace

Kongsberg Defence & Aerospace is Norway's premier supplier of high-technology defence systems. The Norwegian Armed Forces is the Group's most important customer. Solutions developed in collaboration with the Norwegian Armed Forces have proven competitive on the international arena. All defence-related exports are contingent on the approval of the Norwegian authorities. One key element of the market strategy is to form alliances with major international defence enterprises.

Kongsberg Defence & Aerospace delivers systems for command and Remote Weapons Systems, weapons control and surveillance, as well as different types of communications solutions and missiles.

Kongsberg Defence & Aerospace earned operating revenues of NOK 2.6 billion and had 1 421 employees in 2005. 63 per cent of the BA's 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.

Shareholder policy

KONGSBERG's primary objective is to enhance shareholder value over time. KONGSBERG's policy is to pay out 30 per cent of its annual profit to shareholders in the form of dividends. A dividend of NOK 2.15 per share is proposed for 2005.

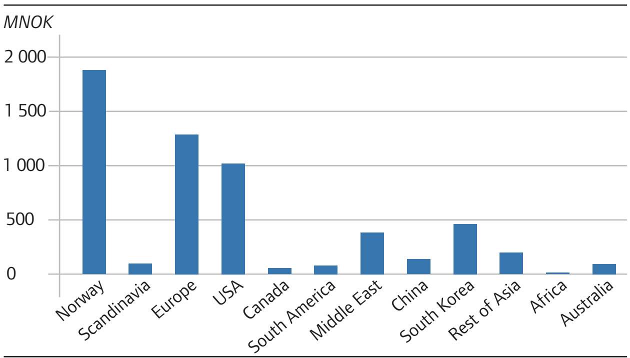
Ownership

Kongsberg Gruppen ASA is listed on the Oslo Stock Exchange. The total number shareholders was 3 840 at 31 December 2005. The largest shareholder is the Norwegian State with 50.001 per cent.

The world of KONGSBERG

1) Kongsberg, Horten, Asker, Kjeller, Trondheim, Stjørdal, Tromsø, Svalbard

Operating revenues



History

KONGSBERG is a knowledge-based group that currently has two business areas: Kongsberg Maritime and Kongsberg Defence & Aerospace. After restructuring and acquisitions, the Group consists of many different companies, each with its own history and geographical 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

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

In the late 1800s, the company introduced the Krag Jørgensen rifle which was subsequently chosen as the main weapon for the US Army. 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 subsequently 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.

1992–2005

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 in 1995.

From 1995 to 2002, the Group expanded continuously, increasing operating revenues from MNOK 1 998 to MNOK 6 980. Growth has tapered off over the past three years, not least as a result of changing international competitive parameters, the decline in the USD and the sale of yachting activities in 2005. KONGSBERG's strategy for the maritime segment is to concentrate on industrial markets.

Directors' Report & Accounts

Directors' Report

Consolidated operating revenues came to MNOK 5 705, compared with MNOK 5 814 in 2004. (Both figures are without SIMRAD's yachting operations, which were sold in autumn 2005.) The EBIT was MNOK 360 (MNOK 221), with an EBIT margin of 6.3 per cent (3.8 per cent). Earnings per share came to NOK 8.70, as opposed to NOK 4.03 the year before. The result includes the gain on the sale of yachting activities. Earnings per share (EPS) for continuing operations came to NOK 7.19. Consequently, the Board proposes a dividend of NOK 2.15 per share for 2005, which is commensurate with the company's dividend policy.

The sale of yachting activities was an important strategic step in 2005. The sale implies more intense concentration on core activities, accompanied by a stronger financial position. This is a good point of departure for the Group's further development. Net interest-bearing debt came to at MNOK 284 on 31 December 2005, down from MNOK 1 101 on 1 January 2005.

Most of the Group's business activities saw progress in 2005, and the markets were especially good for Offshore & Merchant Marine. There was a strong influx of new orders throughout the year, and the backlog of orders is record high. The shipbuilding market will be buoyant once again in 2006, and the offshore rig market is opening further opportunities.

Defence & Aerospace continues to make progress with its Remote Weapon Station (RWS). As regards communications, major contracts have been postponed, and the segment's operating revenues and profits have declined since 2004. This is the main reason that Q4 was weaker than usual for Defence & Aerospace. The development of the Naval Strike Missile (NSM) is in the final phase, and efforts are being made to secure the first production contract in 2006.

Market conditions and general operating conditions

The Group's future growth opportunities will mainly be in markets outside Norway. This is particularly the case in view of the high level of activity in the oil and gas industry. Strong market positions and a local presence are prerequisites for winning more market shares. The Board therefore attaches importance to continued efforts in the international arena. The further development of operations in China, South Korea and Singapore is vital for Offshore & Merchant Marine. The acquisition of Gallium in Canada, the new operations set up in the US for the manufacture and maintenance of the RWS, and the acquisition of Norcontrol IT, a market leader in maritime surveillance, are important steps in the internationalisation of Defence & Aerospace.

Maritime markets were booming in 2005, and this appears to be continuing in 2006. Moreover, the rig market is in rapid expansion and offers new opportunities. Kongsberg has good market positions, good customer proximity and is prepared for keener competition. The Norwegian maritime industry has a strong position, and plays a key role in Norway's export industry. The Board wishes to underline the need for an industrial policy that will help promote future growth and development for this industry.

The Norwegian Armed Forces is in a transition phase involving fewer new investment projects. In the long term, the changes in the Norwegian Armed Forces are expected to be favourable for KONGSBERG, since the goal is to spend a larger part of Norway's defence budget on investments. In the short term, however, reorganisation will engender uncertainty about investment decisions. In collaboration with KONGSBERG, the Norwegian Armed Forces has developed solutions that have proven competitive on the international arena. For KONGSBERG, it is of the utmost importance that this cooperation continues. At the international level, there are many contract prospects, especially for weapon control systems, anti-aircraft and military communications.

Predictability is crucial when it comes to the export regulations for defence materiel and the way in which the authorities practice them. Offsetting through national procurements is an established practice, and the entire industry revolves around it. It is of the utmost importance to the Group that the offsetting rules be continued and practised in Norway.

Fluctuations in the currency market, especially for the USD, present a challenge for the Group. The weakening trend in the USD in recent years has called for significant cost-cutting measures to sustain profitability. A systematic hedging strategy over several years has given the Group time to adapt, and we continue to effect operative measures to reduce the effects of currency fluctuations more permanently. Increasing our activities abroad is an important policy instrument. For KONGSBERG, it is important that the authorities pursue an economic policy that does not lead to prolonged strengthening of the Norwegian krone.

Technology

A large part of KONGSBERG's value added is derived from the development of high-technology solutions for the international market. In this context, the Group's high-level capabilities in technology as well as marketing are essential for its competitiveness.

KONGSBERG focuses on product development continuously. Development is customer-centric and consistently adapted to market requirements for price and performance. KONGSBERG's products are generally considered to be advanced, featuring high performance and quality. Annual product development costs are equivalent to about 10 per cent of operating revenues. This level is believed to be necessary to achieve a sufficiently modern, cost-effective product portfolio. About half of product development is funded by customers, especially the Norwegian Armed Forces. Meanwhile, there is a risk that this share will be reduced as a consequence of the reorganisation of the Armed Forces.

The NSM project is KONGSBERG's largest development activity ever. The project was initiated under a fixed price contract with the Norwegian Navy in 1996. The development project is currently in the final testing phase. Several test firings were conducted in 2005, and this will continue in 2006. The NSM is scheduled to be deployed on the Norwegian Navy's new frigates and MTBs in 2008.

The sale of yachting activities

In September, an agreement was signed to sell the Yachting activities. The business constituted the bulk of the former Yachting & Fishery segment. Yachting activities are presented on the income statement as an activity under divestment in both 2004 and 2005. After the sale, KONGSBERG's focus will be on commercial applications in the segments Offshore & Merchant Marine and Defence & Aerospace.

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 sale entailed a preliminary book profit on the sale of MNOK 37 after tax.

The sale implies a concentration of the Group's strategy in maritime operations. SIMRAD's fishery operations are now reported as part of the Offshore & Merchant Marine segment. In 2004, Yachting posted operating revenues of MNOK 625, while Fishery reported operating revenues of MNOK 280.

The financial statements

The financial statements have been submitted on the assumption that Kongsberg Gruppen is a going concern, and the Board confirms the requirements for making this assumption have been met. Consolidated operating revenues totalled MNOK 5 705 (MNOK 5 814). The EBIT was MNOK 360 (MNOK 221). The EBIT margin was 6.3 per cent (3.8 per cent). The figures for 2004 and 2005 have been adjusted for the sale of Yachting activities.

Performance trends are discussed in conjunction with the individual business areas.

Net financial items added up to MNOK -57 (MNOK -59).

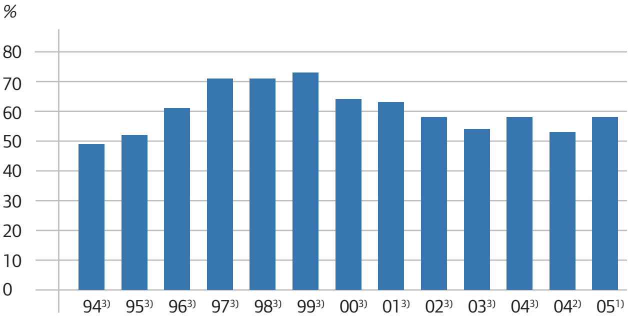
The ordinary profit before tax for continuing operations was MNOK 311 (MNOK 179). The result after tax and discontinued operations came to MNOK 262 (MNOK 118). The result includes a net profit of MNOK 47 from discontinued operations.

In 2005, the Group booked new orders valued at MNOK 5 597 (MNOK 5 323), and had a backlog of orders worth MNOK 5 416 (MNOK 5 425). Offshore & Merchant Marine increased its backlog of orders by MNOK 485 (29 per cent), while Defence & Aerospace reduced its backlog by MNOK 524 (-14 per cent).

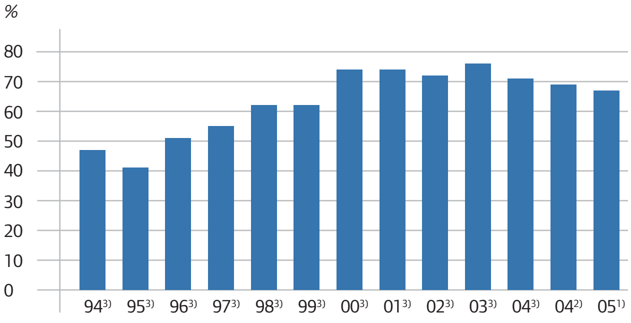
Total corporate assets aggregated MNOK 6 543 (MNOK 6 258 at 1 January 2005, IFRS-compliant), and equity was MNOK 1 505 (MNOK 1 626), or 23 per cent (26 per cent). The changes in equity are discussed below under the section on IFRS.

Net interest-bearing debt totalled MNOK 284 (MNOK 1 101) at year-end 2005. The decline was ascribable to the sale of Simrad Yachting, and a good net cash flows from operating activities. The cash flow from operations came to MNOK 620 (MNOK 328). The cash flows consisted of MNOK 316 in funds generated from investment activities, and MNOK -375 from financial activities. Consolidated gross interest-bearing liabilities consist of loans of MNOK 1 000, of which MNOK 300 in Norwegian commercial papers and MNOK 700 in Norwegian bond issues. KONGSBERG's funding is otherwise based on a syndicated credit facility of MNOK 1 100 that will mature in 2009. The credit facility was un-

Operating revenues, civilian



Operating revenues, outside Norway



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used at year end. Total consolidated cash and cash equivalents added up to MNOK 723 at 31 December 2005. Of this amount, MNOK 350 was a short-term investment in the money market, while most of the balance was in the Group's operating accounts in the bank.

International Financial Reporting Standards (IFRS)

As from fiscal 2005, Kongsberg's consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS). The 2004 accounts were presented in accordance with the Norwegian Accounting Act (NGAAP) and then current Norwegian accounting standards; since the transition, the 2004 figures have been adjusted for comparison with IFRS.

For Kongsberg, the most significant changes in the restated profit for 2004 are related to pension expenses and the amortisation of goodwill. The restated profit for 2004 was MNOK 118, compared with MNOK 37 under NGAAP. In addition to the effects on the profit, the most significant changes in the restated equity at 1 January 2005 are related to the zeroisation of the actuarial gains/losses on pension expenses in connection with pension calculations and financial instruments (interest and foreign currency hedges), estimated at market value. Pursuant to IFRS, at 1 January 2005, equity added up to MNOK 1 626, as against MNOK 1 812 pursuant to NGAAP.

At 31 December 2005, consolidated equity amounted to MNOK 1 505. The main reasons for the reduction in equity from 1 January 2005 is the change in the value of financial instruments (MNOK -103) and the increase in the current value of pension liablities as a result of the low interest rate (MNOK -227). Reference is otherwise made to Note 32 to the consolidated accounts regarding the consequences of the transition to IFRS, and Note 22 on the reconciliation of consolidated equity.

Operating and market conditions in the business areas

Kongsberg's two business areas, Offshore & Merchant Marine and Defence & Aerospace, posted operating revenues of MNOK 2 564 and MNOK 3 034, respectively, accounting for 45 per cent and 53 per cent of consolidated operating revenues (excluding the figures for yachting activities).

Offshore & Merchant Marine

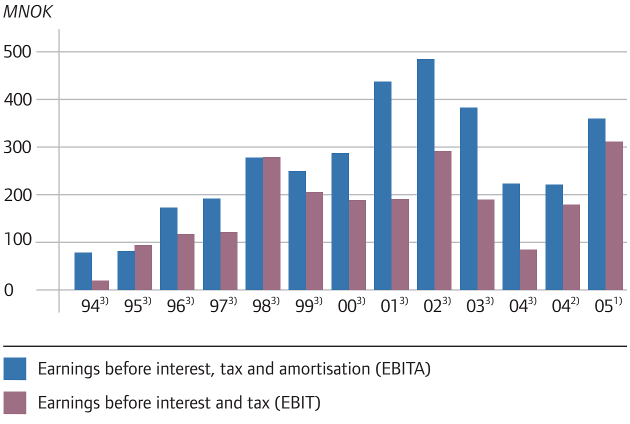
The business area reported operating revenues of MNOK 3 034 in 2005 (MNOK 3 013). The EBIT was MNOK 262 (MNOK 242), with an EBIT margin of 8.6 per cent (8.0 per cent).

The BA has posted good, stable results and the year was characterised by smooth operations and capacity utilisation, a situation expected to continue in 2006. Fishery activities are being restructured.

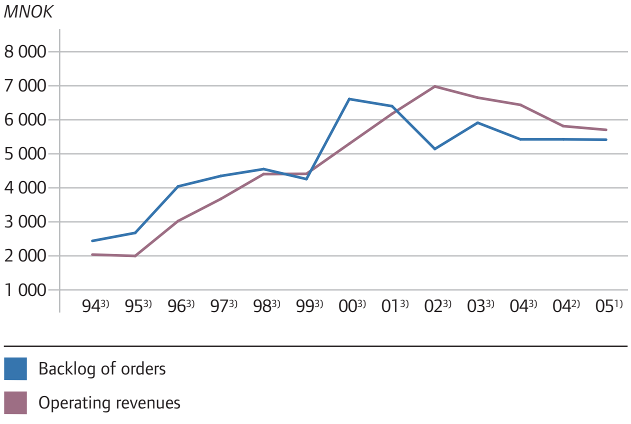
The backlog of orders at 1 January 2006 was valued at MNOK 2 158 (MNOK 1 673).

The level of activity in the oil and gas industry was higher in 2005 than in previous years. The market boom for ships continued at a high level in South Korea, China and Europe. Efforts are being made to further fortify the Group's local operations in China, Singapore and South Korea. These markets have also contributed to securing significant contracts on the rig market, which developed favourably towards year end. The pace is also

Earnings



Kongsberg's development



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picking up for other offshore installations. This has resulted in a good influx of new orders for dynamic positioning and hydro-acoustics. Although competition is growing keener, the company maintained its market shares throughout 2005.

The focus on automation and control systems for Liquefied Natural Gas (LNG) carriers provided positive results once again in 2005, and KONGSBERG is now involved in 67 LNG carriers that are on order or under construction. In June, a contract was signed for control systems for eight vessels. The order had a total scope of approximately MNOK 100, and deliveries are scheduled from early 2006 to late 2007. The vessels will be built by Samsung Heavy Industries and Hyundai Heavy Industries of South Korea for international shipping lines. Kongsberg Maritime has targeted the market for automation and control systems for gas carriers since 2000. New orders in 2005 indicate that Kongsberg Maritime still maintains a strong position in this market.

In the process automation segment, contracts have been signed for deliveries in the North Sea and abroad. Statoil awarded Kongsberg Maritime a contract valued at approx. MNOK 70 for upgrading the process control systems for oil and gas production on Statfjord A, B and C, and for the delivery of a process simulator. The Statfjord contract is a result of long-term cooperation with Statoil, which also encompasses operations, maintenance and modifications on Statoil's installations on Heidrun, Norne, Åsgard A and B, and Kristin.

Kongsberg Maritime has won a contract with the US Navy to supply a total of 57 navigation simulators that will be an important part of an ongoing programme for navigation, seamanship and ship handling (NSST) in the US Navy. The contract supersedes a contract for roughly MNOK 50 that was signed in July 2004, and the total scope is now about MNOK 80.

Defence & Aerospace

Operating revenues came to MNOK 2 564 (MNOK 2 704). The EBIT was MNOK 117 (MNOK -31), with an EBIT margin of 4.6 per cent. The communications segment saw a weaker second half than in previous years.

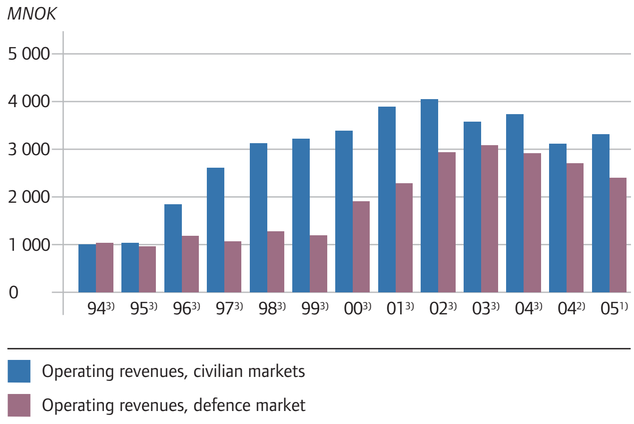
The BA had a backlog of orders at the end of 2005 valued at MNOK 3 124 (MNOK 3 648) and booked total new orders worth MNOK 1 894 (MNOK 2 000).

Defence & Aerospace's largest development project, the new Naval Strike Missile (NSM), has made strong headway. More development work and several technical evaluation firings still remain. The NSM completed a successful test firing during the year. The firing demonstrated important new functions and its success further mitigated project risk. A test firing was also scheduled during a technical evaluation phase. An attempt was made to fire the missile, but the test was aborted before the missile left the launch pad due to a malfunction in the launch pad's systems. This did not affect the financial status or progress of the project to any appreciable extent.

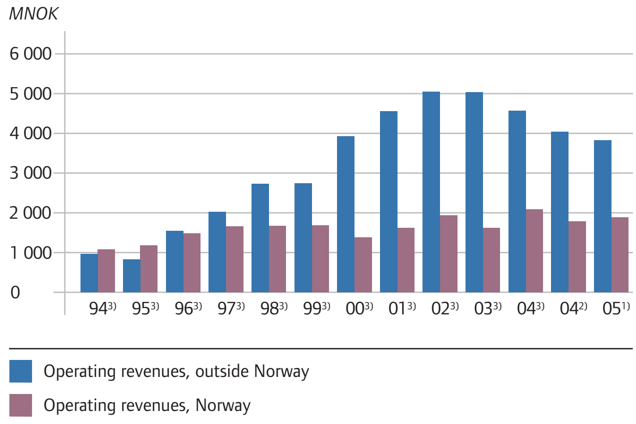
A contract was signed for the acquisition of the Canadian software company Gallium Software Inc. for MNOK 174. The company specialises in advanced software for mapping and graphics featuring a high level of speed and performance. The purchase will enhance the Group's focus on surveillance systems.

Defence & Aerospace also acquired 100 per cent ownership of Norcontrol IT AS through the purchase of one-third of the

Operating revenues



Operating revenues



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shares from minority shareholders within the enterprise and the remainder from Kongsberg Maritime. The company's operations will be integrated into land-based surveillance systems and it will be reported as part of the Defence & Aerospace business area as from 1 January 2006.

The Remote Weapon Station (RWS) had a strong influx of new orders and saw good results during the year. International markets placed orders valued at MNOK 822 during the year. Systems were delivered to Australia, the USA, Canada, Finland, and Ireland, among others. Defence & Aerospace has set up operations in the USA, i.e. an RWS maintenance facility. The plant is located in Johnstown, Pennsylvania, and will open in May/June 2006.

In Q4, a supplementary contract worth MNOK 39.7 was signed with the Armed Forces' Logical Organisation for the development and delivery of the Light Multi-Functional Radio.

Further, a 15-year framework agreement was signed for the maintenance of software developed previously for the modernisation of NATO's AWACS aircraft. The contract reaffirms KONGSBERG's position within military air surveillance and supports the strategy of focusing on military and civilian surveillance and security.

Kongsberg Satellite Services, 50 per of which is owned by Kongsberg Defence & Aerospace, signed a contract for the downloading of data from and control of the OrbView-5 satellite (Nextview 2). The contract has an initial value of roughly MNOK 43. With options, it has a potential value of MNOK 199 over a 10-year period. As a result of this contract, Kongsberg Satellite Services is in the process of establishing TrollSat, a new ground station for satellite data in the Antarctic. As a result, the company will be able to offer satellite-related services from Antarctica, Tromsø and the Arctic (Svalbard), which translates into more and faster data/satellite imagery for its customers.

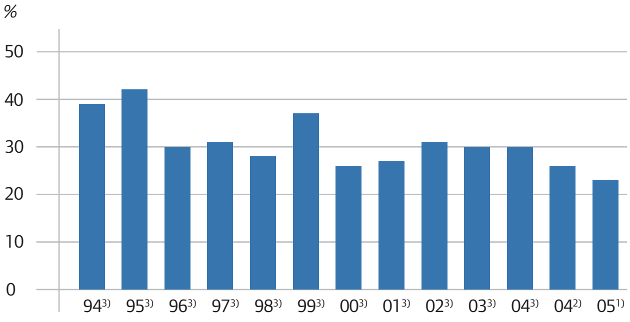
Risk

The Group is exposed to several types of risk, and the Board monitors the individual risk areas closely. A special reporting system has been established for risk monitoring. The reports are updated quarterly. The Board is of the opinion that a good balance has been struck between overall risk and the Group's ability to deal with risk.

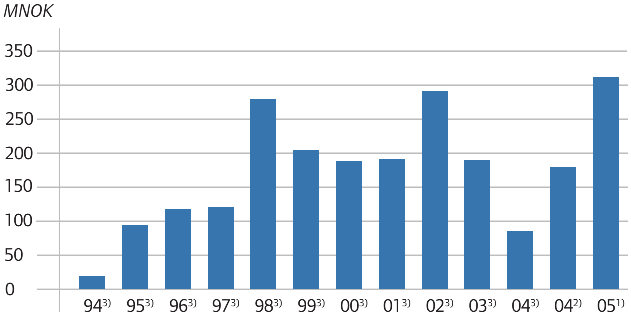
KONGSBERG's operational risk is mainly related to the implementation of projects of great technical complexity, where implementation capacity and product quality are decisive. The implementation of complex technical projects is a part of the Group's core competency. Historically, the Group's implementation capacity and product quality have been good. High quality and good delivery performance are among the Group's paramount objectives. The Group's largest development project is the NSM. Development is now in the final phase, which will continue in 2006. There will continue to be risk associated with the project until customer has approved the missile's performance. However, tests performed in 2005 demonstrated important new functions, mitigating project risk.

Business risk is related to market conditions, competitors and other general business conditions in the markets in which KONGSBERG operates. The shipbuilding market fluctuates over time, impacting KONGSBERG's deliveries of ships' systems. This market is currently expansive, especially in Asia, but also in Europe, where there has been a steep rise in contracts for newbuildings in 2005. The level of investment in the petroleum industry is another important parameter for KONGSBERG. Activity is currently brisk in this market, especially as regards complex systems. KONGSBERG has maintained its market shares in this market. Competition is generally growing keener in most of our markets.

Equity ratio



Profit before tax



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Insofar as the defence segment 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. In 2005, new orders were lower than operating revenues, meaning the backlog of orders declined.

Financial risk is mainly a factor of exchange rate fluctuations and financial capability. The Group's competitiveness is influenced largely by the value of the NOK against other currencies, particularly the USD. This risk is closely related to the operational activities in the business areas. KONGSBERG's policy in the short- and mid-term is to hedge future net earnings in foreign currencies through forward exchange contracts. Throughout 2005, the Group's average exchange rates in USD were higher than the corresponding spot market rates. The USD exchange rate started the year down towards NOK 6.00, but picked up somewhat during the year. The consequences of a permanently high NOK would have to be dealt with through strategic and operational measures, e.g. increasing operations abroad, more procurement in foreign currency and cost-cutting measures.

Shares and shareholder relations

KONGSBERG's ordinary Annual General Meeting held on 3 May 2005 authorised the Board to buy treasury shares. The authorisation is limited to 5 per cent of the share capital and applies for 12 months from the date of the general meeting.

The Group's annual employee share programme was conducted in spring 2005. This was the ninth time all employees were given the opportunity to buy Group shares. The programme had an overall framework of NOK 30 000 per employee, including a 20 per cent discount. Altogether, 142 127 shares were sold at a price of NOK 76. The Group held 3 414 treasury shares after the sale. Shares were awarded to 412 employees. Options were also allocated to all those taking part in the programme, corresponding to half the number of shares purchased. The options can be exercised after two years at a price of NOK 106. A supplementary offer of shares was made in December. Three employees acquired a total of 867 shares at a price of NOK 104 each. The Group held 2 547 treasury shares after the supplementary share.

It is estimated that for the shareholders in Kongsberg Gruppen ASA, the year's adjustment on the tax-related incoming value of shares (RISK) will be NOK -5.32 per share. The RISK figure for fiscal 2004 was fixed at NOK -2.34 per share and will go to those who were shareholders on 1 January 2005.

KONGSBERG shares were priced at NOK 99 on 1 January, climbing to NOK 124 at year end. This translates into an increase of 25.3 per cent. Norway's All-Share Index rose by 39.6 per cent during the same period. The number of shareholders rose by 170 to 3 840, and the percentage of shares in foreign hands dropped from 7.01 per cent to 1.01 per cent. With 50.001 per cent, the Norwegian State is the largest shareholder. Collectively, the 10 largest shareholders held 85.10 per cent of the shares. A total of 12 063 000 shares were traded in 2005, which was a low turnover compared with many other companies listed on the Oslo Stock Exchange. This has occasionally reduced the liquidity of the share.

Health, Safety and the Environment (HSE)

The Board of Directors ensures that health, safety and the environment are handled in a manner that leads to considerable job satisfaction and a healthy working environment. One basic principle for working with health, safety and the environment is that the work should be preventative. Emphasis is attached to preventing work-related injuries and illnesses. Responsibility and commitment at every level in the organisation is a prerequisite for success in this area.

The Board follows up HSE work closely. Management draws up quarterly HSE reports for the Board. In 2005, the following HSE initiatives were implemented:

Kongsberg Maritime's information in Achilles, the oil companies' HSE database for vendors, was reviewed and audited by Statoil. The audit showed that most systems and processes were in place. Relative to the comments the company received as a result of the audit, action plans were drawn up and implemented.

Kongsberg Defence & Aerospace conducted a risk analysis in accordance with the guidelines issued by the Norwegian Industrial Safety and Security Organisation (NSO). The analysis revealed no major problems.

Six work-related accidents were reported in the Group in 2005. Three people were in a serious car accident on a business trip. Fortunately, no one was permanently disabled. Otherwise, three minor injuries were reported. Absence due to illness edged down from 3.2 per cent in 2004 to 3.1 per cent in 2005.

HSE work is done in the individual segments, and the Working Environment Committees work systematically, meeting on a regular basis. The Group's stake in the Kongsberg Health and Environment Centre was sold in autumn 2005. Previously agreements with the Kongsberg Health and Environment Centre were transferred to its successor, Hjelp24. The intention is that all the Group's activities in Norway will enter into collaboration with Hjelp24. KONGSBERG has 516 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

The Group works continuously to adapt the organisation to the markets it serves. Regrettably, downsizing has been necessary in some units, but staffing has increased in others. Considerable efforts were invested in finding solutions for those affected by downsizing, not least by finding work in other Group units. At 31 December 2005, the Group had 3 372 employees (4 017), 516 (898) of whom worked outside Norway. The sale of yachting activities is the main reason for the reduction in number of employees. At year end, the parent company had 33 employees.

One important prerequisite for long-term success is how KONGSBERG makes use of and develops employees' expertise. 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 encourage the transfer of knowledge between the business areas. Offering good development opportunities is an important policy instrument for recruiting and retaining employees.

The Kongsberg School facilitates and coordinates courses and training programmes within the Group.

A joint resource group has been appointed to help develop qualified management talent throughout the Group. We offer a portfolio of management programmes through the Kongsberg School.

At year end, there were 657 (20 per cent) women employees in the Group. Women occupied nine per cent of all managerial positions in the Group. This is a slight dip since last year. Many women have been recruited to technical jobs in recent years, but there is still limited access to female graduates in the areas of technology that are predominant at KONGSBERG. As for the Board of Directors, two of the five shareholder-elected directors are women. Generally speaking, there are still few women in senior management. KONGSBERG will therefore continue to strive to increase the percentage of female managers and focus on the recruitment of women to technical positions. At KONGSBERG, the fundamental attitude is that women and men are to have equal opportunities.

Cooperation is good with the trade unions through the established cooperation and co-determination schemes, providing valuable contributions to constructively solving the challenges that face the individual companies and the Group as a whole.

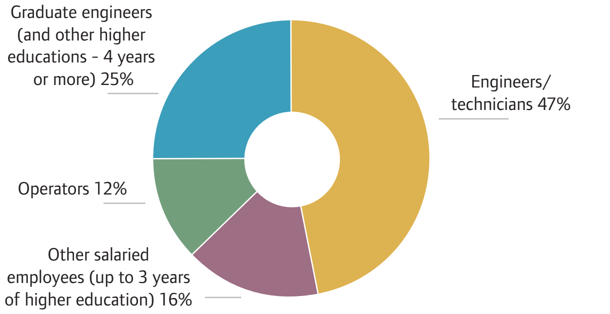
Corporate social responsibility

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

The work to implement the corporate Code of Ethics continued in 2005, and the goal for 2006 is for all co-workers in the Group to have participated in the ethics programme. The Directors considers this work profoundly important.

KONGSBERG's operations are mainly based on software development and systems integration. The Group is only marginally affected by environmental regulations. Notwithstanding, it is important to the Board that the Group takes a proactive approach to environmental measures. These have generally involved energy conservation measures associated with the premises the Group occupies, in addition to source separation. While the Group's environmental focus over the past three to four years has yielded positive results, the Board is well aware that challenges still remain with a view to limiting the Group's impact on the environment.

Employees by level of education



For a more detailed description of the Group's work with corporate social responsibility, please see the Group's Sustainability Report.

Corporate governance

Good corporate governance and management will ensure the greatest possible value creation, at the same time as Group's resources will be used in an efficient, sustainable manner. The added value will benefit shareholders, employees and the community. Issues related to corporate governance were the subject of in-depth discussions by the Group's Board of Directors in 2005 and early 2006. The Group's corporate governance documents were reviewed and revised. Further, two Board subcommittees were established: An Audit Committee and a Compensation Committee. A more detailed description is provided on pages 92–101 of this report.

Remuneration to the Board and the CEO are discussed in Note 4 to the parent company's accounts.

Changes in the Board

Several changes were made in the composition of the Board at the AGM held on 3 May 2005. The former Chair of the Board, Christian Brinch, declined to run for re-election. Finn Jebsen, Erik Must and John Giverholt were elected by the shareholders to replace Christian Brinch, Torolf Rein and Niels Petter Wright. Audun Solås was elected as a new employee-elected director, replacing Roy Harald Hove. Benedicte Berg Schilbred, Siri Hatlen, Roar Marthiniussen and Jan Erik Hagen were re-elected. The Board elects its own chair, and Finn Jebsen was elected.

The Board would like to take this opportunity to express its gratitude to the former directors for the work they did to promote KONGSBERG's best interests. A special thanks goes to Christian Brinch who served on the Board for 14 years, 10 of which as chair.

Prospects for 2006

KONGSBERG's maritime markets are booming. Orders are rising rapidly in the offshore market, especially for rigs. In the market for merchant vessels, the 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, but a large part of the new orders booked in 2005 and 2006 are for delivery in 2007 and 2008. More new orders are expected for Defence & Aerospace in 2006. All in all, operating revenues and the operating margin are expected to be somewhat better in 2006 than in 2005.

Net profit for the year and allocations

The parent company Kongsberg Gruppen ASA earned a net result of MNOK 18 in 2005. The Board of Directors proposes the following allocations for Kongsberg Gruppen ASA:

Dividends	MNOK 65
Transferred from other equity	MNOK (47)
Total allocations	MNOK 18

In addition, MNOK 95 was allocated as a Group contribution.

The company's distributable reserves came to MNOK 495 at 31 December 2005.

Kongsberg, 17 March 2006

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 income statement for the year ended 31 December 2005

Kongsberg Gruppen (The Group)

Amounts in MNOK	*Notes*	*2005 IFRS*	*2004 IFRS*	*2004 NGAAP[1)]*	*2003 NGAAP[1)]*
Operating revenues	3	**5 705**	**5 814**	**6 439**	**6 651**
Raw materials and consumables		(2 320)	(2 493)	(2 782)	(2 831)
Personnel expenses	6, 23	(2 008)	(2 029)	(2 259)	(2 227)
Other operating expenses	5	(861)	(905)	(985)	(1 010)
Operating profit before financial costs, tax and depreciation (EBITDA)		**516**	**387**	**413**	**583**
Depreciation	11, 12	(156)	(166)	(278)	(292)
Operating profit (EBIT)		**360**	**221**	**135**	**291**
Share of profit/(loss) in associates	7	8	17	17	-
Financial revenue	8	6	32	32	5
Financial costs	8	(63)	(91)	(99)	(106)
Profit from continuing operations before tax		**311**	**179**	**85**	**190**
Income tax expense	9	(96)	(70)	(48)	(65)
Profit from continuing operations, net after tax		**215**	**109**	**37**	**125**
Profit from discontinued operations	4	47	9		-
Profit for the year		**262**	**118**	**37**	**125**
Of which					
Equity holders of the parent		260	120	41	126
Minority interests		2	(2)	(4)	(1)
Earnings per share, in NOK					
– from continuing operations, net	10	7.19	3.66	1.38	4.23
– from continuing operations, diluted	10	7.19	3.66	1.38	4.23
– profit for the year	10	8.70	4.03	1.38	4.23
– profit for the year, diluted	10	8.69	4.03	1.38	4.23

1) The figures are presented as reported for 2004 and are not restated for the disposal of yachting activities.

Consolidated balance sheet at 31 December 2005
Kongsberg Gruppen (The Group)

Amounts in MNOK	Notes	31 Dec 05 IFRS	1 Jan 05 IFRS	31 Dec 04 IFRS	31 Dec 04 NGAAP	1 Jan 04 IFRS	31 Dec 03 NGAAP
Assets							
Non-current assets							
Property, plant and equipment	11	924	1 042	1 042	1 042	1 086	1 086
Goodwill	12, 13	1 095	1 212	1 212	1 123	1 194	1 194
Other intangible assets	12, 13	32	35	35	35	14	14
Investment in associates	7	49	49	49	49	93	93
Available-for-sale investments	16	133	88	67	67	-	-
Other long-term assets	15	143	74	74	74	99	99
Net pension assets		-	-	-	198	-	208
Deferred tax asset		-	-	-	-	8	8
Total non-current assets		**2 376**	**2 500**	**2 479**	**2 588**	**2 494**	**2 702**
Current assets							
Inventories	17	846	842	842	842	793	793
Receivables	18	1 218	1 382	1 382	1 382	1 364	1 364
Projects in progress	19	1 253	926	1 068	1 068	1 048	1 048
Financial instruments	14	127	446	-	-	-	-
Cash and short-term deposits	20	723	162	162	162	101	101
Total current assets		**4 167**	**3 758**	**3 454**	**3 454**	**3 306**	**3 306**
Total assets		**6 543**	**6 258**	**5 933**	**6 042**	**5 800**	**6 008**
Equity and liabilities							
Equity							
Investment capital		150	150	150	150	150	150
Share premium		832	832	832	832	832	832
Treasury shares		-	(1)	(1)	(1)	(1)	(1)
Net unrealised gains reserve		54	155	-	-	-	-
Other equity		459	472	472	813	435	818
		1 495	**1 608**	**1 453**	**1 794**	**1 416**	**1 799**
Minority interests		10	18	18	18	29	31
Total equity	21, 22	**1 505**	**1 626**	**1 471**	**1 812**	**1 445**	**1 830**
Non-current liabilities							
Interest-bearing loans and borrowings	25	1 005	1 261	1 261	1 261	1 265	1 265
Pension liabilities	23	656	456	456	-	381	-
Financial instruments	14	63	90	-	-	-	-
Provisions	24	82	74	96	96	107	107
Deferred tax liability	9	383	421	369	530	331	496
Total non-current liabilities		**2 189**	**2 302**	**2 182**	**1 887**	**2 084**	**1 868**
Current liabilities							
Interest-bearing loans and borrowings		2	2	2	2	-	-
Prepayments from customers	19	1 617	1 044	1 044	1 044	1 032	1 032
Financial instruments	14	115	-	-	-	-	-
Provisions	24	177	85	85	85	172	172
Other current liabilities	26	938	1 199	1 149	1 212	1 067	1 106
Total current liabilities		**2 849**	**2 330**	**2 280**	**2 343**	**2 271**	**2 310**
Total liabilities		**5 038**	**4 632**	**4 462**	**4 230**	**4 355**	**4 178**
Total equity and liabilities		**6 543**	**6 258**	**5 933**	**6 042**	**5 800**	**6 008**

The 1 Jan. 04 IFRS column contains the effects of IFRS implementation compared with the 31 Dec. 2003 NGAAP. Column 1 Jan. 2005 IFRS contains the effects of the implementation of IAS 39 and IAS 32 (Financial instruments) compared with 31 Dec. 2004 IFRS.

Kongsberg, 17 March 2006

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 2005

Kongsberg Gruppen (The Group)

Amounts in MNOK	*Notes*	*2005 IFRS*	*2004 IFRS*	*2003 NGAAP*
Receipts from customers		5 993	6 268	6 423
Payments to suppliers and employees		(5 365)	(5 934)	(6 245)
Income tax paid		(8)	(6)	(6)
Net cash flows from operating activities		**620**	**328**	**172**
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	11	12	12	3
Purchase of property, plant and equipment	11	(119)	(197)	(292)
Net receipts/payments on long-term receivables and shares		-	51	5
Net receipts on disposal of Simrad Yachting	4	485	-	-
Payment for the acquisition of shares		(62)	(15)	(115)
Net cash flows from investing activities		**316**	**(149)**	**(399)**
Cash flows from financing activities				
New debt raised		-	-	288
Repayment of debt		(256)	(2)	-
Interest paid		(66)	(86)	(89)
Receipts on sale of treasury shares		10	9	10
Dividends paid to equity holders of the parent		(60)	(39)	(63)
Dividends paid to minority interests		(3)	-	-
Net cash flows from in financing activities		**(375)**	**(118)**	**146**
Net increase (decrease) in cash and cash equivalents		561	61	(81)
Cash and cash equivalents at 1 January		162	101	182
Cash and cash equivalents at 31 December		**723**	**162**	**101**

Consolidated statement of recognised income and expense for the year ended 31 December 2005

Kongsberg Gruppen (The Group)

Amounts in MNOK	*2005*	*2004*
Profit for the year	262	118
Change, fair value of financial instruments and hedge instrument for cash flow hedges		
– Change, cash flow hedges	(127)	-
– Change, interest rate swap agreements	18	-
– Change, available-for-sale investments	6	-
Unrecognised actuarial gains/losses on pension expenses	(227)	(58)
Translation differences, foreign currency	2	-
Implementation effect IAS 39		
– Excess value, cash flow hedges	183	-
– Negative value, interest rate swap agreements	(49)	-
– Excess value, available-for-sale investments	21	-
Overall profit/(loss) for the year	**89**	**60**

All figures are presented after tax.

Notes to the consolidated financial statements
Kongsberg Gruppen (The Group)

1 Corporate information

KONGSBERG's consolidated accounts for the year ended at 31 December 2005 were adopted by the Board at its meeting on 17 March 2006. Kongsberg Gruppen ASA is a limited liability company headquartered in Kongsberg, Norway. The company's shares are traded on the Oslo Stock Exchange.

2 Accounting policies

The consolidated financial statements are presented using the historical cost principle, with the exception of derivative financial instruments and investments available for sale, which are measured at fair value. For accounting purposes, the value of assets covered by fair value hedges has been adjusted to record changes in the value of the asset attributable to the risk being hedged. The accounts are presented in Norwegian kroner (NOK), and all figures have been rounded off to the nearest whole million, unless otherwise specified.

The financial statements for fiscal 2005 are presented in accordance with the Norwegian Accounting Act, International Financial Reporting Standards (IFRS) and interpretations stipulated by the International Accounting Standards Board, which were implemented at 31 Dec. 2005, with comparable IFRS-compliant figures for 2004, adjusted from Norwegian generally accepted accounting principles (NGAAP).

The differences between the Group's former accounting practices, which were in accordance with Norwegian generally accepted accounting principles, and the accounting policies pursuant to IFRS and the reconciliation of the accounting-related effects of the transition to IFRS are described in Note 32.

Basis for consolidation
The consolidated financial statements cover the companies in which Kongsberg Gruppen ASA directly or indirectly owns more than 50% of the shares and has a controlling interest. Controlling interest is usually achieved when the Group owns more than 50% of the shares in the company, directly or indirectly, and the Group is able to exert genuine control over the company. The consolidated accounts show the Group's financial position and results when all units are considered as a whole.

New subsidiaries are recognised at their fair value on the date of acquisition. Fair value is attributed to identifiable assets and liabilities. Excess value that cannot be assigned to identifiable assets is classified as goodwill. New subsidiaries are included in the consolidated accounts from the date of acquisition. For successive share purchases, identifiable assets are restated at their fair values at the time the Group obtains a controlling interest. Excess value in the form of goodwill is calculated for each individual acquisition.

Associates are units in which the Group has significant influence, but not control (usually a stake of 20 to 50%) of the financial and operational management. The consolidated accounts include the Group's percentage of profit/(loss) from associates using the equity method of accounting from the time significant influence is gained and until such influence ceases. All intra-group transactions are eliminated in the consolidation process. Minority interests are reported as a separate item under consolidated equity. The minority interests of the profit is included in the net profit for the year.

The material companies included in the Group are listed in Note 31. Subsidiaries sold during the year are included on the income statement up to the date of disposal. Intra-group revenues, costs and balances have been eliminated. Operations sold during the period and which constitute an independent business segment are presented as discontinuing operations on a separate line on the income statement for the entire fiscal year and in comparative figures in compliance with IFRS 5.

Uncertainty associated with estimates
During the preparation of the financial statements in accordance with IFRS, the Group's executive management has applied best estimates and assumptions considered to be realistic. Situations can arise that alter the estimates and assumptions, which will in turn affect the company's assets, liabilities, equity and profit.

Revenue recognition for long-term production contracts
The Group's activities mainly consist of the development and production of products and systems on the basis of orders received. Income is recognised on these contracts by reference to the stage of completion. Stage of completion is calculated as accrued production costs as a percentage of total anticipated production costs. Total anticipated production costs are estimated on the basis of a combination of historical figures, systematic estimation procedures, the follow up of efficiency targets and best estimates. Most of the contracts have fixed prices so the degree of variability in gross earnings on projects is minimal. Project income is recognised based on an estimated profit, provided it can be estimated reliably. Any anticipated loss on the remainder of a project will be expensed in full immediately.

Goodwill
The Group has goodwill on its balance sheet as a result of business combinations. Goodwill is not amortised, but is rather subjected to an impairment test. Impairment tests are conducted annually, as well as in cases where there are indications of a decrease in value. At 31 Dec. 2005, recognised goodwill was MNOK 1 095. The impairment test for 2005 revealed no need for write-downs. Changes in market conditions and estimated cash flows may require write-downs in subsequent periods. For accounting purposes, the treatment of goodwill is described under the section on policies (below), and in Notes 12 and 13.

Development costs
Expenses related to development activities are capitalised if the development activities fulfil the requirements for balance sheet recognition. Capitalisation assumes it is possible to identify the intangible asset to be developed and to demonstrate that it is likely that the development work will be successful, and that the future financial benefits attached to the intangible asset will accrue to the enterprise. If the criteria are satisfied, expenses recognised on the balance sheet will include the cost of materials, direct payroll expenses and a percentage of the directly attributable administrative expenses. Capitalised development costs are recognised on the balance sheet at acquisition cost less accumulated depreciation and write-downs.

Assessments of the fulfilment of the criteria for capitalising development costs take place at a pace commensurate with the progress of the ongoing development projects. In 2005, no development activities were considered to satisfy the criteria for balance sheet recognition. The evaluation of whether the criteria for capitalising development costs are satisfied entails uncertainty with a view to technological solutions and commercial conditions in terms of market conditions and profitability.

Net pension liabilities
The Group's Norwegian companies have collective service pension schemes that entitle employees to certain future pension benefits in accordance with defined benefit plans. The pension benefits depend on the individual employee's number of years of service and salary level upon retirement. Net pension liabilities are based on actuarial standards, which rest on assumptions attached, for example, to the discount rate, future wage growth, pension adjustments, the estimated return on pension plan assets, and employee turnover. These assumptions are updated annually. The discount rate is based on the long-term government bond interest rate, plus a supplement that reflects the duration of the pension liability. Assumptions used for the financial statements for 2005 appear in Note 23 'Pensions'. 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 against equity.

The stipulated assumptions are considered realistic. However, an increase in the discounting rate of 1.0% on 31 Dec. 2005 would reduce the Group's pension expenses by about 30%. Correspondingly, a decrease in the discounting rate of 1.0% on 31 Dec. 2005 would increase the Group's pension expenses by about 30%.

Summary of important accounting policies

Cash and cash equivalents

Cash includes cash-in-hand and bank deposits. Cash equivalents are short-term liquid investments that can be converted to a given amount of cash immediately, i.e. within a maximum term of three months.

Foreign currency

Receivables and liabilities are translated at the exchange rates applicable on the balance sheet date. Gains and losses related to foreign exchange items in the commodity flow are classified as operating revenues and expenses. Similarly, excess/negative values attached to forward foreign exchange contracts are recognised at a pace commensurate with the appurtenant projects.

Translation – foreign subsidiaries

The accounts of the 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 Dec. Translation differences are recognised against the Group's equity under 'Translation differences'. Gains and losses on the hedging of investments in foreign subsidiaries are also recognised under 'Translation differences'.

Goodwill

Goodwill is recognised on the balance sheet as acquisition cost less accumulated write-downs and amortisation. Goodwill that arises through the integration of enterprises is allocated to cash-flow-generating units that are expected to realise financial benefits from the synergies that arise from the integration of the enterprise. Goodwill is non-depreciable, but impairment tests are conducted each year and in cases where it is deemed necessary to test for a decrease in value on the date of balance sheet recognition. Decreases in value are calculated by estimating the value of the individual cash-flow-generating units, based on the calculation of anticipated future cash flows. The recoverable amount is calculated using the estimated future cash flow based on the Group's five-year budgets, as well as estimated nominal growth beyond the budgeted five-year period. The budget has been approved by KONGSBERG's management and Board of Directors. Goodwill is described in Note 12, and the impairment test is described in Note 13.

Other intangible assets

Other intangible assets are measured at historical cost. Depreciation is based on estimated useful life. Estimated useful life and the stipulation of the depreciation rate are evaluated annually.

Research and development

Expenses for research activities are recognised as they accrue.

Expenses related to development activities are capitalised if the development activities comply with defined criteria for balance sheet recognition. Capitalisation assumes it is possible to identify the intangible asset to be developed and to demonstrate that it is likely that the development work will be successful, and that the future financial benefits attached to the intangible asset will accrue to the enterprise.

Assessments of the fulfilment of the criteria for capitalising development costs take place at a pace commensurate with the progress of ongoing development projects. Defence & Aerospace operates in a market where some aspects product development are handled as an integral part of customer-financed projects. This means that self-funded development projects in Defence & Aerospace normally become customer-financed before they fulfil the criteria for balance sheet recognition. Offshore & Merchant Marine undertakes self-funded development projects right through 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 the directly attributable administrative expenses. Capitalised development costs are recognised on the balance sheet at acquisition cost less accumulated depreciation and write-downs. The balance sheet at 31 Dec. 2005 contains no capitalised development costs based on an evaluation of this year's and earlier periods' development activities.

Expenses associated with ongoing efforts to adapt or enhance a product's quality are defined as product maintenance and recognised as they accrue.

Provisions

Provisions are recognised when the Group has a current obligation resulting from past events, it is likely that there will be a financial settlement as a result of this obligation, and the amount can be measured reliably.

Provisions for guarantee commitments are recognised when the underlying products or services are sold. Provisions are based on historical data on guarantees and a weighting of possible outcomes against the probability they will occur.

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

Provisions for onerous (loss-making) contracts are recognised when the Group's anticipated earnings from a contract are lower than unavoidable expenses expected to accrue to satisfy the Group's obligations under the contract.

Property, plant and equipment

Property, plant and equipment are recognised at historical cost, less accumulated depreciation and write-downs. Property, plant and equipment are depreciated on a straight-line basis over their estimated useful life. Projected residual value is taken into account when stipulating the depreciation plan. Remaining estimated useful life and estimated residual value are assessed every year. Each year, an impairment test is conducted to determine whether there are indications of a decrease in value. If such indications exist, an impairment test will be conducted on the non-current assets. If an asset's carrying amount exceeds the asset's recoverable amount, it will be written down. The recoverable amount is defined as whichever is higher, the net realisable value or the estimated value of the asset in use in the business. The value in use is based on the present value of future estimated cash flows.

Inventories

Inventories are valued at average cost price or net realisable value, whichever is lower. 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.

Classification

Assets related to commodity flows or that fall due within 12 months, are classified as current. Other assets are classified as non-current. Similarly, liabilities related to commodity flows or that fall due within 12 months, are classified as current. Others liabilities are classified as non-current.

Borrowing costs

Borrowing costs are expensed when incurred. Interest expenses on loans are recognised using the effective interest method of accounting.

Revenue recognition

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, common administrative costs and interest 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 on the basis of the costs incurred compared with the anticipated 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 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 has changed the classification of projects in progress and prepayments from customers. Projects in progress were formerly presented under receivables, but they are now presented as a separate 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.

Supplementary contracts are defined as additions to existing delivery contracts. Supplementary contracts are recognised when the probability of the formation of a contract can be ascertained with a high degree of probability. Contractual additional services and estimated additional costs are included in the original project costings and recognised as income at a pace commensurate with the progress of the overall project.

A group of contracts or deliveries is treated as a single construction contract when the deliveries are covered by a single contract, 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, 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.

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

Receivables

Accounts receivable and other receivables are recognised at their nominal value less any decrease in value. Accounts receivable in foreign currencies are recognised at the exchange rates on the balance sheet date.

Leases

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 leases are therefore considered to be operational leases. Rent is expensed on a straight-line basis over the term of the lease. In connection with sale and leaseback, subleases were signed at a lower rent than indicated on the lease agreement. In addition, the Group has undertaken operational and maintenance responsibilities for subleased buildings. This net loss is considered an onerous (loss-making) contract under IAS 37 and the net current value of future losses is provided for in the accounts. The provision is remeasured each year.

Financial instruments

Financial assets and liabilities

Kongsberg classifies financial assets and liabilities according to IAS 39 in the following categories: fair value with changes in the value of the asset (held for trading), financial assets and liabilities held to maturity, financial assets available for sale, and other financial liabilities.

Assets and liabilities related to continuing operations are valued at their amortised cost which in practice implies their nominal value with any write downs for anticipated losses. The Group's borrowings are considered financial liabilities held to maturity. These are recognised at their amortised cost.

All shares that are not in subsidiaries or associates on the balance sheet at 31 Dec. 2005 are defined as financial instruments available for sale. Financial assets available for sale are capitalised at their fair values based on market price on the stock exchange on the date of balance sheet recognition, discounted cash flow analyses, and other relevant valuation models. Changes in the value of financial assets available for sale are recognised directly against equity. Where there is objective evidence that a financial asset's value is lower than its cost price, the asset is written down through profit or loss. Certain equity instruments are not traded in an active market and their value cannot be reliably established, so they are recognised at historical cost less any write-downs called for by an impairment test.

Derivatives

For Kongsberg, derivatives encompass forward foreign exchange and option contracts, currency options and interest rate swap agreements. The fair value of forward foreign exchange and option contracts and currency options is estimated based on market rates on the date of balance sheet recognition. The fair value of interest rate swap agreements is estimated based on obtained prices from the banks on the balance sheet date. Changes in the fair value of derivatives are recognised over the profit and loss, unless they qualify for hedge accounting.

Hedging

Before a hedge transaction is conducted, the Group's financial services 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 likely future transaction or, in the case of foreign 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 by offsetting changes in fair value or cash flows related to an identified object – hedging effectiveness must be estimated within an interval from 80 to 125%, (2) the effectiveness of the hedge can be measured reliably, (3) satisfactory documentation is available upon undertaking the hedge, indicating among other things that the hedge will be effective, (4) for a cash flow hedge, that the forecased transaction must be highly probable, and (5) that the hedge be evaluated on an ongoing basis and has proven to be effective.

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 against the balance sheet, with a corresponding adjustment of the hedged item. The hedge designation will be discontinued if:
(a) the hedging instrument expires or is sold, terminated, or exercised,
(b) the hedge no longer meets the hedge accounting criteria, or
(c) the Group for other reasons decides to discontinue hedge accounting.

ii) Cash flow hedging (budgetary hedges 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 established strategy (budgetary hedges). Kongsberg's policy is to keep interest expenses predictable in a two- to four-year perspective. Kongsberg hedges its loans *inter alia* by using interest rate swap agreements (interest hedges). The effective share of the changes in the fair value of a hedging instrument is recognised directly against equity. The ineffective share of the hedge instrument 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 and loss.

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

If the hedge instrument expires without being rolled over or if the hedge relationship is discontinued, the accumulated gains and losses recognised against equity up to this date will remain in equity and be recognised on the income statement according to the 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 in equity are transferred to 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 against equity as part of translation differences shall be recognised on the income statement upon disposing of the foreign operation.

Employee benefits
Defined benefit pension plans
The Group's Norwegian companies have collective 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. There are also early retirement plans for some executives. To ensure uniform calculation of KONGSBERG's pension liabilities, all corporate units have used the same actuary. In the income statement, the year's net pension expenses, after a deduction for the anticipated 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 the obligation and pension plan assets are recognised against equity. The financial and actuarial assumptions are subject to annual evaluations. 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 profit or loss attached to changes in the basis data, estimates and changes in assumptions are recognised directly against 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 several years, the Group has conducted a share programme for all employees, 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 the value of 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 on an ongoing basis until they are exercised. The expense is distributed over the vesting period.

Reporting segments
The Group is organised in two business areas: Defence & Aerospace and Offshore & Merchant Marine. The business areas constitute the basis for the primary reporting by segment. Financial information concerning the segments and the geographical regions is presented in Note 3.

Contingent liabilities
A contingent liability is a potential obligation arising from past events, and whose existence will only be confirmed if one or more uncertain events do or do not take place in the future which, in their entirety, are within the control of the enterprise, or an existing obligation that arises due to past events, but which is not recognised because: a) it is not likely that an outflow of resources embodying financial benefits from the enterprise will be required to meet the obligation, or b) the amount at which the settlement will take place cannot be measured reliably. Significant contingent liabilities are disclosed, except for contingent obligations where the probability of incurring the liability is low.

Equity
Treasury shares
When buying back treasury shares, the acquisition price, including directly attributable expenses, is recognised as a change in equity. Treasury shares are presented as a reduction in equity. Losses or gains on transactions with treasury shares are not recognised.

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

Net unrealised gains reserve
Translation differences arise in connection with exchange rate differences upon the consolidation of foreign units.

Exchange rate differences on financial items (debt or receivable) which are a *de facto* part of a company's net investment in a foreign unit are also included in translation differences.

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

The foreign currency tranlsation reserve 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.

Minority interests
Minority interests include the minority's share of the book value of subsidiaries, including a percentage of identified excess value on the date of acquisition.

Losses in a consolidated subsidiary that can be attributed to the minority interests cannot exceed the minority's share of equity in the consolidated subsidiary. Excess losses are recognised against 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 majority's share of the subsidiary's equity shall be adjusted until the minority's share of past losses is covered.

Taxes
Tax expenses on the income statement include payable taxes and the change in deferred taxes. The change in deferred taxes reflects the future payable taxes resulting from the current year's activities. Deferred taxes are based on accumulated profit, but they fall due in subsequent accounting periods. Deferred taxes are calculated on net tax-increasing differences between the balance sheet items used for accounting purposes and those used for taxation purposes, adjusted for temporary tax-decreasing 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 temporary tax-increasing differences.

IFRS standards not yet implemented
IAS 39 (amendment): Fair value option – The amendment changes the definition of financial instruments classified at fair value in the income statement and limits the possibility to define financial instruments within this category. The Group will introduce this amendment into its financial statements as from 1 Jan. 2006, but does not expect it to have any substantial impact on the Group's classification of financial instruments.

IAS 39 and IFRS 4 (amendment): Financial guarantee contracts – This amendment is not expected to be relevant for the Group's activities. The amendment will apply as from 1 Jan. 2006.

IFRS 7: Financial instruments: Disclosure requirement – IFRS 7 introduces new disclosure requirements to improve reporting on financial instruments. The Group will comply with IFRS 7 and the amendment to IAS 1 in its financial statements as from 1 Jan. 2006.

3 Business segments

Segment information is presented for business segments and geographical segments. Business areas is 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 units that are organised and managed separately. The various business segments sell different products, address different customer groups and have different risk and return profiles. Kongsberg is divided into the following business areas:

a. Offshore & Merchant Marine
b. Defence & Aerospace

The company sold its yachting activities in October 2005. The business constituted the bulk of the former 'Yachting & Fishery' segment. Simrad's fishery operations are now reported as part of the Offshore & Merchant Marine segment. See Note 4 for more information.

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

Intra-group transactions are based on market terms. Segment sales, segment expenses and segment performance include Intra-Group transactions. The same applies to receivables and liabilities related to commodity flows.

Transactions within the various segments have been eliminated.

Geographical segments

The Group's activities are generally divided into the following regions: Europe, North America and Southeast Asia.

Business segments	Offshore & Merchant Marine		Defence & Aerospace		Not allocated/ Other activities		Eliminations		Total, continued operations		Discontinued operations		Consolidated	
Amounts in MNOK	*2005*	*2004*	*2005*	*2004*	*2005*	*2004*	*2005*	*2004*	*2005*	*2004*	*2005*	*2004*	*2005*	*2004*
Results														
Income from external customers	3 009	2 991	2 560	2 699	136	124	-	-	5 705	5 814	451	625	6 156	6 439
Intra-group transactions	25	22	4	5	-	-	(29)	(27)	-	-	-	-	-	-
Total revenues	**3 034**	**3 013**	**2 564**	**2 704**	**136**	**124**	**(29)**	**(27)**	**5 705**	**5 814**	**451**	**625**	**6 156**	**6 439**
Profit before tax	**262**	**242**	**117**	**(31)**	**(19)**	**10**	**-**	**-**	**360**	**221**	**22**	**22**	**382**	**243**
Net financial expenses	-	-	-	-	(57)	(59)	-	-	(57)	(59)	(7)	(8)	(64)	(67)
Income from associates	-	-	8	17	-	-	-	-	8	17	-	-	8	17
Tax expense	-	-	-	-	(96)	(70)	-	-	(96)	(70)	(5)	(5)	(101)	(75)
Gain on the disposal of business units, after tax	-	-	-	-	-	-	-	-	-	-	37	-	37	-
Profit for the year	**262**	**242**	**125**	**(14)**	**(172)**	**(119)**	**-**	**-**	**215**	**109**	**47**	**9**	**262**	**118**
Assets and liabilities														
Segment capital employed	3 453	3 033	1 924	1 870	-	-	-	-	5 377	4 903	-	646	5 377	5 549
Investments in associates	-	-	49	49	-	-	-	-	49	49	-	-	49	49
Bank and investments	-	-	-	-	723	162	-	-	723	162	-	-	723	162
Non-allocated assets	-	-	-	-	394	498	-	-	394	498	-		394	498
Total assets	**3 453**	**3 033**	**1 973**	**1 919**	**1 117**	**660**	**-**	**-**	**6 543**	**5 612**	**-**	**646**	**6 543**	**6 258**
Segment interest-free liabilities	1 070	900	761	775	-	-	-	-	1 831	1 675	-	104	1 831	1 779
Prepayments from customers	551	356	1 066	688	-	-	-	-	1 617	1 044	-	-	1 617	1 044
Non-allocated liabilities	-	-	-	-	583	546	-	-	583	546	-		583	546
Interest-bearing debt	-	-	-	-	1 007	1 263	-	-	1 007	1 263	-		1 007	1 263
Total liabilities	**1 621**	**1 256**	**1 827**	**1 462**	**1 590**	**1 809**	**-**	**-**	**5 038**	**4 528**	**-**	**104**	**5 038**	**4 632**
Other segmental information														
Depreciation by segment	76	82	74	77	6	7	-	-	156	166	-	24	156	190
Investments in intangible assets	-	12	40	26	-	-	-	-	40	38	-	7	40	45
Investments in property, plant and equipment	84	78	22	62	9	3	-	-	115	143	-	9	115	152

Geographical segments	Norway		Rest of Europe		America		Asia		Other		Total	
Amounts in MNOK	*2005*	*2004*	*2005*	*2004*	*2005*	*2004*	*2005*	*2004*	*2005*	*2004*	*2005*	*2004*
Income from external customers	1 879	1 780	1 384	1 835	1 155	1 129	1 181	990	106	80	5 705	5 814
Income as a % of total	33%	31%	24%	32%	20%	19%	21%	17%	2%	1%	-	-
Segment assets	5 660	5 117	286	667	320	265	277	209	-	-	6 543	6 258
Investments	144	157	2	31	5	5	4	4	-	-	155	197

4 Changes in Group structure

Discontinued operations

On 26 September 2005, it was announced that Kongsberg had signed an agreement with the Nordic investment fund Altor for the sale of the parts of Simrad that develop, manufacture and sell maritime electronics for use on yachts and commercial vessels. Those operations will continue under the name Simrad Yachting. Kongsberg will continue to own the remainder of Simrad, which focuses on the commercial fishery segment.

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

Amounts in MNOK	*2005*	*2004*
Sales revenues	451	625
Operating expenses	(429)	(603)
Operating profit/(loss)	**22**	**22**
Net financial revenue	(7)	(8)
EBT – earnings before tax	**15**	**14**
Gain on disposal of business units before tax	47	-
Tax	(15)	(5)
Profit from continuing operations, net after tax	**47**	**9**

5 Other operating expenses

Other operating expenses consist of all operating expenses apart from wages and depreciation. Selected types of costs are specified below.

Amounts in MNOK	*2005*	*2004*
Sales, advertising, etc.	37	58
Contracted services	197	217
Repairs and maintenance	44	54
Rent-related expenses	145	154
Travel and *per diem* expenses	215	202
Procurements related to operations	68	67
Other	155	153
Total	**861**	**905**

Remuneration to the auditor for 2005 *Amounts in NOK 1 000*	*Parent company*	*Subsidiaries in Norway*	*Subsidiaries abroad*	*Total*
Corporate auditor Ernst & Young:				
Mandatory audits	850	4 775	950	6 575
Others assurance services	-	302	-	302
Tax consultancy	12	595	950	1 557
Services other than auditing	179	483	-	662
Total fees, Ernst & Young	**1 041**	**6 155**	**1 900**	**9 096**
Others auditors				
Audit fees		80	250	330

6 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	*2005*	*2004*
Salaries	1 581	1 622
Social security tax	245	236
Pension expenses, defined benefit plans (Note 23)	99	92
Pension expenses, defined contribution plan (Note 23)	5	9
Other benefits	78	76
Total personnel expenses	**2 008**	**2 029**

Average number of employees

	2005	*2004*
Norway	2 888	3 024
Europe	195	231
America	119	113
Asia	191	179
Other	6	5
Total	**3 399**	**3 552**

The number of employees has been adjusted for the disposal of yachting activities.

Options for employees

For several 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 has owned them for more than two years. Discounts on the sale of shares to employees are recognised as personnel expenses. The fair value of the options is estimated on the date of balance sheet recognition and expensed as personnel expenses over the accrual period. The option scheme is cash-based.

The share programme for 2005 offered shares for up to NOK 30 000 per employee, including a 20 per cent discount. The options have an exercise price of NOK 106.

Amounts in MNOK	*2005*	*2004*
Number of options outstanding 1 Jan.	144 629	197 697
Number of options awarded	71 497	70 718
Number of exercised/expired options	(73 911)	(123 786)
Outstanding options 31 Dec.	**142 215**	**144 629**
Of which, fully mature	-	-

The amounts charged against income for 2005 are MNOK 2.8, including social security contributions.

The outstanding options

Expiration date	*Exercise price in NOK*	*Number*	*Value per option in NOK at 31 Dec 05*	*Liabilities in MNOK at 31 Dec 05*
2006	93	70 718	33	2.3
2007	106	71 497	30	2.1

The fair value of the options is estimated using Black and Schole's option pricing model.

The option value is calculated at the fair value at 31 Dec. 2005, as the scheme is cash-based. The market value by shares 31 Dec. 2005 was NOK 124.

It is assumed that historic volatility is an indication of future volatility. Anticipated volatility is therefore assumed to be similar to historic volatility.

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

7 Investments in associates

Associates are companies in which the Group owns between 20 and 50 per cent and exercises significant influence. These investments are recognised by reporting the Group's share of the companies' profit/loss after tax, adjusted for the amortisation of excess values, if any. The balance sheet presents stakes at their cost price plus accumulated results, adjusted for the amortisation of excess values and dividends received, if any. Actuarial gains/losses on pension expenses in associates are recognised directly against equity.

Amounts in MNOK	*Year of acquisition*	*Stake/voting interest*	*Opening balance at 1 Jan*	*Additions/ Disposals*	*Dividends*	*Actuarial gain/losses on pension expenses*	*Share of profit/loss*	*Closing balance at 31 Dec*
Kongsberg Satellite Services AS (Tromsø)	1998	50.0%	40	-	-	(5)	7	42
CCIS House AS (Asker)	1998	42.5%	2	-	-		-	2
Kongsberg Terotech AS (Kongsberg)	1988	50.0%	4	-	-	(3)	1	2
Reime Prosess Notodden AS (Notodden)	2002	49.0%	3	-	-		-	3
Total			**49**	**0**	**0**	**(8)**	**8**	**49**

Summary of financial information on the individual associates:

Amounts in MNOK	*Assets*	*Liabilities*	*Equity*	*Sales*	*Net profit*
Kongsberg Satellite Services AS (Tromsø)	208	124	84	108	15
CCIS House AS (Asker)	5	-	5	-	-
Kongsberg Terotech AS (Kongsberg)	30	26	4	64	2
Reime Prosess Notodden AS (Notodden)	22	15	7	43	1

The table indicates 100 per cent values, rather than the Group's proportional interest.
All the companies are unlisted, meaning there are no observable market values.

8 Net financial items

Net financial items consist of all consolidated interest income and interest expenses associated with corporate funding. Moreover, the net foreign exchange effects of the Group's financial activities are reported as net exchange gains or losses. Exchange gain or loss attached to commodity flows are recognised as operating items.

Amounts in MNOK	*2005*	*2004*
Interest income	1	1
Gain on disposal of shares	5	31
Financial revenue	**6**	**32**
Interest expenses	(54)	(78)
Other financial costs	(9)	(13)
Financial costs	**(63)**	**(91)**
Net financial items	**(57)**	**(59)**

9 Tax

Tax expense

Amounts in MNOK	*2005*	*2004*
Tax payable	8	6
Change, deferred tax	88	64
Tax expense	**96**	**70**
Effective tax rate	31%	39%

Amounts in MNOK	*2005*	*2004*
Profit from continuing operations before tax	**311**	**179**
Estimated tax based on a tax rate of 28 per cent of the profit before tax	87	50
The effect of tax rate differences between Norway and other countries and unrecognised tax assets abroad	3	17
Other permanent differences	6	3
Tax expense	**96**	**70**
Profit from discontinued operations before tax	**15**	**14**
Tax on profit from discontinued operations	5	5
Tax on gain on sales	10	
Tax expense, discontinued operations	**15**	**5**
Tax expense on the income statement	96	70
Tax expense, discontinued operations	15	5
Tax expense	**111**	**75**

Deferred tax and deferred tax assets

Amounts in MNOK	*31 Dec 05*	*1 Jan 05*	*31 Dec 04*
Deferred tax asset			
Pension	656	456	456
Loss to be carried forward	412	283	283
Other	214	120	120
Deferred tax asset – gross	**1 282**	**859**	**859**
Deferred tax liability			
Non-current assets	441	432	432
Long-term production contracts	2 116	1 744	1 744
Financial instruments	93	187	-
Deferred tax liability – gross	**2 650**	**2 363**	**2 176**
Net temporary differences and tax-related deficit	1 368	1 504	1 317
Net recognised deferred tax liability	383	421	369

The Group's loss to be carried forward at 31 Dec. 2005 can be carried forward indefinitely.

Deferred tax recognised directly against equity is as follows:

Amounts in MNOK	*31 Dec 05*	*1 Jan 05*	*31 Dec 04*
Pension	(86)		(181)
Cash flow hedges	(40)	52	
Goodwill			20
Translation differences	(10)	-	
Total	**(136)**	**52**	**(161)**

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

No deferred tax is set aside for latent tax liabilities (witholding tax) related to investments in foreign subsidiaries.

10 Earnings per share

Earnings per share are calculated as the ratio between the net profit/loss for the year that accrues to the ordinary shareholders, weighted by the average number of shares outstanding.

In calculating the diluted earnings per share, the profit that accrues to the ordinary shareholders and the number of weighted average shares outstanding is adjusted for all dilution effects attached to share options.

	2005	*2004*
Net profit for the year that accrues to the shareholders, in MNOK		
Profit from continuing operations, net after tax	215	109
Minority interests of the profit	2	(2)
Profit, discontinued operations	47	9
Net profit for the year/diluted profit accruing to the ordinary shareholders	**260**	**120**
Average weighted number of shares outstanding at 31 Dec. in millions of shares (Note 21)		
Ordinary shares issued at 1 Jan.	30.00	30.00
Effect of treasury shares	(0.06)	(0.20)
Average weighted number of ordinary shares 31 Dec.	**29.94**	**29.80**
Effect of employee options	0.03	0.00
Average weighted number of shares outstanding 31 Dec. – diluted	**29.97**	**29.80**
Earnings per share in NOK		
– profit from continuing operations per share	7.19	3.66
– profit from continuing operations per share, diluted	7.19	3.66
– earnings per share for the year	8.70	4.03
– net profit for the year per share, diluted	8.69	4.03

11 Non-current assets

Amounts in MNOK	*Machinery*	*Equipment*	*Land, buildings and other real property*	*2005*	*2004*
Cost of acquisition					
1 Jan.	512	1 080	915	2 507	2 420
Additions	20	63	32	115	153
Disposals	(2)	(24)	(10)	(36)	(54)
Disposals through sale of business units	(131)	(86)	(47)	(264)	-
Translation differences	1	(4)	(4)	(7)	(12)
31 Dec.	**400**	**1 029**	**886**	**2 315**	**2 507**
Accumulated depreciation and write-downs					
1 Jan.	360	857	248	1 465	1 334
Depreciation for the year	24	91	34	149	187
Write-downs for the year	-	-	-	-	-
Disposals	(1)	(17)	(5)	(23)	(54)
Disposals after the sale of business units	(105)	(75)	(17)	(197)	-
Translation differences	1	(3)	(1)	(3)	(2)
31 Dec.	**279**	**853**	**259**	**1 391**	**1 465**
Book value 1 Jan.	**152**	**223**	**667**	**1 042**	**1 086**
Book value 31 Dec.	**121**	**176**	**627**	**924**	**1 042**
Annual rent for operating leases not recognised on the balance sheet	4	10	128	142	144

12 Intangible assets

Goodwill

Amounts in MNOK	*Goodwill*	*Patents and licences*	*2005*	*2004*
Cost price				
Opening balance at 1 Jan.	1 685	43	1 728	1 686
Translation differences	-	-	-	(3)
Additions	-	4	4	26
Discontinued operations	(206)	-	(206)	-
Acquisition of subsidiaries	36	-	36	19
31 Dec.	**1 515**	**47**	**1 562**	**1 728**
Accumulated depreciation and write-downs				
Opening balance	473	8	481	478
Depreciation and write-downs	-	7	7	3
Discontinued operations	(53)		(53)	-
31 Dec.	**420**	**15**	**435**	**481**
Book value 1 Jan.	**1 212**	**35**	**1 247**	**1 208**
Book value 31 Dec.	**1 095**	**32**	**1 127**	**1 247**

From 1 Jan. 2005, upon making the transition to IFRS, goodwill will no longer be amortised. Nonetheless, Impairment tests will be performed every year (See Note 13).

In September 2005, an agreement was signed regarding the sale of the parts of Simrad that develop, manufacture and sell maritime electronics for use on yachts and commercial vessels. Goodwill items attached to these operations have not been carried forward.

Acquisition of minority interest

Kongsberg acquired 100 per cent ownership of Norcontrol IT AS by acquiring one-third of the shares from minority shareholders in the enterprise for MNOK 42. The company will be transferred from Kongsberg Maritime to Kongsberg Defence & Aerospace as from 1 January 2006. The company's operations will be integrated into a division that targets maritime and land-based surveillance systems for civilian, military and other public installations at the national and international levels.

Development costs

Expenditures attached to self-funded development:

Amounts in MNOK	*Product maintenance*	*Develop-ment costs*	*Total*
Offshore & Merchant Marine	52	155	207
Defence & Aerospace	8	43	51
Total	**60**	**198**	**258**

Kongsberg's spending on research and development is equivalent to more than 10 per cent of its operating revenues. Of that amount, MNOK 258, corresponding to 5 per cent of operating revenues, is self-funded development. Expenses related to product maintenance are expensed on an ongoing basis. None of the other development projects are considered to satisfy the criteria for balance sheet recognition.

Evaluation of fulfillment of the criteria for balance sheet recognition of development costs takes place at a pace commensurate with the progress of ongoing development projects. Defence & Aerospace operates in a market where product development takes place as an integrated part of customer-financed projects. This means self-funded development projects at Defence & Aerospace normally become customer-financed before they fulfil the criteria for balance sheet recognition. Where the customer funds development, efforts are made to obtain ownership rights to the developed product. Offshore & Merchant Marine undertakes self-funded development projects through to the finished product. During the development phase, based on technical success and market assessments, it is decided whether one should complete development and capitalisation can begin.

Capitalisation is not undertaken. This is based on a concrete evaluation of the individual development projects against the requirements in the standard. In most cases, considerable uncertainty is attached to the technological solution virtually right up until the product is put into production. There is also considerable uncertainty attached to marketing conditions almost right up until the product is launched on the market. Some development projects are further developments of existing products, where the financial benefit of further development is uncertain until the product is tested on the market.

13 Impairment tests for goodwill

Goodwill obtained through acquisitions and mergers is allocated to the following cash flow generating units:

- Offshore & Merchant Marine
- Fishery
- Defence Communication

The recoverable amount is adopted based on the estimated cash flow in the unit's strategic plan document. Approved by the Board and corporate management, the plan document covers a five-year period. The cash flow from Offshore & Merchant Marine is based on historical experience. As regards Fishery and Defence Communication, the cash flows are based on the current reorganisation process, which is intended to entail improvement. The interest rate used for discounting cash flows is 8 per cent (8 per cent in 2004). The discount rate is based on a risk free interest rate of 3.75 per cent (10-year government bond rate) plus a risk premium of 4.25 per cent, and is nominal before tax. It is assumed there will be nominal growth of 1 per cent after the five-year period. The book values will be carried forward.

The goodwill values carried forward are as follows:

Amounts in MNOK	*Offshore & Merchant Marine*	*Fishery*	*Defence Communi-cation*	*Other*	*Total*
Value of goodwill carried forward	986	43	59	7	1 095

14 Financial instruments

Corporate Policy

The Group deals with financial risk at the corporate level. The Group has adopted a "Corporate Financial Policy" which provides guidelines for risk management in the Group. KONGSBERG aspires to keep its financial risk low.

Interest rate risk

KONGSBERG's policy is to keep interest expenses predictable in a two- to four-year perspective. The Group hedges its loans through fixed-interest and interest rate swap agreements.

At 31 December 2005, the Group had the following fixed interest and interest rate swap agreements (from floating to fixed interest):

	Due date	*MNOK*	*Years remaining*	*Interest rate*	*Excess (+)/ negative value (-) 31 Dec 05*	*Excess (+)/ negative value (-) 1 Jan 05*
Interest rate swap agreements						
Agreement 1	19 Dec 07	300	2.0	6.83%	(20.4)	(33.9)
Agreement 2	17 June 09	300	3.5	5.40%	(17.2)	(25.3)
Agreement 3	17 Dec 08	100	3.0	5.62%	(5.9)	(9.0)
Total interest rate swap agreements		**700**	**2.8**		**(43.5)**	**(68.2)**
Fixed rate agreements						
Bond loan ISIN 00101 9701.5	26 Sept 07	300	1.7	5.24%	(6.1)	(11.5)
Total		**1 000**	**2.4**		**(49.6)**	**(79.7)**

The interest rate swap agreements for a total of MNOK 700 are to cover interest rate risk in the floating part of the Group's debt portfolio, cf. Note 25 'Non-current interest-bearing'.

Interest rate swap agreement 2 covers certificate loans (MNOK 300 at 31 Dec. 2005) and interest rate swap agreements 1 and 3 cover bond issues with floating interest rates (MNOK 400 at 31 Dec. 2005). These interest hedges are defined as cash flow hedges and excess/negative values are recognised against consolidated equity.
The fixed interest loan is valued at its amortised cost.

Other interest rate swap agreements

The Group has signed interest rate swap agreements from floating to fixed interest for the nominal amount of MNOK 150. The agreements were signed in conjunction with leases for sale and leaseback agreements discussed in Note 28. Negative value on interest rate swap agreements used to be provided for on an ongoing basis as part of the calculated loss on sale and leaseback agreements, but is now shown separately on the balance sheet as a negative value in connection with financial instruments.

Of this interest rate swap agreement, 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. 2005, the interest rate swap agreement (from floating to fixed interest) had the following value:

	Due date	*MNOK*	*Years remaining*	*Interest rate*	*Excess (+)/ negative value (-) 31 Dec 05*	*Excess (+)/ negative value (-) 1 Jan 05*
Interest rate swap agreements	2 Nov 2011	150	5.8	6.29%	(20.3)	(22.0)

Funding risk

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 two years.

The Group also has strives to ensure that its short-term loans in the money market never exceed available long-term credit limits.
At 31 Dec. 2005, the Group had the following loans and loan parameters:

	MNOK	*Due date*	*To maturity*
Syndicated loan 1	800	1 March 09	3.17
Syndicated loan 2	300	1 March 06	0.16
Bond loan ISIN 00101 9701.4 (fixed interest)	300	26 Sept 07	1.74
Bond loan ISIN 00101 2638.4 (floating interest rates)	400	10 June 09	3.44
Total borrowing limit	**1 800**		**2.54**

The syndicated credit facility consists of two parts: one short-term part of MNOK 300 that can be renewed every year, and a part of MNOK 800 that runs until 2009, cf. Note 25.

In the light of the Group's financial situation following the disposal of yachting activities, the short-term part of syndicated credit facility, MNOK 300, was not renewed on 1 March 2006, thus reducing the loan parameters by MNOK 300.

The Group has no financial instruments intended to cover refinancing risk.

Foreign currency risk

The Group has considerable foreign exchange exposure, earning about 70 per cent of its income abroad. The Group also makes significant purchases from abroad and engages in operations outside Norway, reducing its net foreign currency exposure by about 30 to 40 per cent. The Group's net exposure is especially high in USD. Kongsberg Gruppen's policy is to foreign currency risk while actively assessing various currencies' importance as a competitive parameter. All contractual currency flows are hedged (project hedging), and hedging is also used for projected currency flows (budgetary hedging). The Group also hedges loans granted by Kongsberg Gruppen ASA to foreign subsidiaries as well as investments in foreign subsidiaries.

Since the Group has hedged budgeted currency flows and signed contracts in foreign currencies, consolidated operating revenues and profits are not expected to be influenced much by fluctuations in foreign exchange rates over the next one to three years.

At 31 December 2005, the Group had no significant foreign currency loans.

Hedging accounting is based on forward foreign exchange and option 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. 2005, the Group had the following hedges, by hedge category:

Hedge category	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 05*	*Excess (+)/ negative value (-) 1 Jan 05*
Budgetary hedging (cash flow hedges)	2 486	55	304
Project hedging (fair value hedges)	1 371	(41)	142
Loan hedging (fair value hedges)[1]	24	-	3
Equity hedging (net invest. abroad)	220	(2)	(3)
Total	**4 101**	**12**	**446**

1) Loan hedges are currency hedges attached to foreign currency loans.

Excess/negative values in cash flow hedges are recognised against equity, in this case excess/negative values attached to budgetary hedging. The excess/negative value in the table is recognised gross before tax, while the equity effect is estimated less tax, cf. Note 22 'Reconciliation of equity'.

Budgetary hedging is primarily related to the maritime segment in the Group, although budgetary hedging is also used in defence activities. The CEO stipulates parameters for how much the individual division or business area can engage in budgetary hedging. The hedges can cover up to 80 per cent of anticipated earnings on contracts, or anticipated new orders, for each individual year up to five years into the future. The following table demonstrates the chronological distribution of budgetary hedging (forward sales of foreign currency for budgetary hedging at 31 Dec. 2005):

Net forward sale of foreign currency for budgetary hedging

	2006		2007 and later		Total	
Amounts in MNOK	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 05*	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 05*	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 05*
EUR	644	8	318	14	962	22
USD	1 066	23	453	9	1 519	33
Other currencies	3		2		5	
Total budgetary hedging	**1 713**	**32**	**773**	**23**	**2 486**	**55**

Project hedging is primarily associated with defence activities in the Group, but there is also a portfolio attached to the maritime segment. Projects are fully hedged upon signing agreements. Minor contracts and ongoing sales can be guaranteed through budgetary hedging. The following table shows how project hedging is distributed over time (forward sale of foreign currency for project hedging at 31 Dec. 2005):

Net forward sales of foreign currency for project hedging

	2006		2007 and later		Total	
Amounts in MNOK	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 05*	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 05*	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 05*
EUR	121	1	163	5	284	6
USD	960	(38)	214	(9)	1 175	(47)
Other currencies	(116)		28		(88)	
Total project hedging	**966**	**(37)**	**405**	**(4)**	**1 371**	**(41)**

Summary, financial instruments	Book value		Fair value	
Amounts in MNOK	*31 Dec 05*	*1 Jan 05*	*31 Dec 05*	*1 Jan 05*
Financial assets				
Cash and cash equivalents	723	162	723	162
Available-for-sale investments	133	88	133	88
Foreign exchange, fair value hedges	27	144	27	144
Foreign exchange, cash flow hedges	102	304	102	304
Financial obligations				
Interest-bearing liabilities	(1 005)	(1 261)	(1 011)	(1 273)
Interest rate swap agreements to hedge debt	(43)	(68)	(43)	(68)
Interest rate swap agreements attached to sale/leaseback	(20)	(22)	(20)	(20)
Foreign exchange, fair value hedges	(68)	-	(68)	-
Foreign exchange, cash flow hedges	(47)	-	(47)	-
Foreign exchange, equity hedges	(2)	(3)	(2)	(3)

Changes in fair value of financial instruments during the year, where the change is recognised against equity

Figures before tax, in MNOK	*Cashh flow hedges*	*Interest rate swap agreements*	*Shares available for sale*	*Total*
Excess/(negative value) and unrealised gains at 1 Jan.	304	(68)	21	257
Recognised (gain)/loss in the period	(72)	28		(44)
Changes in excess/(negative value) throughout the period	(105)	(3)	7	(101)
Excess/(negative value) and unrealised gains at 31 Dec.	127	(43)	28	112

Credit risk

The Group has at all times more than NOK 1 billion in accounts receivable. These receivables entail different degrees of risk, depending on the customer, maturity, and whether payment guarantees, etc. were issued.

Customers are generally public undertakings and major 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 to take limited positions in the interest and currency market. All positions are recognised at market value, and gains/losses converted into cash and changes in market value are recognised against the profit/(loss). The company's positions are handled in a special portfolio, separate from hedge transactions.

With the exception of open interest positions on MNOK 40 attached to sale/leaseback discussed above, at 31 Dec. 2005, the Group had no interest and foreign currency positions.

15 Other non-current assets

Amounts in MNOK	*31 Dec 05*	*31 Dec 04*
Loans to employees	21	21
Loans to associates	20	31
Debt in connection with sales by activity	64	-
Other non-current assets	38	22
Total other non-current assets	**143**	**74**

16 Available-for-sale investments

Amounts in MNOK	*31 Dec 05*	*1 Jan 05*
Investments available for sale		
– Financial non-current assets		
Listed shares	98	71
Other shareholdings	35	17
Total investments available for sale	**133**	**88**

Available-for-sale investments are recognised at fair value. The listed shares are 19 per cent of the shares in Kitron ASA. The shares are recognised at market price on the stock exchange. Changes in fair value are recognised against equity. This came to MNOK 7 for 2005. Other shareholdings are unlisted, so they have no observable market price. No factors have emerged to indicate the writing down of the value of available-for-sale investments, so they are recognised at their historical cost. The largest holding of one individual share is 10 per cent of the shares in Simrad Yachting AS, capitalised at MNOK 15.

17 Inventories

This note shows the Group's aggregate inventories, by raw materials and finished products.

Amounts in MNOK	*31 Dec 05*	*1 Jan 05*
Raw materials, at net sales value	636	519
Work in progress, at net sales value	27	57
Finished product, at net sales value	183	266
Total	**846**	**842**

18 Receivables

Amounts in MNOK	*31 Dec 05*	*1 Jan 05*
Receivables	942	1 150
Other receivables	247	216
Prepayments to suppliers	29	16
Total	**1 218**	**1 382**

19 Long-term production contracts

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 recognised on the balance sheet as an asset, and gross amounts due to customers for contract work (Prepayments from customers) are recognised on the balance sheet as a liability.

Projects in progress are the net amount of accumulated operating revenues less accumulated invoicing for all ongoing contracts where accumulated operating revenues are higher than accumulated invoicing.

Prepayments from customers are the net amount of accumulated operating revenues less accumulated invoicing for all ongoing contracts where accumulated invoicing is higher than accumulated operating revenues.

Amounts in MNOK	*31 Dec 05*	*1 Jan 05*
Projects in progress	1 253	926
Prepayments from customers	1 617	1 044
Net projects in progress	**(364)**	**(118)**

Offshore & Merchant Marine and Defence & Aerospace are the most project-oriented segments of Kongsberg. Most of Offshore & Merchant Marine's projects have a duration of less than two years, and earnings on individual projects make modest contributions to consolidated 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

Summary of significant contract data by reporting segment:

Amounts in MNOK	*31 Dec 05*
Total orders	18 245
Operating revenues 2005	3 891
Accumulated operating revenues	13 513
Accumulated variable expenses	10 037
Recognised contract profit	3 476
Remaining operating revenues	4 732
Prepayments received	1 617

The Group has changed the classification of projects in progress and prepayments from customers. Projects in progress were formerly presented under receivables, but they are now presented as a separate item. Prepayments from customers were formerly divided into 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.

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 regarding the costs 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 started prior to the signing of a contract for the production phase. At the end of 2005, inventories valued at MNOK 68 were associated with the production phase. The corresponding figure for 2004 aggregated MNOK 34 related to the transition phase.

20 Cash and cash equivalents

Amounts in MNOK	*Nominal amount 31 Dec 05*	*Nominal amount 1 Jan 05*	*Due date*
Short-term investments in the money market	350	0	20 Jan 06
Bank deposits, operating accounts	373	162	
Total	**723**	**162**	

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

21 Share capital and share premium

Share capital

At 31 December 2005, the share capital consisted of 30 000 000 shares, each with a nominal value of NOK 5.

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 December 2005

Name	*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	2 666 860	8.89
Arendals Fossekompani	2 055 822	6.85
Odin Norge	1 538 000	5.13
MP Pensjon	1 203 200	4.01
Skagen Vekst	944 700	3.15
Odin Norden	937 837	3.13
Ferd AS	650 000	2.17
Odin Offshore	330 800	1.10
Vicama AS	202 753	0.68
Total	**25 530 372**	**85.10**
Other (stake < 0.68%)	4 469 628	14.90
Total number of shares	**30 000 000**	**100.00**

Shareholders, by size of holding

Number of shares	*Number of owners*	*Holding %*
1–100	1 276	0.27
101–1 000	2 072	2.50
1 001–10 000	422	3.42
10 001–100 000	55	6.50
100 001–1 000 000	10	12.43
More than 1 000 000	5	74.88
Total	**3 840**	**100.00**

Of the 3 840 shareholders at 31 Dec. 2005, 230 were foreign and owned a total of 1.01 per cent of the shares.

Treasury shares

KONGSBERG holds 2 547 treasury shares for the employee share programme. The shares were purchased under the authorisation issued by the AGM, which allows for the repurchase of up to 5 per cent of the shares outstanding. Re-acquisitions must take place at prices between NOK 75 and NOK 200 per share.

	Total
Holding of treasury shares at 31 Dec. 2004	131 122
Purchase of treasury shares	20 000
Own shares conveyed to employees	148 575
Holding of own shares at 31 Dec. 2005	2 547

Divestments of treasury shares takes place based on market value on the date of disposal, and the employee discount was charged against income as wages (MNOK 2.8). A total of 142 215 options were issued to employees (including corporate management). The options have been awarded under the share programmes conducted for all employees in the Group. For a more detailed description of the employee share and option programme, please see the chapter on 'Shares and shareholders'.

22 Equity

Kongsberg Gruppen (The Group) – Consolidated reconciliation of equity

Amounts in MNOK	Share capital	Share premium	Treasury shares	Net unrealised gains reserve	Other equity	Total	Minority interest	Total equity
	Equity holders of the parent							
Equity at 31 Dec. 2003 NGAAP	**150**	**832**	**(1)**	**-**	**818**	**1 799**	**31**	**1 830**
Actuarial gains/losses on pension expenses pension expenses	-	-	-	-	(422)	(422)	(2)	(424)
Dividends	-	-	-	-	39	39	-	39
Equity 1 Jan. 2004 IFRS	**150**	**832**	**(1)**	**-**	**435**	**1 416**	**29**	**1 445**
Treasury shares	-	-	-	-	12	12	-	12
Net profit	-	-	-	-	120	120	(2)	118
Dividends for 2003	-	-	-	-	(39)	(39)	-	(39)
Changes, minority interests	-	-	-	-	2	2	(9)	(7)
Actuarial gains/losses on pension expenses pension expenses	-	-	-	-	(58)	(58)	-	(58)
Equity at 31 Dec. 2004	**150**	**832**	**(1)**	**-**	**472**	**1 453**	**18**	**1 471**
Change in accounting policies – introduction of IAS 39/32								
Excess value, cash flow hedges	-	-	-	183	-	183	-	183
Negative value, interest rate swap agreements	-	-	-	(49)	-	(49)	-	(49)
Excess value, available-for-sale investments	-	-	-	21	-	21	-	21
Equity at 1 Jan. 2005	**150**	**832**	**(1)**	**155**	**472**	**1 608**	**18**	**1 626**
Change, fair value, financial instruments	-	-	-	(103)	-	(103)	-	(103)
Actuarial gains/losses on pension expenses pension expenses	-	-	-	-	(225)	(225)	(2)	(227)
Translation differences, foreign currency	-	-	-	2	-	2	-	2
Net gains/losses unrecognised on the income statement	**0**	**0**	**0**	**(101)**	**(225)**	**(326)**	**(2)**	**(328)**
Net profit	-	-	-	-	260	260	2	262
Treasury shares	-	-	1	-	12	13	-	13
Dividends for 2004	-	-	-	-	(60)	(60)	-	(60)
Dividend, minority interests	-	-	-	-	-	-	(3)	(3)
Change, minority interests	-	-	-	-	-	-	(5)	(5)
Equity at 31 Dec. 2005	**150**	**832**	**-**	**54**	**459**	**1 495**	**10**	**1 505**

23 Pensions and other long-term employee benefits

The Group has a service pension plan that covers all the Group's employees in Norway. At 31 December 2005, 2 856 employees were covered by the scheme, The plan is insured through Gjensidige NOR. The scheme provides 65 per cent of salary until the age of 77, then the service pension part is reduced to 50 per cent. The accrual period minimum 30 years. The schemes are treated as benefit plans. Pension benefits depend on the individual employee's number of years of service and salary level upon retirement age. The pension schemes also include wage levels beyond 12G, but limited to 15G.

Corporate executives have early retirement agreements 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 liabilities is based on the following assumptions:

	31 Dec 05	*31 Dec 04*
Discount rate	4.0%	5.0%
Return on plan assets	5.0%	6.0%
Wage adjustment	3.0%	3.0%
Pension base level adjustment	3.0%	3.0%
Pension adjustment	3.0%	3.0%
Turover	3.0%	3.0%

The year's pension costs were calculated as follows:

Amounts in MNOK	*2005*	*2004*
Service cost	74	68
Interest cost on pension liabilities	62	58
Estimated return on pension plan assets	(50)	(46)
Amortisation, of past service cost	1	1
Accrued social security expenses	12	11
Total net pension expenses	**99**	**92**
Expenses related to defined contribution plans outside Norway	5	9

Change of net pension liabilities recognised on the balance sheet

Amounts in MNOK	2005 Funded	2005 Unfunded	2005 Total	2004 Funded	2004 Unfunded	2004 Total
Change, gross pension liabilities						
Gross pension liabilities 1 Jan.	1 195	133	1 328	979	113	1092
Net change in social security expenses	23	3	26	49	6	55
Acquisition/disposal of activities	(48)	(2)	(50)	-	-	-
Net current value of accruals for the year	65	9	74	61	7	68
Interest expenses on pension liabilities	57	5	62	53	5	58
Actuarial loss/gain	217	17	234	70	7	77
Payment pension/paid-up policies	(18)	(5)	(23)	(17)	(5)	(22)
Gross pension liabilities 31 Dec.	**1 491**	**160**	**1 651**	**1 195**	**133**	**1 328**
Change, gross pension plan assets						
Fair value, pension plan assets 1 Jan.	868	-	868	752	-	752
Acquisition/disposal of activities	(30)	-	(30)	-	-	-
Anticipated rate of return on pension funds	50	-	50	46	-	46
Actuarial loss/gain	(29)	-	(29)	4	-	4
Premium payments	150	-	150	83	-	83
Payment of pension expenses/paid-up policies	(18)	-	(18)	(17)	-	(17)
Fair value, pension plan assets 31 Dec.	**991**	**-**	**991**	**868**	**-**	**868**
Net pension liabilities	(500)	(160)	(660)	(327)	(133)	(460)
Unrecognised plan changes	-	4	4	-	4	4
Net capitalised pension liabilities 31 Dec.	**(500)**	**(156)**	**(656)**	**(327)**	**(129)**	**(456)**

The percentage distribution of pension plan assets by investment categories at 31 Dec. 2005 and 2004 was:

	2005	*2004*
Long-term bonds	27%	33%
Money market	17%	17%
Bonds	18%	18%
Shares	23%	17%
Property	12%	12%
Other items	3%	3%

Actual investment performance, pension plan assets 2004: 6.5 %.

	2005	*2004*	*1 Jan 04*
Net obligation 1 Jan.	(456)	(381)	208
Net change in social security expenses	(26)	(9)	(73)
Recognised pension expenses	(87)	(81)	-
Premium payments	150	84	-
Disbursements early retirement	7	4	-
Downsizing process	3	-	-
Sales	16	-	-
Actuarial gains/losses on pension expenses	(263)	(73)	(516)
Net capitalised pension liability 31 Dec.	**(656)**	**(456)**	**(381)**

The age limit for 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 anticipated yield of six per cent for 2005.

Pension premium payments for 2006 are expected to be MNOK 150.

Defined contribution plan

KONGSBERG's companies abroad have defined contribution plans in compliance with local legislation. At 31 December 2005, the Group had 516 employees outside Norway.

24 Provisions

Long-term provisions

Amounts in MNOK	*Sale and leaseback*
1 Jan. 2005	74
Provided	19
Dissolved	(2)
Provision applied	(9)
31 Dec. 2005	**82**

Short-term provisions

Amounts in MNOK	*Guarantee*	*Other*	*Total*
1 Jan. 2005	79	6	85
Provided	80	52	132
Dissolved	(4)	0	(4)
Provision applied	(36)	0	(36)
31 Dec. 2005	**119**	**58**	**177**

Long-term provisions

The subsidiary Kongsberg Næringseiendom AS previously sold some real estate located in Kongsberg Industrial Park. The properties have been leased back on long-term leases that will apply until 2014, 2017 and 2018. In connection with sales and leaseback, subleases were signed at a lower rent than indicated on the agreement. In addition, the Group has undertaken operational and maintenance responsibility for subleased buildings. This net loss is considered a loss contract under IAS 37 and the net current value of future losses is provided for in the accounts. The remaining need for provisions is considered each year.

Provisions for guarantees

Provision for guarantee costs refer to guarantee liabilities on completed deliveries. Provisions for guarantees attached to projects in progress are listed as contract provisions. Unused provisions for guarantees are dissolved at the end of the guarantee period. Typically, a period of guarantee varies from 1 to 2 years for Offshore & Merchant Marine, and extends for somewhat longer for Defence & Aerospace.

Completed contracts are the main reason for increasing provisions for guarantees, as provisions for guarantee commitments have been reclassified from contract provisions to guarantee provisions.

Other provisions

Provisions are recognised when the Group has a commitment as a result of a previous event, it is likely that there will be a financial settlement as a result of this commitment, and the size of the amount can be measured reliably. Provisions are made when there is disagreement with contracting parties or agents, or as an estimated settlement related to products liability. Clarification regarding the uncertain items is expected in 2006.

25 Non-current interest-bearing liabilities

Amounts in MNOK	*Nominal amount 31 Dec 05*	*Due date*
Certificate loan	100	15 March 06
Certificate loan	100	15 March 06
Certificate loan	100	21 June 06
Bond loan ISIN 00101 9701.4 (fixed interest)	300	26 Sept 07
Bond loan ISIN 00101 2638.4 (floating interest rates)	400	10 June 09
Other non-current liabilities	5	
Total	**1 005**	
Overdraft facilities (undrawn)	1 100	1 March 09

At 31 Dec. 2005, certificate loans consisted of a total of three certificate loans in NOK that will come to maturity in March 2006 (MNOK 200) and June 2006 (MNOK 100).

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

Other non-current liabilities comprise minor debts incurred directly by certain Group subsidiaries.

The overdraft facility is a syndicated credit facility for a total of MNOK 1100. 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 undrawn.

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

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

b) Net interest-bearing liabilities shall not exceed 3 times the EBITDA (Earnings Before Interest, Tax, Depreciation and the Amortisation of goodwill), but can be as much as 3.5 times that level for three consecutive quarters at the most.

The covenants in the loan agreements are satisfied.

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

26 Other current liabilities

Other current liabilities represent operations-related interest-free debt.

Amounts in MNOK	*2005*	*2004*
Accounts payable	422	405
Withholding tax, social security, VAT, etc.	143	128
Tax payable	11	8
Provisions for holiday pay	160	177
Other items	202	481
Total	**938**	**1 199**

27 Assets pledged as security/guarantees

The information on pledged assets indicates which Group assets will be available to pledgees in the event of 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 must furnish guarantees for prepayments and completion in conjunction with projects. The guarantees are issued by Norwegian and foreign banks and insurance companies. Kongsberg Gruppen ASA stands behind all its guarantees.

Amounts in MNOK	*2005*	*2004*
Prepayments and completion guarantees in respect of customers	675	1 156

The decline from 2004 was because several major defence projects reached milestones that triggered substantial reductions in guarantee commitments.
Kongsberg Gruppen ASA has uncommitted framework agreements for guarantees with banks and insurance companies.

28 Sale and leaseback

In 1999, 2001 and 2002, the subsidiaries Kongsberg Næringseiendom AS and Kongsberg Næringsparkutvikling AS 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, 2017 and 2018, respectively. The leasebacks are considered operational leasing agreements.

In addition to the rent, Kongsberg Næringseiendom is responsible for certain expenses associated with fees on and the maintenance of the properties. The leases have durations ranging from three months to nine years. Of the property sold, 20 per cent is rented to Group companies.

Amounts in MNOK	*Year of sale*	*Amount of sale*	*Rental 2006*	*Rental 2007–2011*	*Rental beyond 2011*	*Remaining term of lease*	*Rental sublease 2006*	*Weighted average leasing period*
Agreement 1 – A total of 32 400 m2 of industrial premises/offices	1999	350	33.1	176	103	9 years	31	8 years
Agreement 2 – A total of 43 800 m2 of industrial premises/offices	2001	265	29.3	156	250	13 years	27.5	3 years
Agreement 3 – A total of 6 200 m2 of industrial premises/offices	2002	55	5.6	30	41	12 years	5.4	4 years

For contract 1, after the sale, the Group signed an agreement for the right of first refusal for the first time after 10 years for 10 times the annual rent, then every five years. For the two other agreements, the Group has the right of first refusal based on market conditions. The Group is entitled to prolong the lease period for five years at a time for all the leases. Rent is fixed with a 2.5 per cent annual adjustment for contract 1, and the rent is fixed with a 2.25 per cent annual adjustments on the rent for contracts 2 and 3. The rent for contract 1 is also influenced by the level of interest, where 60 per cent is based on fixed interest up to 2011 and 40 per cent is based on floating interest rates.

Subleases are adjusted each year in accordance with the consumer price index.

29 Other insiders

Directors' fees
Directors' fees came to MNOK 1.2 for 2005.

Remuneration to corporate management
Total remuneration to corporate management came to MNOK 15.5 for 2005, of which MNOK 3.3 constituted paid pension premiums, and MNOK 0.5 was disbursed as bonuses. In connection with the Group's share programme for all employees, 142 215 options were issued to employees. Of that number, 2 238 of the options were issued to corporate management.

Remuneration to the CEO appears in Note 4 to the parent company's accounts.

The other corporate executives also receive remuneration consisting of a fixed salary and performance-linked pay with a ceiling of 2.5 times their monthly salary. Beyond the term of notice, they may be entitled to full wages until they begin in a new position, limited to up to one year after severance. Corporate executives have an agreement that they can be relieved of duties from the age of 60. The benefits give them 90 per cent of their salary upon being relieved of duty 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 sub-executive managers (13 individuals) with considerable leadership responsibility signed an agreement entitling them to early retirement from age 62, with benefits of 65 per cent of their wages up to age 67.

Shares owned by members of the Board, corporate management and other insiders

Name	*Number of shares*
Corporate management	
Torfinn Kildal, president, Kongsberg Maritime	7 321
Arne Solberg, CFO	6 461
Jan Erik Korssjoen, CEO	6 107
Tom Gerhardsen, president, Kongsberg Defence & Aerospace	5 769
Stig Trondvold, executive vice president, Business Development	2 286
Even Aas, executive vice president, Corporate Communications	1 582
Ellen Christine Orvin Raaholt, executive vice president, Human Resources	395
The Board	
Erik Must[1], director (through the company Fondsavanse AS)	100 000
Erik Must[1], director (personal)	31 150
Benedicte Berg Schilbred, deputy chair (through Odd Berg AS)	17 500
Finn Jebsen, Chair of the Board of Directors (through the company Fateburet AS)	5 000
Roar Marthiniussen, director	3 000
Jan Erik Hagen, director	477
Audun Solås, director	1
John Giverholt[2], director	-

1) Erik Must is Chair of the Board of Arendals Fossekompani ASA, which owns 2 055 822 shares in Kongsberg.
2) John Giverholt is Chief Financial Officer of Ferd AS, which owns 650 000 shares in Kongsberg.

The State as the largest owner

The State as repr. by the Ministry of Trade and Industry is the company's largest owner (50.001 per cent of the shares). 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 of all vendors.

Associates

The Group had no significant transactions with enterprises listed in Note 7. Loans to associates are listed in Note 15.

30 Contingent liabilities

The Group is involved in two disputes. Simrad Horten AS has been sued by Scanmar AS for damages due to the alleged unlawful use of technology. Simrad Horten AS won the case in the City Court. Scanmar AS has appealed the case and the appeal will be heard before the Court of Appeals in spring 2006.

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 not yet been set.

No provisions have been made for contingent liabilities.

31 List of subsidiaries

The following subsidiaries are included in the consolidated accounts:

Company name	*Home country*	*Stake %*
Kongsberg Defence & Aerospace AS	Norway	100
Kongsberg Defence Communications AS	Norway	100
Kongsberg Spacetec AS	Norway	100
Kongsberg Protech AS	Norway	100
Kongsberg Procurement Center AS	Norway	100
Kongsberg Næringspark AS	Norway	100
Kongsberg Asset Management AS	Norway	100
Kongsberg Næringseiendom AS	Norway	100
Kongsberg Næringsparkutvikling AS	Norway	100
Kongsberg Seatex AS	Norway	100
Vehicle Tracking and Information Systems AS	Norway	100
Nerion AS	Norway	100
Kongsberg Maritime AS	Norway	100
Kongsberg Marine IT AS	Norway	100
Marine IT Company AS	Norway	100
Norcontrol IT AS	Norway	100
SeaFlex AS	Norway	70.4
Simrad Horten AS	Norway	100
Kongsberg Maritime Srl.	Italy	100
Kongsberg Maritime Holland BV	The Netherlands	100
Simrad Spain SL	Spain	100
Kongsberg Maritime Sweden AB	Sweden	100
Kongsberg Maritime Gmbh	Germany	100
Kongsberg Reinsurance Ltd.	Ireland	100
Norcontrol IT Ltd.	Ireland	100
Seatex Ltd.	UK	100
Kongsberg Maritime Holding Ltd.	UK	100
Kongsberg Simrad Ltd.	UK	100
Simrad Leasing Ltd.	UK	100
Kongsberg Maritime Simulation Ltd.	Canada	100
Kongsberg Simrad Mesotech Ltd.	Canada	100
Kongsberg Maritime Simulation Inc.	USA	100
Simrad North America Inc.	USA	100
Kongsberg Simrad Inc.	USA	100
Kongsberg Underwater Technology Inc.	USA	100
Kongsberg Defence Corporation Inc.	USA	100
Kongsberg Asia Pacific Ltd.	Hong Kong	100
Kongsberg Maritime Ship Systems	South Korea	100
Kongsberg Maritime Korea Ltd.	Sourh Korea	96.9
Norcontrol IT Pte.	Singapore	100
Kongsberg Maritime Pte. Ltd.	Singapore	100
Kongsberg Maritime China (Shanghai) Ltd.	China	65
Norcontrol IT Pty. Ltd.	South Africa	100

32 Effects of transition to IFRS

For KONGSBERG, the most significant changes in the results for 2004 are related to pension expenses and the amortisation of goodwill. In accordance with IFRS, pension expenses will be calculated using a lower discount rate and will no longer include the amortisation of unrecognised actuarial gains/losses on pension expenses. This implies a reduction of MNOK 20 in pension expenses in the accounts for 2004. Goodwill will no longer be amortised, but will be subject to an annual impairment test. The amortisation of goodwill added up to MNOK 88 in 2004. According to the new rules, the Group's earnings before interest and tax (EBIT) came to MNOK 243 in 2004. In accordance with the generally accepted accounting practice in Norway, profit before interest and tax added up to MNOK 135.

Income statement

Amounts in MNOK	*Notes*	*NGAAP 2004*	*Effects of transition*	*IFRS 2004*
Operating revenues		6 439	0	6 439
Operating expenses	a, e	(6 026)	20	(6 006)
EBITDA		**413**	**20**	**433**
Depreciation expense		(190)	0	(190)
EBITA		**223**	**20**	**243**
Amortisation expense	b	(88)	88	0
Earnings before interest and tax (EBIT)		**135**	**108**	**243**
Financial items, net		(67)	0	(67)
Share of profit of associates after tax		17	0	17
Profit before tax		**85**	**108**	**193**
Tax	c	(48)	(27)	(75)
Profit for the year		**37**	**81**	**118**
Equity holders of the parent		41	79	120
Minority interests		(4)	2	(2)

Balance sheet

Amounts in MNOK	*Notes*	*NGAAP 31 Dec 03*	*Effects of transition*	*IFRS 1 Jan 04*	*NGAAP 31 Dec 04*	*Effects of transition*	*IFRS 31 Dec 04*	*Effects of transition*	*IFRS 1 Jan 05*
Property, plant and equipment	f	1 086	0	1 086	1 042	0	1 042	0	1 042
Intangible assets	b	1 208	0	1 208	1 158	89	1 247	0	1 247
Other non-current assets	a, d	408	(208)	200	388	(198)	190	21	211
Total non-current assets		**2 702**	**(208)**	**2 494**	**2 588**	**(109)**	**2 479**	**21**	**2 500**
Current assets	d	3 205	0	3 205	3 292	0	3 292	304	3 596
Bank deposits and financial investments		101	0	101	162	0	162	0	162
Total current assets		**3 306**	**0**	**3 306**	**3 454**	**0**	**3 454**	**304**	**3 758**
Total assets		**6 008**	**(208)**	**5 800**	**6 042**	**(109)**	**5 933**	**325**	**6 258**
Paid-in equity		981	0	981	981	0	981	0	981
Retained earnings		818	(383)	435	813	(341)	472	155	627
Equity		**1 799**	**(383)**	**1 416**	**1 794**	**(341)**	**1 453**	**155**	**1 608**
Minority interests		31	(2)	29	18	0	18	0	18
Total equity	a, b, c, d, g, h	**1 830**	**(385)**	**1 445**	**1 812**	**(341)**	**1 471**	**155**	**1 626**
Long-term borrowings		1 265	0	1 265	1 261	0	1 261	0	1 261
Other non-current liabilities	a, c, d	603	216	819	626	295	921	120	1 041
Total non-current liabilities		**1 868**	**216**	**2 084**	**1 887**	**295**	**2 182**	**120**	**2 302**
Prepayments from customers		1 032	0	1 032	1 044	0	1 044	0	1 044
Short-term borrowings		0	0	0	2	0	2	0	2
Other current liabilities	d, g	1 278	(39)	1 239	1 297	(63)	1 234	50	1 284
Total short-term liabilities		**2 310**	**(39)**	**2 271**	**2 343**	**(63)**	**2 280**	**50**	**2 330**
Total equity and liabilities		**6 008**	**(208)**	**5 800**	**6 042**	**(109)**	**5 933**	**325**	**6 258**

The figures have been adjusted for the disposal of yachting activities.

Notes

a. Pension liabilities

From previous years, the Group has significant unrecognised actuarial gains/losses on pension expenses pension expenses. The decline in the interest level in recent years and the transition to the use of a discount rate based on the long-term government bond interest rate under IFRS entails a further increase in calculated pension liabilities. Upon making the transition to IFRS, the Group has opted to charge estimated actuarial gains/losses on pension expenses against equity. At 1 Jan. 2004, this aggregated MNOK 424 after tax and MNOK 58 at 31 Dec. 2004. In accordance with IFRS, pension expenses for 2004 will be calculated with another discount rate and will no longer include the amortisation of the unrecognised actuarial gains/losses on pension expenses. This implies a reduction of MNOK 20 in pension expenses relative to the NGAAP accounts for 2004.

b. Amortisation expense

Goodwill will no longer amortised. Instead, the value will be subject to ongoing assessment with a view to the need for amortisation (impairment test). The amortisation of goodwill for 2004 came to MNOK 88. No need was identified for amortising goodwill.

c. Tax

In connection with the impacts described in the other notes, the collateral effects on deferred taxes will have to be taken into account, with the exception of amortisation of consolidated goodwill, which is a net figure.

d. Financial instruments

For financial instruments, the transition to IFRS is being incorporated into the balance sheet for the first time at 1 January 2005. In accordance with IFRS, financial instruments shall be stated at their fair value, while changes in fair value shall be recorded on the income statement or directly against equity, depending on the classification of the financial instrument and hedging considerations, if any. The Group has significant financial instruments related to interest and currency hedging. At 1 Jan. 2005, the hedging instruments attached to future budgeted and contractual earnings in foreign currency (mainly USD) had a gross value based on agreed exchange rates of MNOK 5 129 and a total excess value before tax of MNOK 447 compared with the exchange rate on 1 Jan. 2005. Of this excess value, MNOK 304 is related to the hedging of budgeted future sales (cash flow hedges) and MNOK 143 is linked to the hedging of future sales against signed contracts (firm commitments). In connection with cash flow hedging, changes in the hedging instruments' value after tax are temporarily recognised against equity until the sale takes place. In connection with the hedging of firm commitments, changes in the value of both hedging instruments and currency fluctuations in the future cash flow are recorded on the income statement on an ongoing basis.

Interest rate swap agreement related to the hedging of loans have a calculated negative value relative to the interest level at 1 January 2005 of MNOK 68.

e. Research and development (R&D)

According to IFRS, research shall not be capitalised. According to IFRS, development costs shall capitalised as intangible assets once certain criteria are met. The Group has expensed development costs on an ongoing basis when the costs have not been considered to comply with the criteria for balance sheet recognition. Self-funded development costs for the past three years have been MNOK 317, MNOK 302 and MNOK 318, respectively. Future development costs will be considered on an ongoing basis with a view to capitalisation, if any.

f. Property, plant and equipment

IFRS calls for a more detailed analysis of property, plant and equipment to find the right depreciation/amortisation. This entails ongoing assessments of remaining useful life, estimates of residual value and component accounting of property, plant and equipment for important components that have different useful lives. KONGSBERG has reviewed its practices associated with the treatment of property, plant and equipment; the transition to IFRS will result in no significant change in depreciation for 2004. Consequently, no impact has been taken into account.

g. Dividends

In accordance with IFRS, dividends shall be presented as part of equity up to their final adoption by the Annual General Meeting.

h. Equity

Statement of changes in equity (all figures are net after tax).

Amounts in MNOK	
Equity NGAAP 31 Dec. 2003	1 830
Unrecognised actuarial gains/losses on pension expenses pension expenses 1 Jan. 2004	(424)
Dividends for 2003	39
Equity IFRS 1 Jan. 2004	**1 445**
Equity NGAAP 31 Dec. 2004	1 812
Unrecognised actuarial gains/losses on pension expenses pension expenses 1 Jan. 2004	(424)
Unrecognised actuarial gains/losses on pension expenses pension expenses 31 Dec. 2004	(58)
Changes recognised on the income statement	81
Dividends for 2004	60
Equity IFRS 31 Dec. 2004	**1 471**
Fair value, financial instruments	155
Equity IFRS 1 Jan. 2005	**1 626**

33 Foreign exchange rates

	Exchange rate 1 Jan 05	*Average exchange rate 2005*	*Exchange rate 31 Dec 05*
Danish kroner (DKK)	1.1082	1.0753	1.0703
Swedish kroner (SEK)	0.9137	0.8640	0.8505
British pounds (GBP)	11.6440	11.7162	11.6520
US dollars (USD)	6.0441	6.4426	6.7687
Canadian dollars (CAD)	5.0282	5.3204	5.8179
Singapore dollars (SGD)	3.7308	3.8701	4.0682
Euros (EUR)	8.2426	8.0125	7.9850
South Korean won (KRW)	0.0061	0.0063	0.0067
Chinese yuan (CNY)	0.7416	0.7865	0.8387
Arab Emirates dirhams (AED)	1.6524	1.7669	1.8398
Hong Kong dollars (HKD)	0.7829	0.8284	0.8729
Indian rupis (INR)	0.1451	0.1512	0.1496
Japanese yen (JPY)	5.8884	5.8558	5.7487
South African rand (ZAR)	1.0760	1.0126	1.0698
Hungarian forints (HUF)	3.4080	3.2313	3.1580

Income statement, balance sheet and cash flows statement – Kongsberg Gruppen ASA

The financial statements for the holding company Kongsberg Gruppen ASA include all activities at the main office. Activities at the main office include the Group's executive management and the corporate functions: corporate communications, legal affairs, business development, human resources, management development and finance/funding. Corporate services work largely on assignment for the Group's other companies, charging them for services rendered. The central financial service 'Kongsberg Finans' serves as the corporate bank and is responsible for the Group's external financing, management of the Group's liquid funds and general management of the Group's foreign currency and interest rate risk. All assets in subsidiaries are presented using the cost method of accounting.

Income statement for the year ending 31 December 2005

Amounts in MNOK	*Notes*	*2005*	*2004*
Operating revenues		**71**	**74**
Personnel expenses	4, 5	51	44
Depreciation		2	2
Other operating expenses		46	33
Total operating expenses		**99**	**79**
Operating profit/(loss)		**(28)**	**(5)**
Interest from Group companies		94	98
Gain on disposal of shares			31
Currency trading gains/(losses)		(24)	1
Interest to Group companies		(38)	(56)
Other interest expenses		(69)	(90)
Group contribution received		95	300
Net financial items		**58**	**284**
Earnings before tax (EBT)		**30**	**279**
Tax income/(expense)	6	(12)	6
Net profit		**18**	**285**
Distributable reserves and equity transfers			
Proposed dividend		(65)	(60)
Group contribution made		(95)	(20)

Statement of cash flows

Amounts in MNOK	*2005*	*2004*
Net cash flows from operating activities	(39)	(33)
Net cash flows from investing activities	(26)	27
Net cash flows from financing activities	65	6
Net change in cash and cash equivalents	**0**	**0**
Cash and cash equivalents at 1 January	0	0
Cash and cash equivalents at 31 December	**0**	**0**

Balance sheet at 31 December

Amounts in MNOK	*Notes*	*2005*	*2004*
Assets			
Deferred tax assets	6	42	50
Property, plant and equipment		10	6
Shares in subsidiaries	2	2 002	1 905
Other shareholdings		82	56
Long-term loans to subsidiaries		2 108	2 518
Other long-term receivables		5	5
Total non-current assets		**4 249**	**4 540**
Short-term receivables from subsidiaries		81	357
Shares		350	5
Total current assets		**431**	**362**
Total assets		**4 680**	**4 902**
Equity and liabilities			
Share capital		150	150
Treasury shares		-	(1)
Share premium		832	832
Total paid-in equity		**982**	**981**
Other equity		537	588
Total retained earnings		**537**	**588**
Total equity	3	**1 519**	**1 569**
Pension liabilities	5	119	98
Long-term debt to subsidiaries		1 697	1 644
Liabilities to credit institutions	7	1 000	1 178
Total non-current liabilities		**2 816**	**2 920**
Provision for dividends		65	60
Other short-term liabilities		31	26
Overdraft facilities		249	327
Total short-term liabilities		**345**	**413**
Total equity and liabilities		**4 680**	**4 902**

Notes – Kongsberg Gruppen ASA

1 Accounting policies

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
The subsidiary and associates are assessed using the cost method of accounting in the consolidated accounts. The investment is valued at the acquisition cost of the shares unless write downs have been necessary. Such assets are written down to fair value when the decrease in value is for reasons not considered to be of a temporary nature and the write down is deemed necessary based on generally accepted accounting practice. Write-downs are reversed when the reason for the write down no longer applies.

Dividends and other allocations 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 non-current 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

Non-current assets are valued at acquisition cost less depreciation, but are written down 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
Accounts receivable and other debts are recognised on the balance sheet at nominal amounts less provisions for anticipated losses. Provisions for losses are made on the basis of individual risk assessments of the individual debts.

Foreign currency
Financial items in foreign currency are translated at the exchange rates that applied 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.

Pensions
Pension expenses and pension liabilities are calculated using linear accrual based on estimated salary level at retirement and 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, turnover, etc. 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 against equity. The corresponding figures for 2004 have been adjusted accordingly.

Tax
Tax expenses in the income statement include payable taxes and the change in deferred taxes. 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 loss to be carried forward at the end of the fiscal year. Temporsary difference 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 Shares in subsidiaries

Amounts in MNOK	*Year of aquisition*	*Main office*	*Stake/voting interest %*	*Balance sheet value 31 Dec*
Kongsberg Defence & Aerospace AS	1997	Kongsberg	100	392
Kongsberg Protech AS	1999	Kongsberg	100	87
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	287
Kongsberg Næringsparkutvikling AS	2005	Kongsberg	100	12
Nerion AS	2002	Trondheim	100	0
Autronica AS	2003	Trondheim	100	0
Kongsberg Reinsurance Ltd.	2001	Dublin	100	4
Kongsberg Procurement Center AS	2005	Kongsberg	100	1
Aentera Network AS [2]	2000	Kongsberg	41	2
Total				**2 002**

1) The remaining 11 per cent of the shares in Kongsberg Maritime AS are owned by Kongsberg Basetec AS.

2) Kongsberg Protech AS also owns 9 per cent of the company.

3 Reconciliation of equity

Amounts in MNOK	*Share capital*	*Share premium*	*Treasury shares*	*Other equity*	*Total equity*
Equity at 31 Dec. 2003 NGAAP	**150**	**832**	**(1)**	**414**	**1 395**
Actuarial gains/losses on pension expenses	-	-	-	(66)	(66)
Equity 1 Jan. 2004 IFRS	**150**	**832**	**(1)**	**348**	**1 329**
Treasury shares	-	-	-	11	11
Net profit	-	-	-	285	285
Dividends for 2004	-	-	-	(60)	(60)
Actuarial gains/losses on pension expenses	-	-	-	4	4
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**

4 Personnel expenses and remuneration

Remuneration to the CEO

Amounts in NOK	*2005*
Salary	2 281 252
Performance-linked pay	103 729
Pension premium for the CEO	861 446
Other remuneration	419 849

The Board decided to increase the CEO's salary by 2.65 per cent to NOK 2 555 500 from July 2005. The CEO's salary consists of a fixed salary and performance-linked pay of up to 2.5 times his monthly salary. The CEO has six months' reciprocal notice of resignation/termination. Beyond the notification period, the CEO may be entitled to full wages until he begins in a new position, limited to up to one year after severance.

Corporate executives have an agreement that allows them to be released from their duties from the age of 60. The benefits give them 90 per cent of their salary upon being relieved of their duties at age 60, diminishing by 10 per cent per year to 60 per cent of their salary from age 63 to age 67.

Directors' fees

Amounts in NOK 1 000	*2005*
Directors' fees (total)	1 208

Auditor's fees

Amounts in NOK 1 000	*2005*
Corporate auditor Ernst & Young	
Mandatory audits	850
Tax consultancy	12
Services other than auditing	179
Total fees to Ernst & Young	**1 041**

5 Pensions

The company has a retirement pension plan covering a total of 35 people, which is insured through Gjensidige NOR. The scheme provides 65 per cent of salary until the age of 77, then 50 per cent. The accrual period is at least 30 years. The schemes are treated as benefit plans. Pension benefits depend on the individual employee's number of years of service and salary level upon retirement age. The pension schemes also include wage levels beyond 12G, but limited to 15G.

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

	31 Dec 05	*31 Dec 04*
Discount rate	4.0%	5.0%
Anticipated rate of return	5.0%	6.0%
Wage hikes	3.0%	3.0%
Pension base level adjustment (G)	3.0%	3.0%
Pension adjustment	3.0%	3.0%
Turnover	3.0%	3.0%

The year's pension costs were calculated as follows:

Amounts in MNOK	*2005*	*2004*
Service cost	12	10
Interest cost on pension liabilities	7	7
Estimated return on pension plan assets	(4)	(2)
Amortisation of estimated deviation	-	-
Amortisation, of past service cost	1	1
Accrued social security expenses	2	2
Total net pension expenses	**18**	**18**

Amounts in MNOK	*2005*	*2004*
Gross pension liabilities	(186)	(149)
Gross pension plan assets	78	58
Net pension liabilities	**(108)**	**(91)**
Unrecognised plan changes	4	5
Unrecognised actuarial gains/losses on pension expenses		
Social security	(15)	(12)
Net pension liabilities/assets on the balance sheet	**(119)**	**(98)**

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.

As from 2005, unrecognised actuarial gains/losses have been recognised directly against equity. The comparative figures for 2004 have been adjusted correspondingly.

6 Tax

Tax expense

Amounts in MNOK	*2005*	*2004*
Tax payable	0	-
Change in deferred tax	12	(6)
Tax expense	**12**	**(6)**
Effective tax rate	39%	(2%)

Amounts in MNOK	*2005*	*2004*
EBT – earnings before tax	**30**	**279**
Estimated tax based on a tax rate of 28 per cent of earnings before tax	8	78
Other permanent differences	3	(84)
Tax expense	**12**	**(6)**

Basis for deferred tax and deferred tax asset

Amounts in MNOK	*31 Dec 05*	*31 Dec 04*
Basis for deferred tax asset		
Pensions	119	98
Loss to be carried forward	18	73
Other	12	9
Basis for deferred tax asset	**149**	**180**
Recognised deferred tax asset	42	50

7 Non-current liabilities to credit institutions

Amounts in MNOK	*2005*	*Due date*
Certificate loan	100	15 March 06
Certificate loan	100	15 March 06
Certificate loan	100	21 June 06
Bond loan ISIN 00101 9701.4 (fixed interest)	300	26 Sept 07
Bond loan ISIN 00101 2638.4 (floating interest rates)	400	10 June 09
Total	**1 000**	
Overdraft facilities (undrawn)	1 100	1 March 09

Certificate loans consisted at 31 Dec. 2005 of three certificate loans in NOK that fall due in March 2006 (MNOK 200) and June 2006 (MNOK 100). The certificate loans were issued in NOK and listed on the Oslo Stock Exchange.

Other non-current liabilities comprise minor debts incurred directly by certain of the Group's subsidiaries.

The overdraft facility is a syndicated credit facility for a total of MNOK 1100. 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 on 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 is to be twice as high as payable interest.
b) Net interest-bearing liabilities shall not exceed three times the EBITDA (Earnings Before Interest, Tax, Depreciation and the Amortisation of goodwill), but can be as much as 3.5 times that level for three consecutive quarters at the most.

The covenants in the loan agreements are satisfied.

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

Auditor's Report for 2005

ERNST & YOUNG

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Medlemmer av Den norske Revisorforening

To the General Meeting of
Kongsberg Gruppen ASA

Auditor's report for 2005

We have audited the annual financial statements of Kongsberg Gruppen ASA as of 31 December 2005, showing a profit of NOK 18 millions for the parent company and a profit of NOK 262 millions for the group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the financial statements for the parent company and the group. The financial statements of the parent company comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The financial statements of the group comprise the balance sheet, the 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 Managing Director. 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 2005, 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 2005, and the results of its operations and its cash flows 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 accounting information as required by law and bookkeeping practice generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with law and regulations.

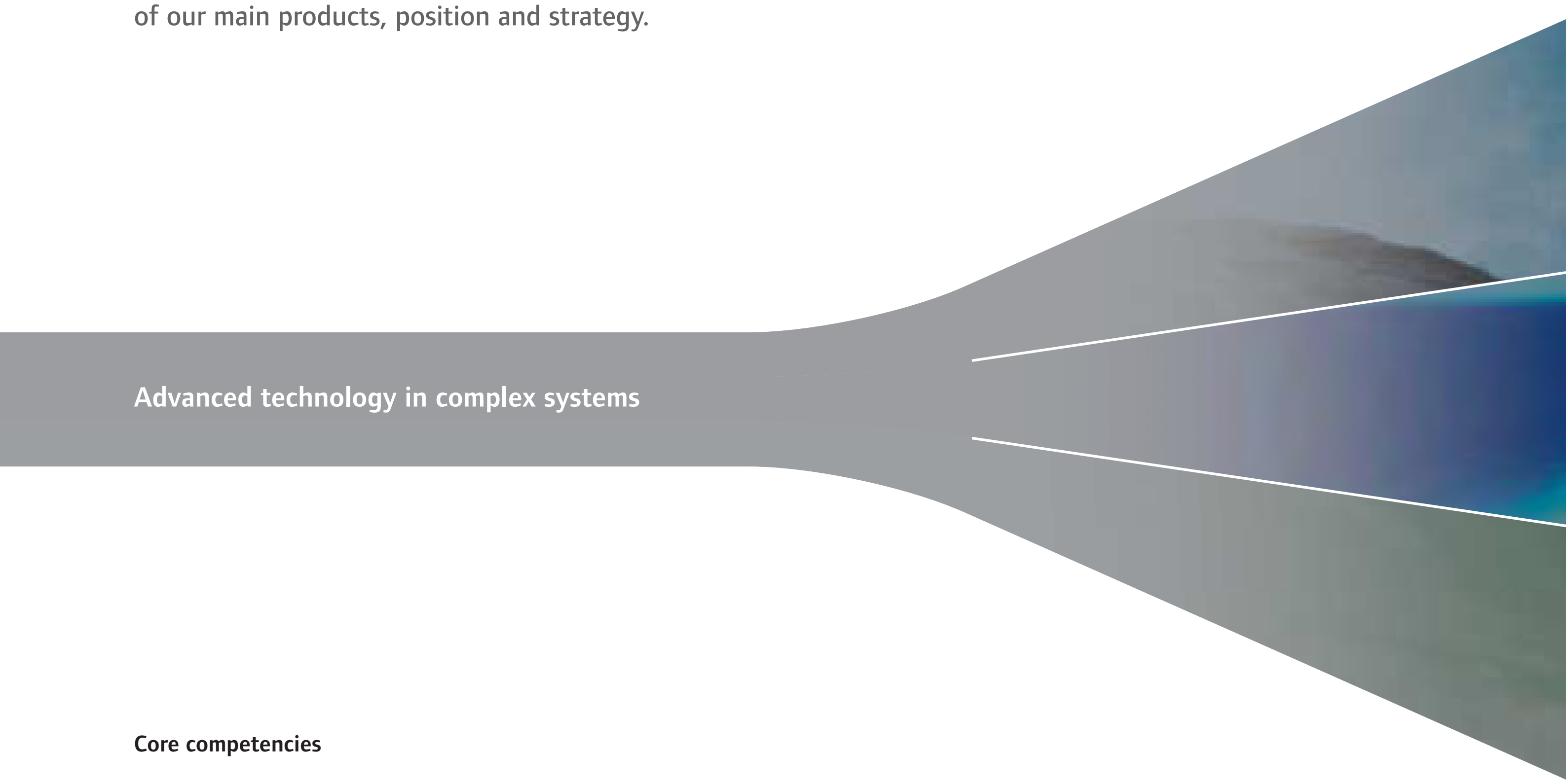
Oslo, 17 March 2006
ERNST & YOUNG AS

Olve Gravråk
State Authorised Public Accountant (Norway)
(sign)

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

Our most important markets

This year's report is intended to provide more in-depth knowledge about the most important markets in which KONGSBERG operates. We have elected to focus on the offshore, merchant marine and defence markets. The following pages offer an overview of the factors seen as shaping the markets (drivers), and the trends that prevail. The report also offers a brief macro description of the market situation and of our main products, position and strategy.



Core competencies

Engineering cybernetics (cybernetics)
Cybernetics is a general term used to describe a range of techniques with a common theoretical methodology for controlling pressure, movements and temperatures under water, on land or in the air.

Signal processing
Signal processing involves the treatment and application of different types of physical and electronic signals. By emitting signals and measuring the strength and direction of the echo, it is, for example, possible to determine the distance to the objects that create the echo. Our systems use signal processing to operate under water, in the air and outside the atmosphere, and they are used for civilian and military purposes alike.

Software engineering
KONGSBERG has built up considerable competence in the development of different types of software, and mainly uses software developed to meet customers' needs. The software is based on the theoretical models developed in cybernetics and signal processing, and is adapted to customers' other systems and specifications. Software can be expensive to develop, so it is important that we make systems that can be re-used in different contexts and transferred from project to project.

Systems integration
Through systems integration, we put together different products into systems and make the products able to perform their planned function in an operative, time-critical situation. Systems integration takes place in close contact with the customer and is adapted to individual needs, accessible technology and different standards.

What affects markets?

Offshore

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- The world's energy needs and production
- Energy prices and price trend prognoses
- New technology and new market niches
- Investment activity
- Growth in different geographical regions
- Environmental standards
- National resources and territorial conditions
- Different tax regimes
- Competition
- Customers
- Foreign exchange rates

Merchant marine

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- World trade and economic growth
- Energy needs and production
- Macro shocks
- Environmental standards
- Exchange rate fluctuations
- Different tax regimes
- Shipbuilding
- Competition
- Customers

Defence

Page 68

- The global political climate
- NATO
- In EU's internal military market
- Defence spending levels
- Offset agreements
- Market protectionism
- Competition
- Customers
- The plans of the Norwegian Armed Forces

Macro description of the offshore market

The global offshore market is on the threshold of exciting new challenges. The oil companies are producing more oil than they are finding in new sources, and the world's known oil reserves are being depleted. If oil and gas production are to be increased, more petroleum has to be produced from existing fields or new fields must be discovered.

The offshore market

The offshore market encompasses exploration, production and the landing of oil and gas. Supply activities and operational support come in addition, as do maintenance and service on installations. A large and growing share of the world's oil and gas production is taking place at sea. The number of wells and production wells scheduled to be drilled up to 2009 is estimated at 55 per cent higher than over the past four years.

The world has a shortage of energy. Oil and gas are expected to continue to account for more than 57 per cent of the world's total energy consumption, and the percentage will edge upwards due to economic growth in Asia.

Major oil companies are currently producing more oil than they are discovering. This means the world's total known oil reserves are being depleted.

To boost oil and gas production, recovery from existing fields must be stepped up, or new fields must be discovered. The pace of development and qualification of new technology is crucial. It is especially important to develop technology that can mitigate the uncertainty associated with reservoirs before initiating development projects. Consequently, qualified technology that can reduce the risk of deciding on new development projects while offering flexible field development solutions will be essential.

The situation on the Continental Shelf indicates that the oil potential must be extracted from reservoirs less suited for production than earlier. Accordingly, it is a formidable challenge to combine high production with the demand for easy, cost-efficient development projects.

The oil industry faces fascinating new challenges when it comes to finding new areas for exploration. Oil companies have shown great interest in the High North, including areas under ice. Similarly, exploration activities have been initiated at extreme water depths in West Africa, the Gulf of Mexico and Brazil. Exploration and oil production in such demanding waters will be very challenging, calling for the very best and most advanced technology.

Macro drivers and trends

Global energy demand
The world's aggregate demand for energy, by geographical region. Associated with economic growth.

Oil/gas share of the demand for energy

The ratio between oil and gas production and consumption
Depends on global political stability, OPEC's price policy, production growth outside OPEC, accessible oil reserves, production costs and exploration.

Oil and gas prices and prognoses for price trends

Technological development
New exploration and production technology can make it profitable to develop smaller fields than today.

Tax and national frameworks
Different tax regimes.

A survey of national resources and territorial conditions

Environmental standards

Investment activities 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 activities in the value chain vary considerably over time.
- Anticipated increase in future exploration, especially in the deepwater segment.
- Growth in vessels ordered for drilling activities.
- A number of smaller fields are expected to be developed if oil prices remain at the current level.
- Increasingly more underwater activities will drive the demand for hydroacoustics.

Growth in different geographical areas
Investments often vary considerably between different geographical areas. This is 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 – (possibly making 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 creates a need for new technological solutions.
- More tail production and emphasis on producing smaller fields.
- Better utilisation of existing infrastructure.
- Improved production technology and methods.

Market drivers and trends

Competition drivers and trends

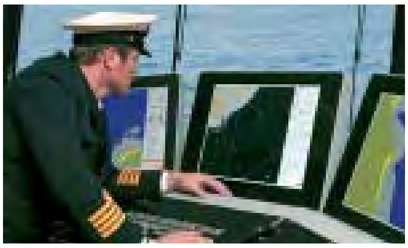
Intensity of competition
- The competition to supply large integrated systems is keen, and the number of competitors is stable. The competition in terms of individual products is relatively small, but growing.
- There is a trend towards a few major and many minor segment-specific players.
- Some major players are focusing on new areas, e.g. dynamic positioning.
- There is a tendency for certain major contractors in the offshore industry to 'absorb' products and then compete with 'conventional' technology suppliers.

Foreign currency
- Foreign currency has an impact on the competitive situation. Large parts of the offshore market operate in USD.
- A strong influx of orders for rigs from Asian shipyards will help maintain a high USD and EUR share. Thus far this market has been dominated by European shipyards.
- Competitors in the market for ships' systems have their cost bases in their own currencies. Fluctuations in competitors' currencies impact the competitive situation.

Customers
- Customers are increasingly using suppliers to gain a competitive edge.
- Shipyards are being assigned more responsibility for purchasing and are becoming the real customer.
- The general trend is that technology products are susceptible to pressure on prices and margins. Advanced technology for critical and demanding fields (e.g. heavy offshore) is maintaining the integrity of its margin profile better.
- Mounting focus on expenditure and the outsourcing of services among the oil companies.

KONGSBERG in the offshore market


Dynamic positioning systems


Navigation systems

Our most important product areas on the market

KONGSBERG supplies the offshore industry by virtue of deliveries to vessels and platforms for exploration and the production of gas and oil, as well as supplies, design, operating support, maintenance and service.

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

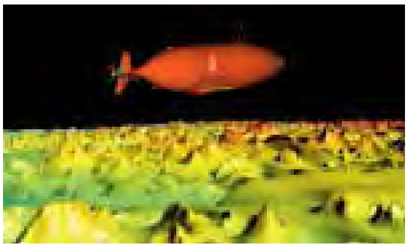
- Systems for the control and coordination of operations on an oil platform or a production vessel
- Safety systems for alarms or the interruption of production due to system malfunctions, when people are in danger or in the event of fire and gas leaks
- Dynamic process simulators to design and verify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

Subsea (underwater activities)

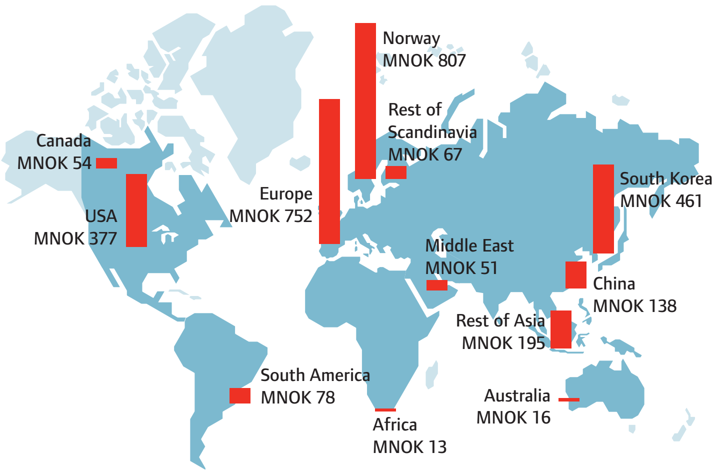
- High-technology hydroacoustic products for seabed surveying, subsea communication and positioning


Automation and surveillance systems


Process automation


Subsea

Kongsberg Maritime – Operating revenues, in MNOK



KONGSBERG's position in the offshore market

In 2005, new orders for Offshore totalled MNOK 2 351. Due to high capacity utilisation at the shipyards and because KONGSBERG's products are installed late in the production phase of offshore vessels or rigs, revenue is often not generated until 2 to 3 years after a contract is signed.

KONGSBERG is well-positioned in the exploration, design, production and maintenance phase in the offshore market, and has a very strong brand name in all geographical markets. KONGSBERG is the supplier that offers the most complete package system solutions.

Dynamic positioning is one of KONGSBERG's most important and successful products, and the company is recognised as a leading supplier on the international arena.

The navigation systems are often delivered as integrated solutions, coupled with dynamic positioning, subsea surveillance and automation for marine operations. The solution has been well received on the market, improving the market position.

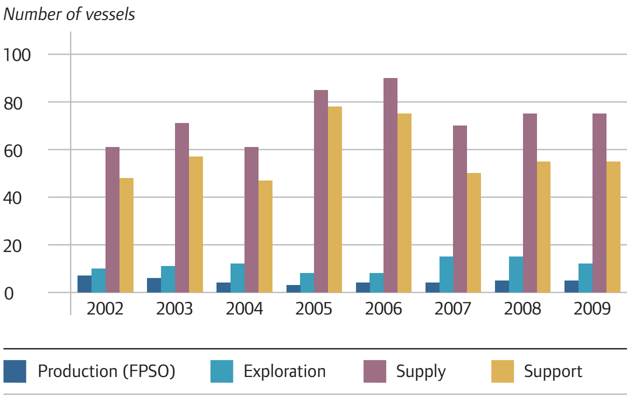
Automation and surveillance systems are offered in conjunction with other KONGSBERG products in a complete product package. This gives operators uniform solutions, reducing operating expenses and facilitating safer, more efficient operations. The company enjoys a strong position.

Activities on the Norwegian Continental Shelf are an important market for process automation. KONGSBERG delivers products and systems to a large part of Norwegian oil production. A framework agreement with Statoil has helped land several major accounts, establishing a good platform for further efforts at the national and international levels.

The Group is also well-positioned for subsea activities.

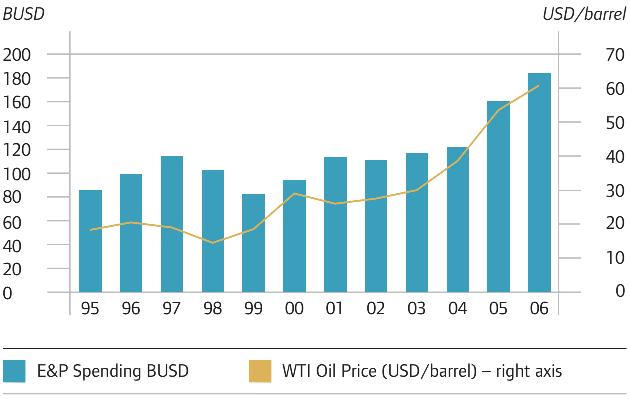
KONGSBERG has good geographic distribution in its markets, and a growing geographic spread in its earnings.

Offshore vessels on order



Source: Kongsberg Maritime

Investment in exploration and production



Source: World Oil / Citigroup Investment Research (CIR)

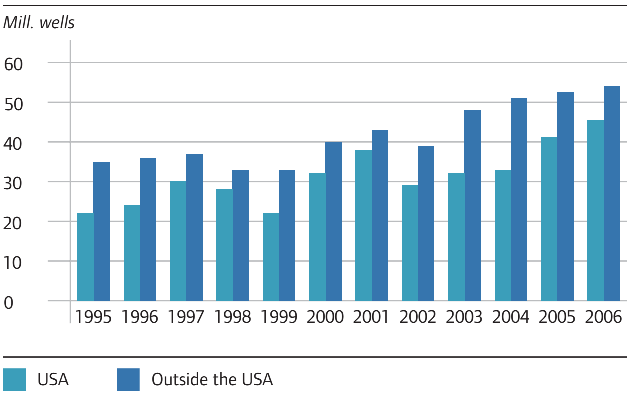
KONGSBERG in the offshore market

KONGSBERG's market strategy

To enable the Group to maintain and improve its position in the offshore market, we emphasise:

- Further strengthening the Group's local operations in China, Singapore and South Korea. These markets help to ensure deliveries to the rig market. Our global operations put us in a unique position that we want to further develop in the years ahead. An increasingly larger share of our value creation is taking place abroad, and it is essential to maintain a local presence.
- Positioning ourselves in the High North. Exploration, field development and production in these areas offer challenges and possibilities that will be a target area for KONGSBERG. Strategic alliances and setting up local operations are instruments being considered to further promote and maximise opportunities.
- Concentrating on research and development. Specifically with a view to finding new products to complete the product portfolio, but also to continuously improving existing products.
- Developing new technology, adapt work processes and take advantage of other, simpler business models. We aspire to strengthen the company's position as a supplier to the oil and gas industry by collaborating with other suppliers.
- Introducing more products on already established markets by integrating more systems and establishing a common technology platform.
- Strengthening and expanding our international service network to strengthen our local operations to meet our customers' needs.

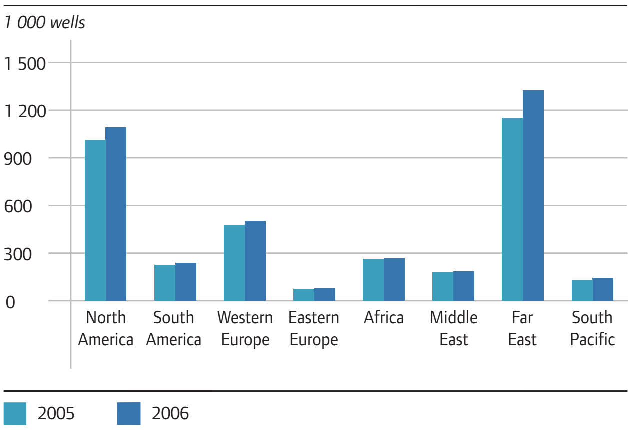
World drilling activity 1995–2006E[1)]



1) E=Estimates

Source: World Oil / Citigroup Investment Research (CIR)

World offshore drilling activity 2005–2006E[1)]



1) E=Estimates

Source: World Oil/Citigroup Investment Research (CIR)

A perspective on the offshore market

Erik Simonsen, *Managing Director, Offshore Research AS*

Future oil and gas needs

According to the IEA, world demand for oil and gas will be about 50 per cent higher in 2030 than today, i.e. to about 1.5 per cent growth per annum. Offshore fields account for about 30 per cent of all global oil and gas production.

Today's high oil and gas prices are ascribable to the fact that there is almost no available production capacity for the first time since the oil crisis in 1972. The major international oil companies have experienced declining oil and gas production, as guaranteed reserves are diminishing despite significant financial profit. The five largest international oil companies use an average price of USD 22 per barrel as the basis for making decisions about developing new fields, even though oil currently sells for USD 60 per barrel. Based on the above, Offshore Research is of the opinion that:

- For years, oil companies' investments have been lower than required to meet the anticipated future demand for oil and gas, so they need to step up their investments in exploration and development, and to produce more from existing fields in production.
- Oil companies have the financial resources required to step up investments, and we see clear signs that this trend has begun.
- It is assumed that most undiscovered reserves are offshore, especially in deep water. It is only relatively recently that we have had the technology to search for oil and gas resources in such waters.

Trends in offshore oil and gas

Despite rapid technological development in the offshore industry over the past 10 years, there is plenty of room for improvement. It is estimated that about 30 per cent of offshore exploration wells result in finds, meaning about 70 per cent are costly mistakes. The challenge lies in improving the quality of seismic data as well as the systems for interpreting that data. The long-term goal should be 100 per cent discoveries, and that exploration wells make optimal contact with the reservoirs.

The largest fields on the continental shelves have probably been developed; the next challenge will be to develop major fields in deep water and smaller fields based solely on subsea solutions at all water depths. The distance from subsea fields to processing facilities on existing platforms or onshore is increasingly steadily.

Norway has one of the highest oil recovery rates, and its target has increased from 40 to 50 per cent in recent years. The challenge is to recover the remaining 50 per cent. This will call for new technologies, including remote control and the automation of fields to reduce operating expenses and extend their useful economic life.

Technological development has resulted in subsea production equipment. The next step will be to develop downhole process equipment.

Market prospects for the supply industry

The hefty increase in oil and gas prices has had ramifications throughout the production chain. This has led to higher prices for the services and equipment provided by suppliers, impacting development costs for new fields.

Almost all offshore vessels are currently in use, and many newbuildings are on order. Offshore Research is of the opinion that more drilling rigs should be ordered to accommodate planned growth in subsea production wells. Floating rig capacity is expected

to be a bottleneck for drilling activities up to 2010.

Field support and rig support are the main market drivers for the demand for vessels. Since growth in rig support will be limited by the augmentation of rig capacity in the years ahead, Offshore Research believes today's high backlog of orders will soon lead to excess capacity.

The subsea vessel market has shown continuous growth since 1990 because pipelines and increasingly more production equipment are being installed on the seabed. This trend is expected to continue, and higher gas production will be the most important demand driver. Exploration budgets are expected to expand, and new technologies for exploration seismic and reservoir seismic are being developed to ensure the optimal location of new wells for production or injection. Older vessels will ultimately have to be replaced in all vessel categories.

Macro description of the merchant marine market

The size of the global merchant vessel market depends on the number of ships being ordered and scrapped in the various segments at any given time. There is expected to be a rising trend in the number of vessels ordered up to 2010.

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.

Carrying agents and shipowners base their orders for new ships on their expectations of transport needs. This in turn is related to the growing need for energy and raw materials, growth in the world economy and thus more retail trade. Rapid economic growth in densely populated nations such as China and India generate additional needs for energy and raw materials, involving tonnage demands for tankers and large bulk carriers. Access to appropriate transportation determines freight rate trends and the demand for different types of merchant vessels.

The size of the global market depends on the number of ships on order and being scrapped at any given time in the various segments.

New orders are being booked at a brisk rate on the global market. Orders are expected to increase until 2010, with growth for most types of vessels.

Available shipyard capacity is limited due to the high order rate. Shipyard capacity is expected to increase in the short- and mid-term. This is because China is building new shipyards, while South Korea is upgrading old ones. European shipyards are becoming more competitive owing to shorter delivery times.

The market for merchant vessels is experiencing more local competition in Asia as shipyards increasingly use local suppliers. This is because purchasing power is being centralised and the shipyards are shouldering more and more responsibility for purchasing, meaning they are actually becoming the customer.

Macro drivers and trends

Economic growth
Global economic growth and geographical breakdown of the growth.

World trade
World trade fluctuates more than growth in the Gross Domestic Product (GDP). Ascribable to asymmetry between the location of the producer and consumer.

The demand for oil and gas
Depends on economic growth, oil prices, the amount of oil in storage, refinery capacity and margins, as well as gas prices.

The ratio between oil and gas production and consumption
Depends on global political stability, OPEC's price policy and production growth outside OPEC, accessible oil reserves, production costs and exploration.

Macro shock
War, terrorist attacks, epidemics

Environmental standards

Currency fluctuations

Tax
Different tax regimes

Shipbuilding

- Shipyards in Asia have full and growing order books at least through 2007; building costs have increased as a result.
- Anticipated additional scrapping of older vessels owing not least to the phasing out of single-hull vessels and older gas tankers.

Types of vessels and geographical breakdown

It is of the utmost importance to be in the vanguard of new trends. New trends make it possible to outpace the growth in the general market. This applies to most types of vessels and in most different geographical areas.

- High anticipated growth in LNG and LPG transportation over the next 20 years, spawning strong growth in orders for LNG carriers, a continued good influx of orders for planned newbuildings, and a high level of activity relative to the planning and development of export and import terminals for the transport of 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 production and 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 more offshore activity.

Market drivers and trends

Competition drivers and trends

Intensity of competition

The number and concentration of competitors is profoundly important. The competitive situation varies relatively little between different types of vessels.

- Shipyards in Asia are turning to local suppliers more than before
- There is a trend towards some major and many minor segment-specific players
- Gradually increasing pressure on the prices of individual products is expected by major and minor competitors within the individual types of vessels
- Trends towards larger integrated automation packages (especially on larger vessels) where 'total suppliers' take a larger market share

Customers

Customers are increasingly using suppliers to gain a competitive edge

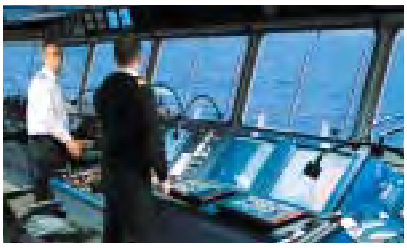
- Shipyards are taking more responsibility for purchasing and are becoming the *de facto* customers.
- The general trend is that technology products are susceptible pressures on prices and profit margins. Advanced technology for critical and demanding applications (e.g. heavy offshore) is more likely to maintain its margins.

Foreign currency

Exchange rates often have a powerful impact on competition

- Increasingly more trade in USD due to a higher level of activity in Asia
- Having few suppliers with a cost base in USD affects the competitive situation less than one would initially expect

KONGSBERG in the merchant marine market


Dynamic positioning


Navigation systems

Our most important product areas on the market

KONGSBERG delivers systems for dynamic positioning, navigation, marine automation, surveillance and positioning for different types of merchant vessels.

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

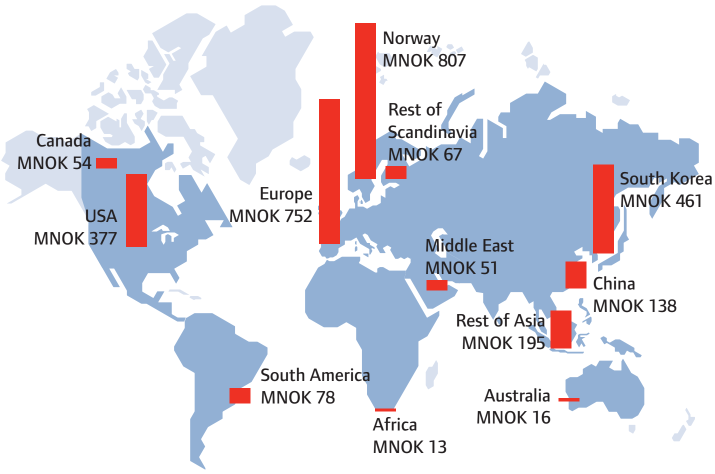
Process automation
- Systems for the control and coordination of on board processes for LNG transport


Automation and surveillance systems


Positioning and identification systems


Process automation

Kongsberg Maritime – Operating revenues, in MNOK



KONGSBERG's position on the merchant marine market

In 2005, new orders for Merchant Marine totalled MNOK 1 215.

KONGSBERG is the global market leader in systems integration, automation and surveillance systems for merchant vessels, including that important growth segment: gas carriers (LNG and LPG transportation). The market shares in cargo monitoring on different types of tankers and advanced navigation systems are increasing. One important reason for this involves system solutions where operations are linked together to improve safety and performance.

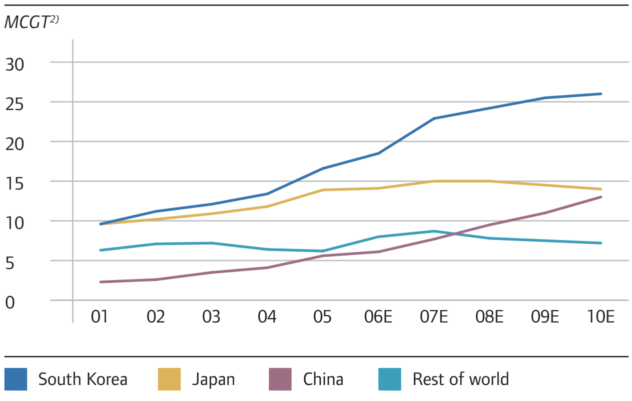
KONGSBERG's products and systems help customers achieve a competitive advantage by supplying a 'brain' for their systems.

KONGSBERG is a strong brand name in maritime communities in Norway and abroad. Over the past 10 years, we have built up a comprehensive distribution and service network, and have our own local subsidiaries in the most important growth markets.

Our products are based on high technological expertise, applied understanding of processes, comprehensive knowledge about the maritime community and long experience. In several cases, we have been pioneers in the development of products and systems for the monitoring and control of onboard processes.

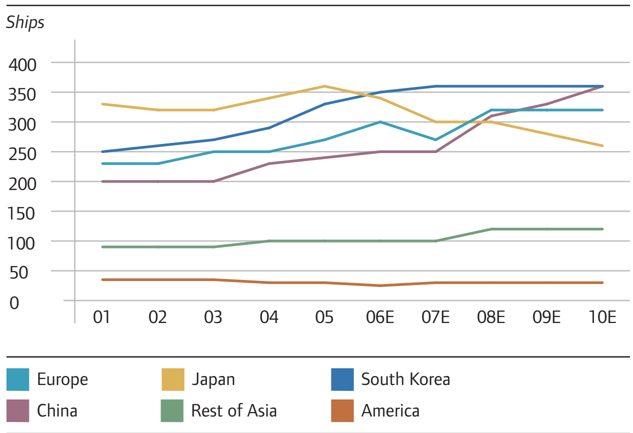
KONGSBERG's strong position in maritime technology has taken many years to build up. A strong corporate culture and comprehensive insight into customers' needs have ensured competitive solutions.

Shipbuilding production capacities 2001–2010E[1)]



1) Estimates 2) MCGT – million compensated gross tonnes
Source: Kongsberg Maritime

Ship deliveries (ships > 500GT) 2001–2010E[1)]



1) Estimates
Source: Kongsberg Maritime

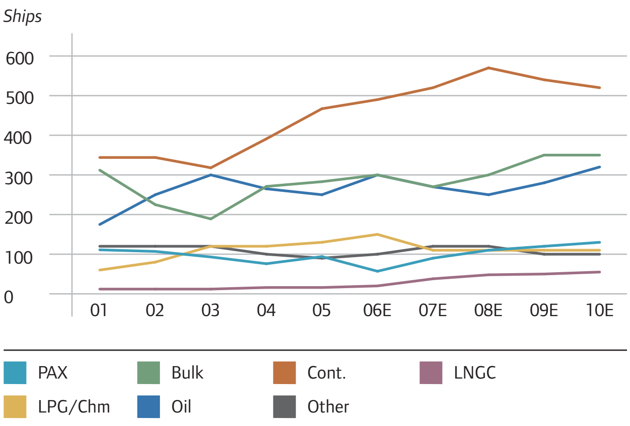
KONGSBERG in the merchant marine market

KONGSBERG's strategy in the merchant marine market

To enable the Group to maintain and improve its position in the merchant marine market, we emphasise:

- Improving safety and performance through the establishment of a common technology platform and systems integration of more operations onboard. Cost efficiency is achieved through streamlined architecture and effective tools.
- Expanding KONGSBERG's opportunities to control more functions onboard, and to deliver integrated vessel-specific system solutions. This allows us to gain a competitive edge. Through determined marketing, we intend to reach new customer groups.
- Being a global player, at the same time as we are a local supplier. This will be accomplished by having an active presence wherever there is a need for our products and services.
- Further developing the companies in South Korea and China, and actively pursue our ambitions for growth in new shipbuilding nations such as Vietnam and India.
- Maintaining and further developing a world-wide, efficient customer support network.
- Placing substantial emphasis on research and development, particularly with a view to finding new applications and products to complete the products and services we offer the market at any given time.

Ship type by numbers 2001–2010E[1)]



1) Estimates

Source: Kongsberg Maritime

A perspective on the merchant marine market

Erik M. Andersen, *managing director, R.S. Platou Economic Research AS*

Burgeoning growth in global shipping

2005 was a fabulous year for the vast majority of shipowners, despite the fact that it was eclipsed by 2004, definitely the peak year for international shipping. The need for sea-based transport capacity expanded by 6 per cent in 2005. While that growth rate dipped somewhat from the two preceding years, it was far higher than in the 1990s. Thus far this decade, the global merchant marine's demand for tonnage has expanded by an average of 6 per cent per year, actually doubling since the 1990s. This is no mere coincidence.

First of all, the world economy is growing more rapidly, up from an average of 3.3 per cent in the 1990s to 3.9 per cent thus far this decade. Secondly, there has been a shift in the ratio between economic growth and sea transport that has definitely been advantageous for global shipping. This is due not least to the fact that the regional distribution of the growth in the world economy has been highly auspicious for the shipping industry.

Globalisation is the driving force

In our view, the extensive de-regulation of world trade, especially in recent years, has led to a whole new international division of labour, often referred to as globalisation. The outsourcing of manufacturing has seen enormous growth and is the main driving force behind the doubling of the growth rate for carriage by sea. The development of more effective sea transport systems, especially container transport, has been crucial to the globalisation process.

The rapid expansion of world trade is in large part driven by economies outside the OECD area, which now accounts for half of aggregate trade growth. China alone accounted for 40 to 45 per cent of the growth in global tonnage demand in 2003 and 2004. We have estimated that the country accounted for nearly 40 per cent of the growth in 2005.

Newbuilding prices have peaked

The world's merchant marine has not expanded nearly as rapidly as the growth in tonnage demand, and a slight surplus in transport capacity in 2000 has turned into a tangible shortage of vessels in the past few years. Vastly improved profitability for shipping companies has led to many new orders for ships, significantly increasing the delivery time for new vessels. Newbuilding prices have doubled in less than three years, meaning the world's shipbuilding capacity is now undergoing very rapid expansion. However, building prices have shown a slight downward tendency in recent months.

Positive expectations for the world economy

The world economy's burgeoning growth is generally expected to continue in the years ahead, with the USA and China as the main driving forces. The steep rise in oil prices has not yet led to increased wage demands and thus has not incited any long-term general inflation. The combination of several years of strong economic growth and expansive monetary and fiscal policy is rare. Although the short-term interest level has begun to rise, the monetary policy must still be described as expansive.

Despite the positive fundamental tone that characterises expectations for the years ahead, there is almost inevitably a risk of a more negative trend. The serious imbalances in the US economy must in all probability be corrected sooner or later, but no one can say when or how that issue will be addressed. There is also considerable uncertainty about the supply situation in the oil market and thus about oil and energy prices. The growing geopolitical unrest recently has exacerbated the uncertainty attached to economic growth and trade.

If the general expectations of strong, global economic growth come to fruition, the rapid growth in sea transport will continue. The world's merchant marine will probably expand even more quickly with a moderate decline in the freight markets as a result.

Macro description of the defence market

The defence market is a political, protectionistic market with stringent regulations and safety/security requirements. Moreover, the defence market changed in the aftermath of 11 September 2001. From having equipment and systems designed for a traditional defence against invasion, there is also more focus on homeland defence against terrorist acts and environmental offences.

The defence market

The defence market encompasses products and systems for land-based, air-based and sea-based defence. This is a political and protectionistic market that is not subject to international free trade agreements. Most countries choose national suppliers, or require offset agreements if contracts are awarded to suppliers from other countries. The market is bureaucratic, with strict regulations and safety standards.

Defence products are usually the result of long-term advanced technological development projects, and they usually have a long useful economic life.

Today's defence market is in flux. Since the War on Terrorism began in the aftermath of 11 September 2001, we have seen a shift from equipment and systems designed for a traditional defence against invasion, to a defence based more on multinational military operations, often far from a country's own national borders. There is also more focus on homeland defence against terrorist acts and environmental offences, and towards monitoring domestic natural resources.

In this context, we also see a shift towards equipment and systems that can be integrated into joint military operations. This requires that different countries' military programmes can communicate with each other. Interoperability is essential. This is also true between the different branches of the Armed Forces. Land-, air- and sea-based defences are all used in joint military operations, meaning they must have compatible communications. Equipment requirements have also changed, as units must be lighter and more mobile.

Macro drivers and trends

Global political climate
Countries' defence spending is related to the global balance of power. Conflict situations can boost defence spending.

NATO
Norway's NATO membership has an impact on the procurements of materiel for the Norwegian Armed Forces.

The EU's single military market
The EU's single military market can, over time, impact Norway's relationship with NATO and the USA.

US defence spending
As the world's most advanced user of defence materiel, the US often sets the standard for what will be used in other countries.

Norway's military investment level
Armed Forces' investments increased from NOK 7.5 billion in 2000 to NOK 9.4 billion in 2006.

- The Norwegian Armed Forces are undergoing comprehensive reorganisation. It is expected that the process will improve the efficiency of non-operational activities. The savings will be used to give more priority to operative activities and investments in materiel. Full effect is not expected until 2008 at the earliest.
- This means that for the next few years, investment funding will largely be tied-up in existing programmes.

Investment contracts to Norwegian suppliers
About 45 per cent of the Norwegian Armed Forces' investment contracts are awarded to Norwegian suppliers.

- The volume of investment contracts to Norwegian suppliers has been stable in recent years and few changes are expected in the short term.
- If the Norwegian Armed Forces decide to procure fighter craft, the new aircraft will claim a large part of the total funding available. In such case, the offset share would be expected to increase considerably.

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

- However, substantial protectionism in the US and Europe does not rule out opportunities generated by long-term relationships and niche products.

Offset agreements
When the Norwegian Armed Forces sign procurement agreements for defence materiel with foreign suppliers, they also sign offset agreements with the suppliers for the purchase of Norwegian goods and services.

- Offsetting is an important element of international trade.
- Norway operates with the same regime as other European countries. The Government declaration states: "The Government will require offsetting and industrial participation in connection with major defence contracts to a greater extent than today."
- The Armed Forces' future investment plans imply increased imports (e.g. new fighter craft). This opens the door for new offset agreements which, in turn, can form a basis for penetrating new geographical markets.

Market drivers and trends

Competition drivers and trends

Intensity of competition
There are few major international players with substantial market influence.

The most important competitor is usually the potential customer's national defence industry. Many countries want a domestic defence industry, meaning they support it.

- There is a rend towards fewer, larger competitors.
- Major international players join alliances or buy into national defence activities. This can make small local enterprises look like large international ones.
- Having fewer, larger players is resulting in new ground rules, meaning it is often an advantage to be a smaller niche supplier.

Customer-financed projects
It is traditional for most countries to award development and production contracts to their domestic defence industry.

This often makes it possible to export products once development is completed, although that would not have been possible through self funding. The Armed Forces has a positive attitude to this since several users then share the cost of upgrading and maintenance. Moreover, a royalty is paid to the customer that has funded the development project.

- Suppliers to the Armed Forces retain the right to commercialise the technology; a decisive factor for export opportunities.
- It has long been considered a risk that the share of national development contracts will decline. However, this has not been the case thus far.
- Opportunities for defence suppliers to participate directly in other countries' development projects appear to be on the rise.
- Most of today's development contracts in different countries would not be commercial without support from the respective countries' Armed Forces.

KONGSBERG in the defence market

Command and weapons control systems

Surveillance systems

Our most important product areas on the 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 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

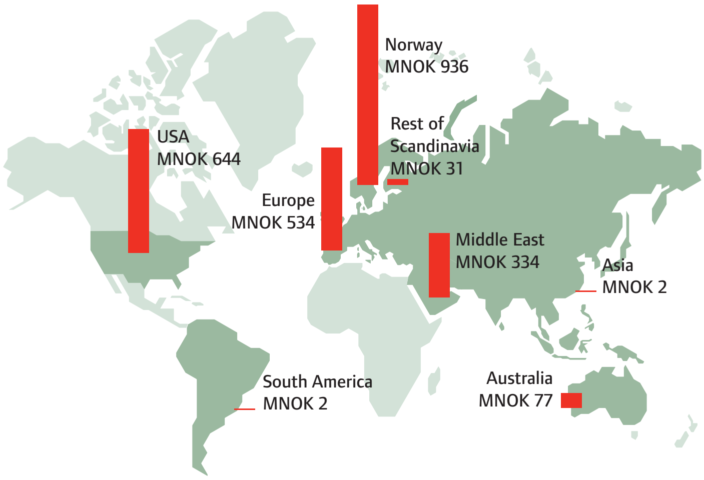
Anti-ship missiles
- Penguin anti-ship missiles and the new NSM (Naval Strike Missile)

Dynamic systems

Communications solutions

Anti-ship missiles

Kongsberg Defence & Aerospace – Operating revenues, in MNOK



KONGSBERG's position on the market

KONGSBERG is Norway's premier defence enterprise for advanced technological defence systems. The Group frequently participates directly in the Armed Forces' investment projects, and is generally the main contractor for technologically advanced systems for the Norwegian Armed Forces. KONGSBERG also usually wins a large percentage of the offset agreements generated by the Norwegian Armed Forces from foreign suppliers.

It has been easier for KONGSBERG to gain access to Eastern Europe and the Middle East than it has been for major US competitors.

By international standards, the Group is a small player. Yet KONGSBERG's anti-ship missiles, command and weapons control systems, remote weapon station and communications solutions developed in collaboration with the Norwegian Armed Forces have proved to be competitive on export markets. Through strategic alliances with major international defence enterprises, KONGSBERG has achieved a leading position in certain niches.

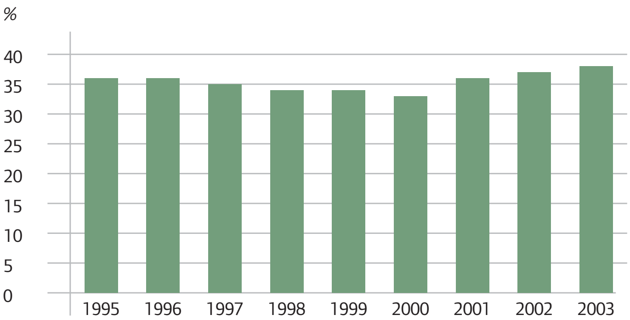
Cooperation with Raytheon of the US has made KONGSBERG a leader in modern air defence technology.

KONGSBERG was the first enterprise in the world to develop a 'fire and forget' anti-ship missile, the Penguin, which is still attractive on the market. The new NSM missile will be one of the world's most advanced anti-ship missiles and will have a huge international potential. Development is expected to be completed in 2006.

The Remote Weapon Station was developed in record time. Development is now in the delivery phase, at the same time as the product is being further developed. A lighter version that can be deployed on several types of vehicles is in the pipeline. Considerable interest has been shown in the RWS, and KONGSBERG is currently the world leader in this type of systems. However, competition in this niche is large and growing.

As regards communication, KONGSBERG is a leading supplier of tactical mobile communications networks. Most of the sales have taken place in open competitions in markets without their own defence industries.

NATO's investments in materiel as a %-age of military investment



Source: SIPRI Yearbook 2004 (www.sipri.org)

Long-term plan for Norwegian Armed Forces' spending

Source: Long-term plan for 2005-2008. Norwegian Ministry of Defence

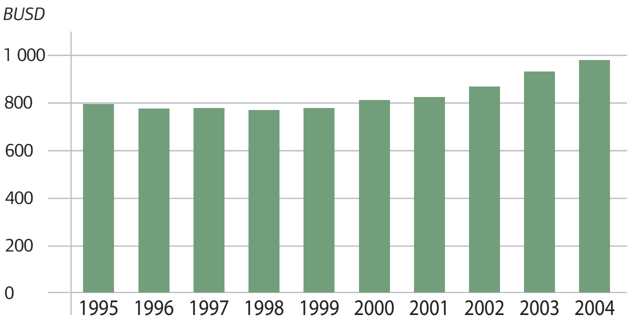
KONGSBERG in the defence market

KONGSBERG's market strategy

For the Group to sustain and improve its position in the defence market, we attach importance to:

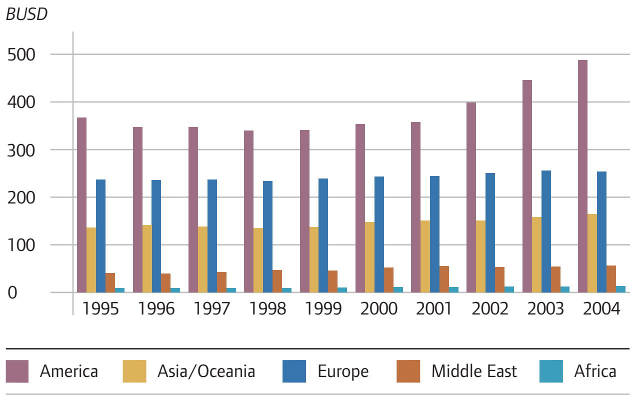
- Expanding our geographical markets and gaining access to more international markets with our niche products. This will be done through acquisitions and venture creation.
- Gaining access for more of the Group's products in existing markets.
- Positioning ourselves in our new target areas, e.g. the market for maritime and land-based surveillance systems for civilian, military and other public installations, at the national and international levels.
- We intend to be best when it comes to quality and innovative solutions in the niches in which we operate.
- We will continue to cooperate actively with strategic alliance partners.
- We will maintain constant focus on in-house processes and implement the necessary economisation measures to ensure satisfactory profitability in all areas.

Global military investment



Source: SIPRI Yearbook 2005 (www.sipri.org)

Global military investment by region



Source: SIPRI Yearbook 2005 (www.sipri.org)

A perspective on the defence market

Joris Janssen Lok, *International Editor, Jane's International Defence Review (IDR)*

The international defence market (overall spending on defence exceeded USD 1 000 billion in 2004) is unlike most commercial markets, being highly political in nature. Sovereign nations often have their own specific reasons for selecting a particular supplier of defence equipment.

Each nation is a market in itself. Whether open competition is possible differs from case to case. The US market is by far the largest individual defence market, being responsible for close to 50 per cent of global defence expenditure. But it is difficult to penetrate for non-US suppliers. Inside the European Union, a new code of conduct among 24 nations is supposed to ensure that defence acquisitions above EUR1 million are open to competition – an encouraging development although it still has to be implemented.

Defence operational requirements are changing to meet the threats that will face the open societies of the Western world in the next 10–20 years.

One challenge is how to prevent disasters and how to respond should they happen. Disasters can be man-made (terrorist attack, industrial accident, a rogue state ballistic missile attack) or natural (floods, hurricanes, earthquakes).

Countering international terrorism is a growing mission for the military. Another emerging core business is to help reintroduce security and government in troubled countries. Instability caused by local or regional conflicts can have a worldwide economic and security impact.

Current conflicts typically involve relatively low-intensity operations. The dominant need is for superior situational awareness, achieved by high-resolution sensors, networks to share and disseminate data, information processing and visualisation.

Most nations maintain a degree of warfighting capability for high-intensity conflict. It is, after all, impossible to predict the international security situation of the future.

Several Kongsberg-developed technologies are well-placed for meeting emerging operational requirements.

The NSM naval strike missile has the potential to be further developed so that it can also be used to support land operations. Such a further developed variant, including a two-way datalink; a modular payload; and a capability to precisely hit land targets, could have a promising future. Integrating such a stealthy, capable missile with the internal weapons bay of a stealthy Joint Strike Fighter will expand the operational capabilities of future air forces.

The NASAMS II concept for ground-based air defence has an appeal because of its modularity, deployability and use of the ubiquitous AMRAAM missile. The associated command and fire distribution software enables countries to better network existing ground-based air defence systems. This can multiply their effectiveness and efficiency without having to buy new weapons systems.

Exporting combat management systems for frigates and submarines is difficult due to cut-throat competition and hard-to-access markets. But new mine warfare, harbour protection and undersea reconnaissance products from Kongsberg have attracted interest from many potential customer navies.

In the area of secure communication and information systems, Kongsberg has a good market position in the Middle East. Its products could generate a synergetic effect when used to build networked security or surveillance systems.

The booming, but fiercely contested, market for force protection products is served by Kongsberg's Protector line of remote weapon systems. Kongsberg has been able to sell Protector to the US Army. The resulting high production volume has helped the company to win orders from numerous other nations.

Kongsberg's simulation systems are expected to see continued demand due to the need to cut both the cost and environmental impact of training. Simulation technology can also enhance the fidelity of training, resulting in a higher standard of training.

Kongsberg Maritime

"Kongsberg Maritime's backlog of orders increased by 29 per cent from 2004 to 2005. That provides a sound platform for 2006."

Torfinn Kildal
President, Kongsberg Maritime

2005

Fast pace at Kongsberg Maritime
Orders for vessels from shipyards in Asia and Europe remained buoyant throughout 2005. This resulted in numerous contracts and a good influx of new orders during the year. At year-end 2005, Kongsberg Maritime had a backlog of orders totalling MNOK 2 158 and providing a sound platform for 2006. This included both Offshore & Merchant Marine. Increased investments in exploration and field development resulted in more new orders in 2005 than in 2004.

The focus on automation and control systems for LNG (Liquefied Natural Gas) carriers proved profitable once again in 2005. Kongsberg Maritime is currently involved in deliveries to a total of 67 LNG vessels on order or under construction.

Strategy

Honing its maritime strategy
Kongsberg Maritime aspires to focus more intently on offshore and maritime applications. Consequently, the Group decided to sell SIMRAD's yachting activities. The business was developing in an increasingly different direction from the industrial markets served by the rest of Kongsberg Maritime. The sale to Altor should be a good solution for Simrad Yachting. SIMRAD's commercial fishery segment will continue as part of Kongsberg Maritime, in close cooperation with Kongsberg Maritime's other hydroacoustics activities.

Accordingly, we have laid a strong foundation for expanding in offshore and maritime markets in the years ahead.

Global presence
Kongsberg Maritime's global presence has given us a strong position that will be further developed in the years ahead. More and more of our activities are taking place outside Norway. We aspire to maintain a presence in important offshore and maritime areas to provide optimal service and support. This means we will expand in north-east and south-east Asia. Meanwhile, we are developing solutions that facilitate remote diagnostics and support.

Common technology platform
Kongsberg Maritime plans to integrate several of its systems, not least by introducing a common technology platform to simplify the user interfaces on the various systems, offering advantages in terms of operations and safety. KONGSBERG engages in considerable research and development. Roughly 10 per cent of the Group's aggregate earnings are spent on R&D.

Targeting the offshore market
Kongsberg Maritime is becoming increasingly more involved in offshore oil and gas production. We are already an important supplier, not least of process automation, dynamic positioning and underwater acoustics. We will nonetheless be expanding our selection of products and systems, and projecting a more uniform image in the years ahead.

Kongsberg Maritime encourages cooperation across business areas in KONGSBERG where it is natural to do so. We have a number of joint projects involving deliveries from both Kongsberg Defence & Aerospace and Kongsberg Maritime. Marketing collaboration is also improving, and several arenas have been set up for exchanging experience between the BAs.

Challenges

Kongsberg Maritime is a market leader in the offshore and maritime industries, but our competitiveness is challenged constantly. This means we must strive to implement economisation measures continuously. Combining new technology with our in-depth knowledge of users, we can introduce user-friendly, cost-efficient products and systems.

Our fishery activities were not profitable in 2005, so we have implemented several measures to enhance operations. This work will continue in 2006.

Kongsberg Maritime – business activities

Kongsberg Maritime delivers systems for positioning and surveying, navigation and automation to merchant vessels and offshore installations. Kongsberg Maritime is a market leader in dynamic positioning systems, automation and surveillance systems, process automation, satellite navigation and hydroacoustics.

New orders were good in 2005, especially from the shipbuilding industry in South Korea and China.

Operating revenues added up to MNOK 3 034 in 2005, compared with MNOK 3 013 the year before. Of this, sales outside Norway aggregated MNOK 2 227 (73 per cent). The corresponding figure for 2004 was MNOK 2 279. The business area accounted for 53 per cent of the Group's total operating revenues.

Kongsberg Maritime has 1 855 employees in 17 countries.

Restructuring the business area

Kongsberg Maritime made changes in the organisation of the business area in 2005. The organisational changes were made to enhance the BA's focus on profitability and to promote its ambitions for growth. Two new business units were set up: Business Development and Business Support. The strategic development of simulator and camera activities at Kongsberg Maritime is organised under business development.

To project a uniform market image, all sales and marketing activities are now organised in a single unit. That division is also responsible for all operative field offices, i.e. those that are engaged in sales and support.

The business area now consists of four units: Offshore & Marine, Process Automation, Subsea and Positioning.

Kongsberg Maritime is a market leader in the offshore and merchant vessel industries

Kongsberg Maritime AS

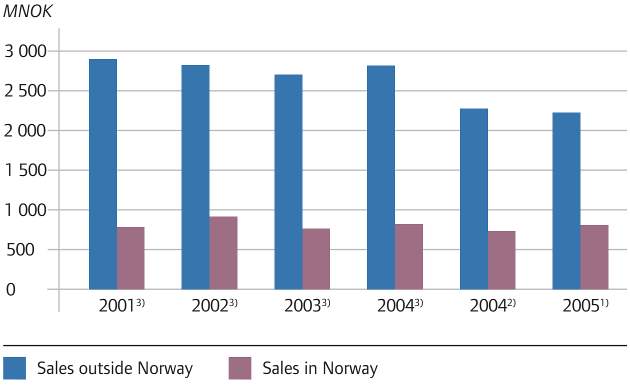
Offshore & Merchant Marine

- Offshore & Marine
- Process Automation
- Subsea
- Positioning

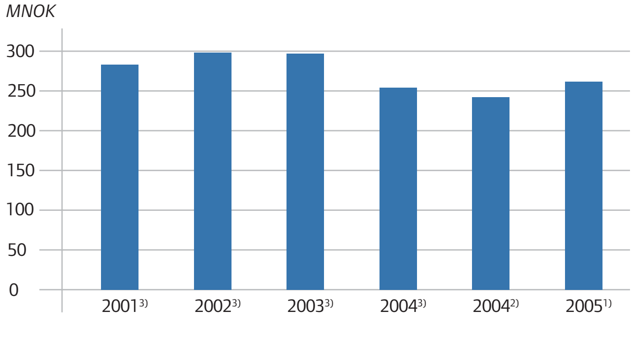
Key figures

MNOK	*2005[1]*	*2004[2]*	*2004[3]*	*2003[3]*
Operating revenues	3 034	3 013	3 638	3 470
EBITA	262	242	254	297
Operating margin (%)	8.6%	8.0%	7.0%	8.6%
Backlog of orders	2 158	1 673	1 673	1 463
Number of employees	1 855	1 868	2 392	2 432

Operating revenues



Earnings before interest, tax and amortisation (EBITA)



1) The figures are IFRS compliant (International Financial Reporting Standards).
2) The figures have been adjusted for the effects of the transition to IFRS and the sale of Yachting activities.
3) The figures have not been adjusted for the effects of the transition to IFRS, but are presented pursuant to NGAAP and include yachting activities.

Highlights 2005

Sale of the yachting segment
Kongsberg Maritime sold SIMRAD's yachting segment to the Nordic investment fund Altor. The sale was motivated by the desire to model Kongsberg Maritime on a 'business-to-business' model. The yachting segment in SIMRAD predominantly addressed the consumer market, and was developing in a manner that differed more and more from the industrial markets served by the rest of Kongsberg Maritime.

Strong influx of new orders and a high backlog of orders
Continued market boom for ships in Asia and Europe. Kongsberg Maritime enters 2006 with a backlog of orders valued at MNOK 2 158.

MNOK 100 contract for control systems for gas carriers
Kongsberg Maritime received orders for control systems for eight LNG (Liquefied Natural Gas) carriers in 2005. The order had a total scope of approximately MNOK 100, and deliveries are scheduled from early 2006 to late 2007.

A healthy influx of new orders and strong progress for Kongsberg Maritime in 2005

A contract with the US Coast Guard worth MUSD 3
Kongsberg Maritime's unit in Lynnwood, WA, USA, signed a contract worth MUSD 3 with the US Coast Guard. The contract is for the delivery of 10 SM 2000 surveillance systems for use under water by the US Coast Guard.

MNOK 70 contract with Statoil
Statoil awarded Kongsberg Maritime a contract valued at approx. MNOK 70 for upgrading Statfjord A, B and C's process control systems for oil and gas production, and for the delivery of a process simulator.

Description of divisions

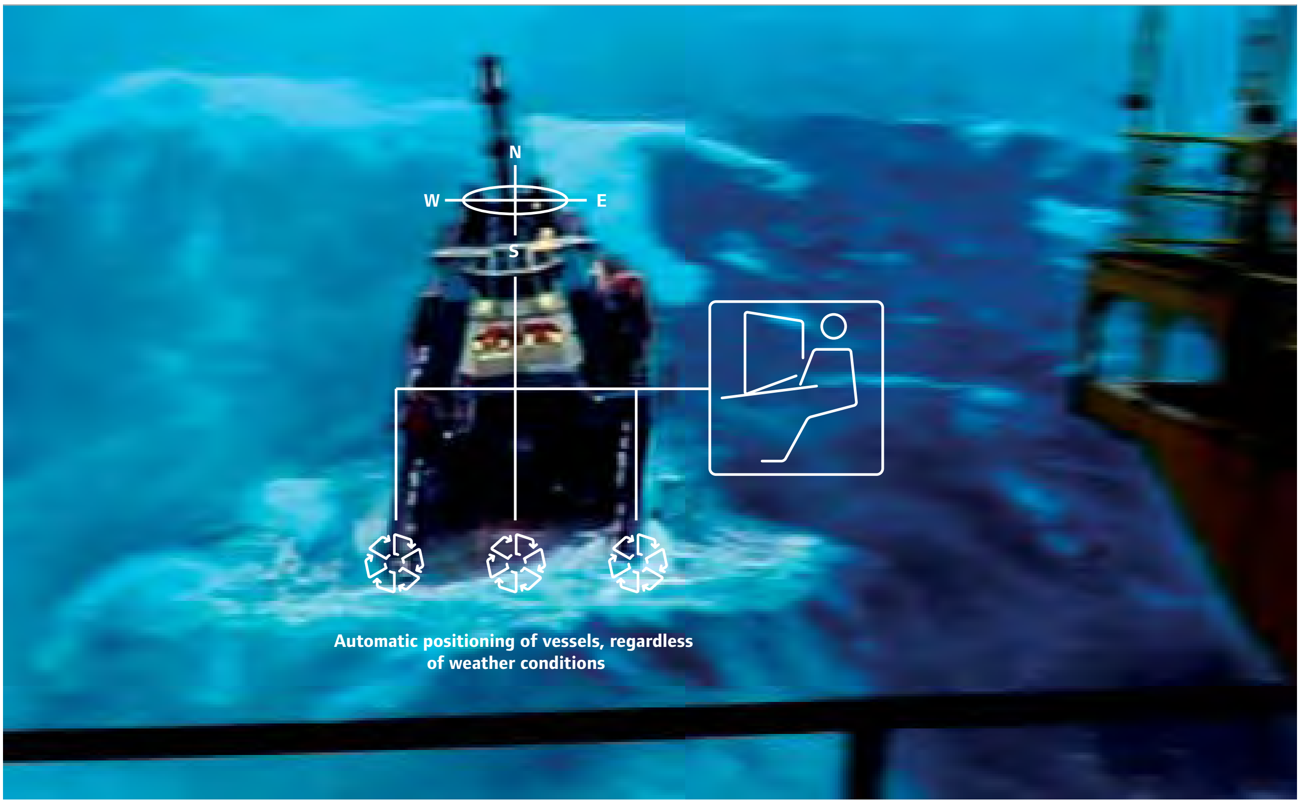
Offshore & Marine

The division delivers systems for dynamic positioning and navigation, marine automation, cargo management and level sensors. For Kongsberg Maritime, dynamic positioning systems for offshore vessels have been a successful product for many years. Dynamic positioning is a regulation mechanism that keeps vessels in a constant position, independent of wind, waves and ocean currents. The systems are used extensively on all types of offshore vessels, floating oil installations and cruise vessels. Based on activities in the North Sea, an international market has gradually developed and the products are being used for a growing number of applications. KONGSBERG is expected to maintain its leading global position in this market.

Marine automation (vessel automation) for merchant vessels and offshore vessels encompasses systems for engine, cargo and propulsion control. KONGSBERG is among the world's foremost suppliers, not least because it can supply the most complete system solutions on the market. KONGSBERG's strong presence in South Korea is a significant factor in the good influx of new orders. Since 2000, special efforts have been devoted to automation and control systems for LNG (Liquefied Natural Gas) carriers. This market was booming in 2005, as evidenced by many new orders. Kongsberg Maritime is currently involved in deliveries to a total of 67 LNG vessels on order or under construction.

Navigation encompasses bridge equipment for merchant vessels and offshore vessels, and helps complete the division's range of products. By integrating the various sub-systems and using the same technology platform for everything, KONGSBERG can accommodate more of its customers' needs. This reduces the need for large inventories of spare parts, and customers deal with just one supplier and service partner.

Dynamic positioning systems make complex operations possible under extreme conditions



Dynamic positioning systems automatically manoeuvre and maintain vessels in constant positions relative to each other, making it possible to perform complex operations regardless of wind, waves and ocean currents.

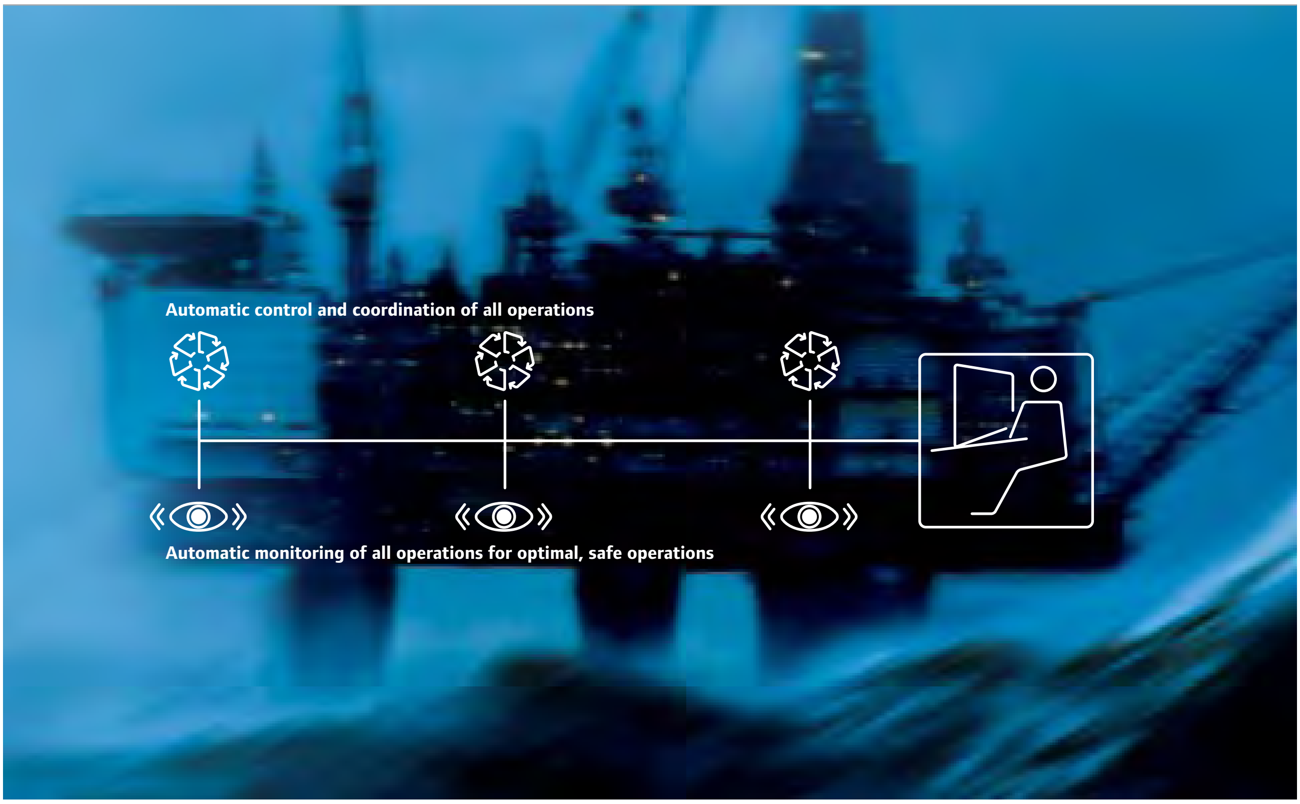
Process Automation

The division delivers complete systems for control, inspection and safety for operations on oil platforms and production vessels. It also delivers computer-based safety systems to safeguard a platform or a production vessel against the consequences of faulty equipment, involuntary disruption of production, oil spills or personal injuries. The division also has an advanced simulation group for design, engineering, training and the optimisation of sophisticated oil and gas processes.2005 was a breakthrough year for process and training simulators, with BP (British Petroleum) as a prominent customer.

In 2005, Kongsberg Maritime signed a contract with Statoil to upgrade the process control systems for oil and gas production for Statfjord A, B and C, as well as for the delivery of a process simulator. So far, only oil has been extracted from the Statfjord fields. By modifying the production processes, gas will be tapped from the same reservoirs.

Kongsberg Maritime is also supplying all marine and process automation for the production ship for Maraton Petroleum Norge, one of the operators for the development of the new Alvheim field.

Computer-based systems for optimal safe operations



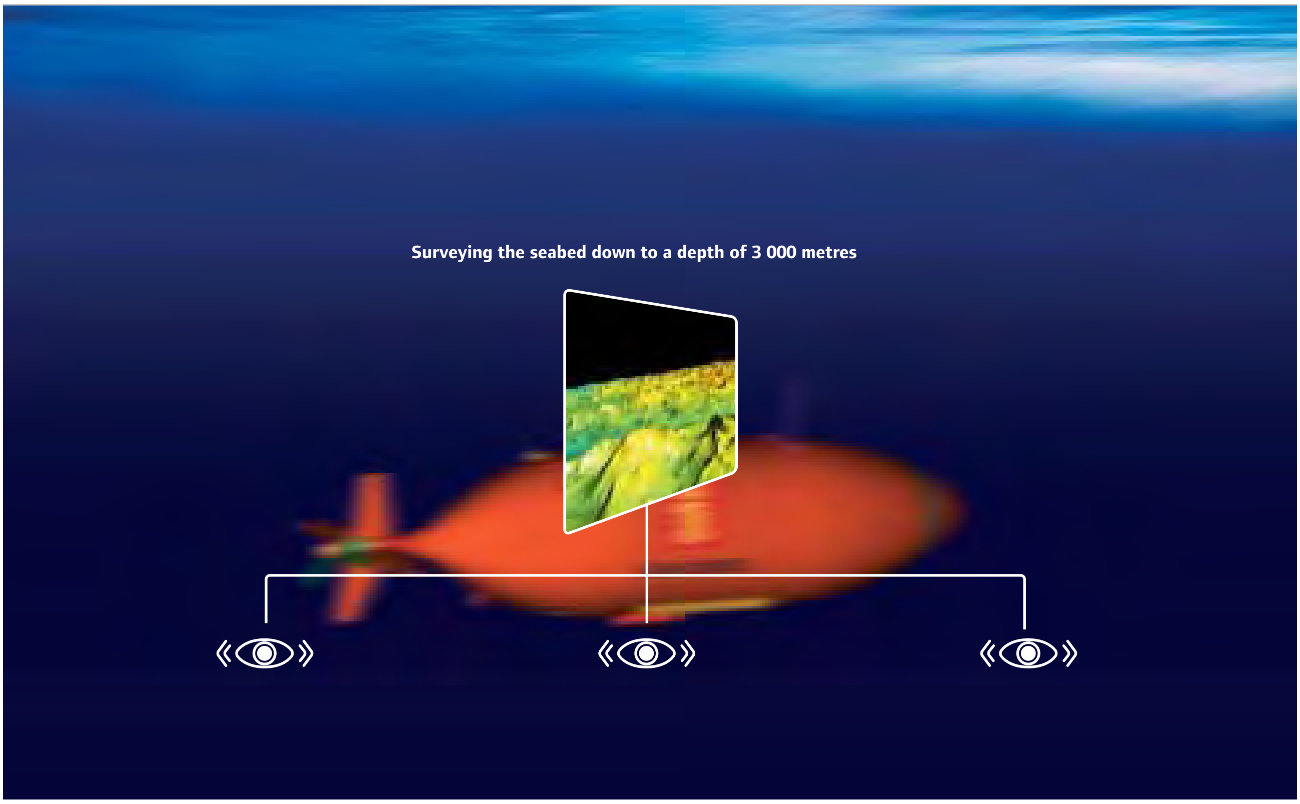
Advanced systems for process automation are required to control and coordinate all operations on a production ship or oil platform. Process automation is also a safety system for alarms or shutdowns in the event of system malfunctions, when people are in danger, or in case of fire or gas leaks.

Subsea

The division operates in these areas: hydrography, underwater navigation, remotely controlled vehicles and special sonars for offshore, fisheries and surveillance. KONGSBERG has long traditions in hydroacoustics, and has developed a number of high-technology products for seabed surveying, as well as for subsea communication and positioning. The Subsea Division had a strong influx of new orders in 2005. This has resulted in the build up of a good backlog of orders.

The division has found new applications for its products in connection with surveillance and oil exploration. Determined efforts have been made to adapt existing technology to new markets. The division maintained satisfactory profitability in a tight market.

Hydroacoustic systems and products for surveying the seabed



By transmitting sonar (sound) signals underwater and measuring the strength and direction of the echo, the submersible craft can chart the seabed.

Positioning

AIS (Automatic Identification System) is an automatic system for recording information about vessel identification, position, movement and cargo. The information is conveyed to other vessels located nearby and to vessel traffic monitoring centres onshore. The international maritime authorities have ordered that AIS be used on all larger vessels, and the EU has decided that land-based AIS infrastructure is to be operative by the end of 2007. The division also supplies advanced systems for GPS satellite positioning and motion sensors for maritime use, and is an active participant in the European programmes for the further development of satellite navigation systems.

Automatic Identification System (AIS) for automatically recording and communicating data on ships

AIS is an anti-collision system for vessel traffic. It provides information about which vessels are in the area, their direction, speed and cargo.
This data is important for enhancing vessel traffic safety.

Kongsberg Defence & Aerospace

"Our largest development project, the new Naval Strike Missile (NSM), is right on target."

Tom Gerhardsen
President, Kongsberg Defence & Aerospace

2005

A good year for Kongsberg Defence & Aerospace
On the whole, 2005 was a good year for Kongsberg Defence & Aerospace. There were, however, considerable differences between the various divisions. Our largest development project, the new Naval Strike Missile (NSM), is maintaining satisfactory progress. Project risk was further mitigated by the successful firing tests. Although some development work and more technical evaluation firings still remain, it has been confirmed that the work done so far has been of high quality.

In addition to continued deliveries to the US Army, Kongsberg Defence & Aerospace has signed a contract with General Dynamics Land Systems of Canada to supply remote weapons systems to the Canadian Armed Forces. The Remote Weapon Station (RWS) has previously been sold to Norway, the USA, Australia and Finland. Altogether, RWS contracts valued at MNOK 822 were signed in 2005. We are very well satisfied with this result.

The profit on military communications was not as good as expected for 2005. This was due to a number of delays and postponed orders.

New orders were also uneven in 2005. We still have an acceptable backlog of orders, but delays in many markets have caused uncertainty. One of the reasons for the shortfall in orders is that there is a lack of available funding for new projects in the Norwegian Armed Forces. The Armed Forces have undergone extensive reorganisation. The reorganisation is not yet complete, and a lot of work remains before the anticipated reduction in expenditure will liberate funding for new investments. This means investment funding for the next few years is largely tied-up in existing programmes. Although KONGSBERG was awarded a transition contract in 2004 that guarantees the start-up of production of the new Naval Strike Missile (NSM), and has contracts for the delivery of equipment to the new Norwegian frigates and the new missile torpedo boats, there is little funding available for new programmes.

Strategy

Operations in more markets
Kongsberg Defence & Aerospace will continue working to penetrate more international markets with its niche products in 2006. Our strength lies in the fact that we can easily adapt the materiel we have developed to suit the needs of other countries. The equipment has considerable interoperability, meaning we can readily make our equipment communicate with equipment from other countries, e.g. in joint international operations.

However, the defence market is political and protectionistic. It is not subject to the rules of free trade. The means that most countries choose national suppliers, or require offset agreements if international suppliers are selected.

A significant 'door opener' for Kongsberg Defence & Aerospace is that the Norwegian authorities pose the same offset requirements for Norway's major new materiel procurements. This will give Norwegian industry more access to foreign markets.

Surveillance – a new market
The defence market is in flux. The world has faced a new threat in the wake of 11 September 2001. The terrorist acts we have witnessed underline our need to emphasise security and surveillance. KONGSBERG is well qualified to achieve a strong position in these markets. We set up a new division, Land Systems & Surveillance, in 2005. The new division will focus on maritime and land-based surveillance systems for civilian, military and other public installations, nationally and internationally. Owing to the acquisition of 100 per cent of Norcontrol IT, we are entering this area with a strong market position.

Alliances and cooperation
Last year, a new 10-year cooperation agreement was signed with Raytheon of the US. The agreement offers a tremendous potential for future deliveries through air defence cooperation.

We have also fortified our efforts in the field of advanced command, control and information systems through the acquisition of the Canadian software company Gallium Software Inc. For Kongsberg Defence & Aerospace, it is important to develop and maintain good, important alliances. We are also determined to cooperate across the business areas and between our own divisions. We have human resources expertise that can be used across the divisions, giving us unique flexibility with a view to resources.

Pole to pole
Kongsberg Defence & Aerospace has also strengthened its market position by establishing TrollSat, a new ground station for satellite data on Antarctica.

With satellite stations in Antarctica, Tromsø and the Arctic (Svalbard), Kongsberg Satellite Services will be the first and only company in the world in a position to offer daily satellite-based services from both the North and South Poles. This gives the company a unique competitive advantage, and means it can increase the number of download opportunities from the satellites in polar orbit.

Challenges

Kongsberg Defence & Aerospace's most important job in 2006 will be to conduct the last technical evaluation firings, concluding the development phase for the new Naval Strike Missile (NSM). The missile will have significant market potential in Norway and abroad.

Another important, exciting task will be to develop and position the new division Land Systems & Surveillance in the civilian and military markets for surveillance. To succeed in expanding the geographic markets for our niche products, we must be best in the niches in which we operate by providing quality and innovative development. We will focus on collaborating with local alliance partners in the individual markets to create new opportunities at the international level.

Kongsberg Defence & Aerospace – description of business activities

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 communication systems have also proven competitive on the export market. Alliances with major foreign defence enterprises are a key part of the business area's international marketing strategy.

In 2005, the BA earned MNOK 2 564 in operating revenues, compared with MNOK 2 704 in 2004. The operating profit (EBIT) was MNOK 117 compared with a loss of MNOK -31 in 2004. The backlog of orders added up to MNOK 3 124 at year-end 2005, compared with MNOK 3 648 in 2004. Of the new orders received in 2005, 77 per cent are destined for the export market. There were 1 421 employees at the end of 2005.

Security and surveillance are markets in which Kongsberg Defence & Aerospace can achieve strong positions

Kongsberg Defence & Aerospace AS

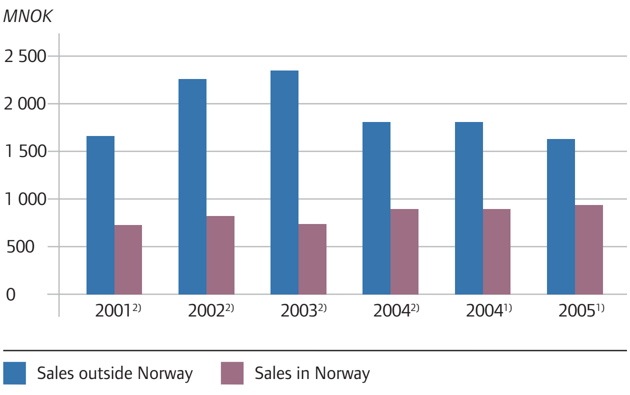
Defence & Aerospace

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

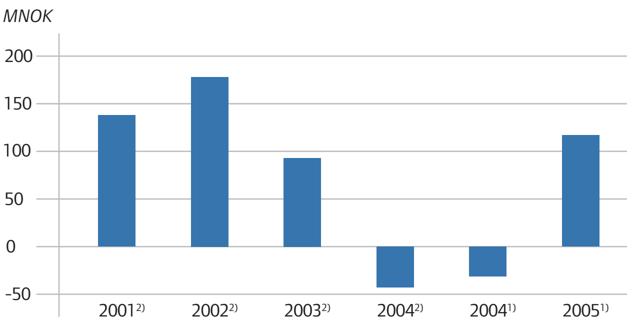
Key figures

MNOK	*2005[1]*	*2004[1]*	*2004[2]*	*2003[2]*
Operating revenues	2 564	2 704	2 704	3 084
EBITA	117	(31)	(43)	93
Operating margin (%)	4.6%	(1.1%)	(1.6%)	3.0%
Backlog of orders	3 124	3 648	3 648	4 352
Number of employees	1 421	1 533	1 533	1 650

Operating revenues



Earnings before interest, tax and amortisation (EBITA)



1) The figures are IFRS compliant (International Financial Reporting Standards).
2) The figures have not been adjusted for the effects of the transition to IFRS, but are presented pursuant to NGAAP.

Highlights 2005

Progress for the new Naval Strike Missile (NSM)
The final development test shot of the NSM missile was conducted in June 2005. The development test shot demonstrated that important features of the missile function as expected. In December, the first test firing in the technical evaluation phase was scheduled, but the test was aborted before the missile left the launch pad owing to a malfunction in the launch ramp systems. This will not affect the financial status or progress of the project.

Major contracts for remote weapon systems (RWS)
Kongsberg Defence & Aerospace signed a contract with General Dynamics Land Systems of Canada to supply RWSs to the Canadian Armed Forces. The system has previously been sold to Norway, the USA, Australia, Ireland and Finland. Altogether, RWS contracts valued at MNOK 822 were signed in 2005.

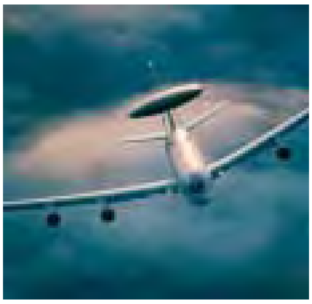
Acquired Canadian software company
Kongsberg Defence & Aerospace signed an agreement to buy the Canadian company Gallium Software Inc. for approximately MNOK 174. Gallium has 65 employees and is well-known for its map graphics tool for military command and control systems. The company is a welcome addition to Kongsberg Defence & Aerospace's core competency area: command and control systems. The acquisition will also enhance the BA's surveillance systems for civilian and military markets.

Establishing a satellite station in Antarctica
Kongsberg Satellite Services began work in March 2005 on TrollSat, a new ground station for satellite data in Antarctica. With satellite stations in Antarctica, Tromsø and the Arctic (Svalbard), Kongsberg Satellite Services will be the first and only company in the world in a position to offer satellite-based services from sites close to both poles.




In 2005, Kongsberg Defence & Aerospace won contracts valued at MNOK 822 for the sale of weapons control systems



Air defence contracts with the Norwegian Air Force and the US Air Force
Kongsberg Defence & Aerospace has signed a contract with the Norwegian Air Force to supply tactical data links for the NASAMS II anti-aircraft system. The MNOK 48 contract represents the first delivery of this modern technology to land-based units in the Norwegian Armed Forces.

A contract was also signed with Raytheon of the US for the delivery of command and control solutions for the NASAMS anti-aircraft system to the US Air Force. The contract is worth approximately MNOK 20.

Communications contracts
Kongsberg Defence & Aerospace signed a contract for the delivery of communications solutions for use by the Royal Saudi Air Defence Forces (RSAF). The contract is valued at roughly MNOK 150. The Kuwaiti Ministry of Defence chose Kongsberg Defence & Aerospace to be in charge of the operation and maintenance of a central communications network. The contract is valued at MNOK 85, including an option worth MNOK 18.

Historic space success
Kongsberg Defence & Aerospace developed software and supplied testing equipment to the Huygens space probe. After a seven-year journey, the Huygens space probe landed safely on the Saturn moon Titan on 14 January 2005. Space experts refer to Huygens as the boldest space project ever in terms of technology.

15-year framework agreement with NAPMA
Kongsberg Defence & Aerospace has signed a contract with NATO's AEW&C Programme Management Agency (NAPMA) for the maintenance of software that Kongsberg developed for the modernisation by NATO's AWACS aircraft. The contract is a 15-year framework agreement, and Kongsberg's anticipated earnings throughout the period will be more than MNOK 160, as well as options for a further MNOK 120.

Description of divisions

Dynamic Systems

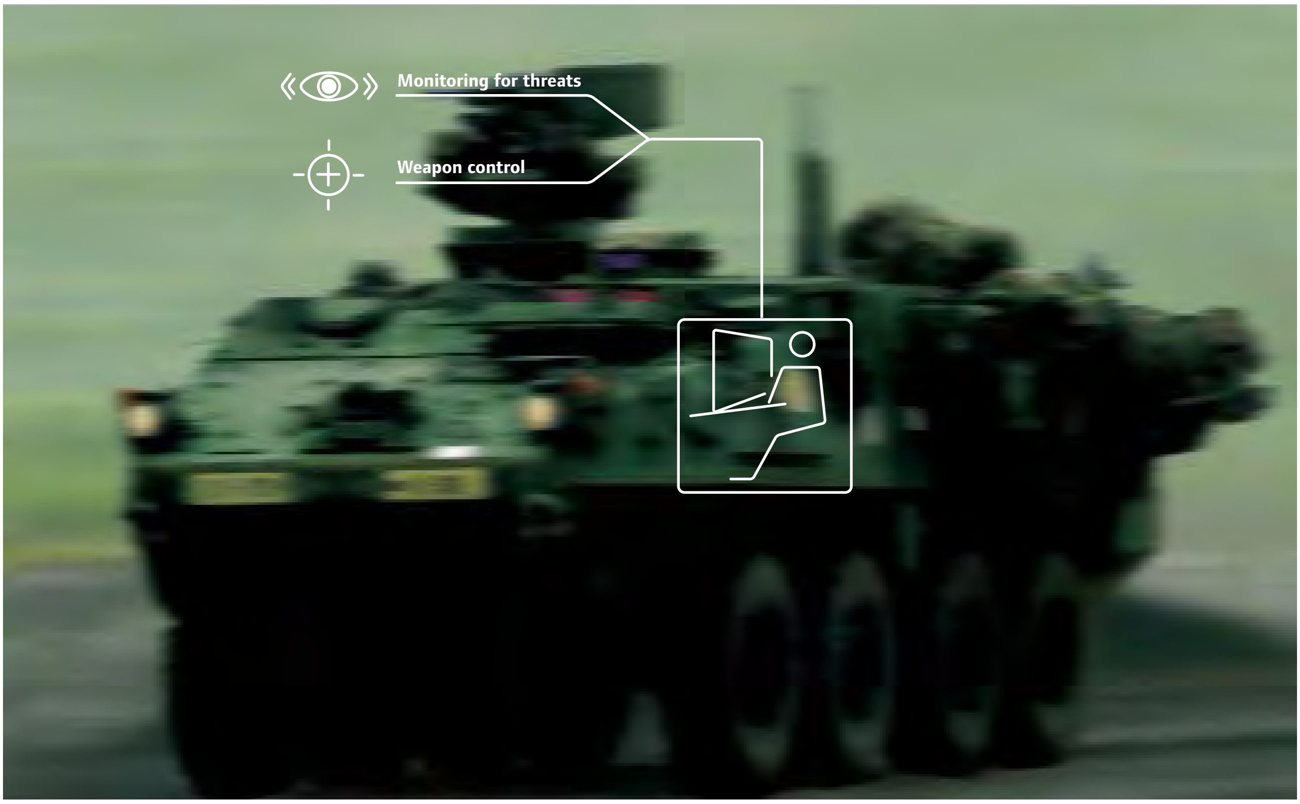
The main product is the weapons control system for armoured personnel carriers (RWS – Remote Weapon Station). The system was developed to protect personnel on armoured personnel carriers. Weapons and sensors are mounted on the outside of the vehicle, while the operator remotely controls the system from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

Besides contracts with the Norwegian Armed Forces, Kongsberg Defence & Aerospace supplies the US Army under a NOK 2 billion framework agreement. Contracts have also been signed for deliveries to Australia, Finland, Ireland and Canada.

The RWS is now in the delivery phase, at the same time as it is under continuous further development. A lighter version that can be used on a wider variety of vehicles is currently under development.

Kongsberg Defence & Aerospace has set up a company in the US to be closer to its customers, providing good service and follow up.

Systems for weapon control on armoured personnel carriers



The RWS weapon control system for armoured personnel carriers has been developed so that the operator can remotely control the system from a protected position inside the vehicle.

Naval Systems

The division delivers command and weapons control systems for naval vessels. From 2000 to 2003, the division won major contracts for the delivery of sub-systems for the command and weapons control system for the new Norwegian Fridtjof Nansen Class frigates (2000) and the new Norwegian Skjold Class missile torpedo boats (MTBs) (2003). The delivery of equipment to the new Norwegian frigates and MTBs is on schedule. The systems for the first of a total of five frigates, the Fridtjof Nansen, have been delivered and installed. The deliveries are being made in collaboration with Lockheed Martin, the Norwegian Armed Forces' contract partner.

Kongsberg Defence & Aerospace cooperates with UMOE Mandal and Armaris of France on the programme for the Skjold Class MTBs. The programme is on schedule and in the transition from the development phase to the production phase.

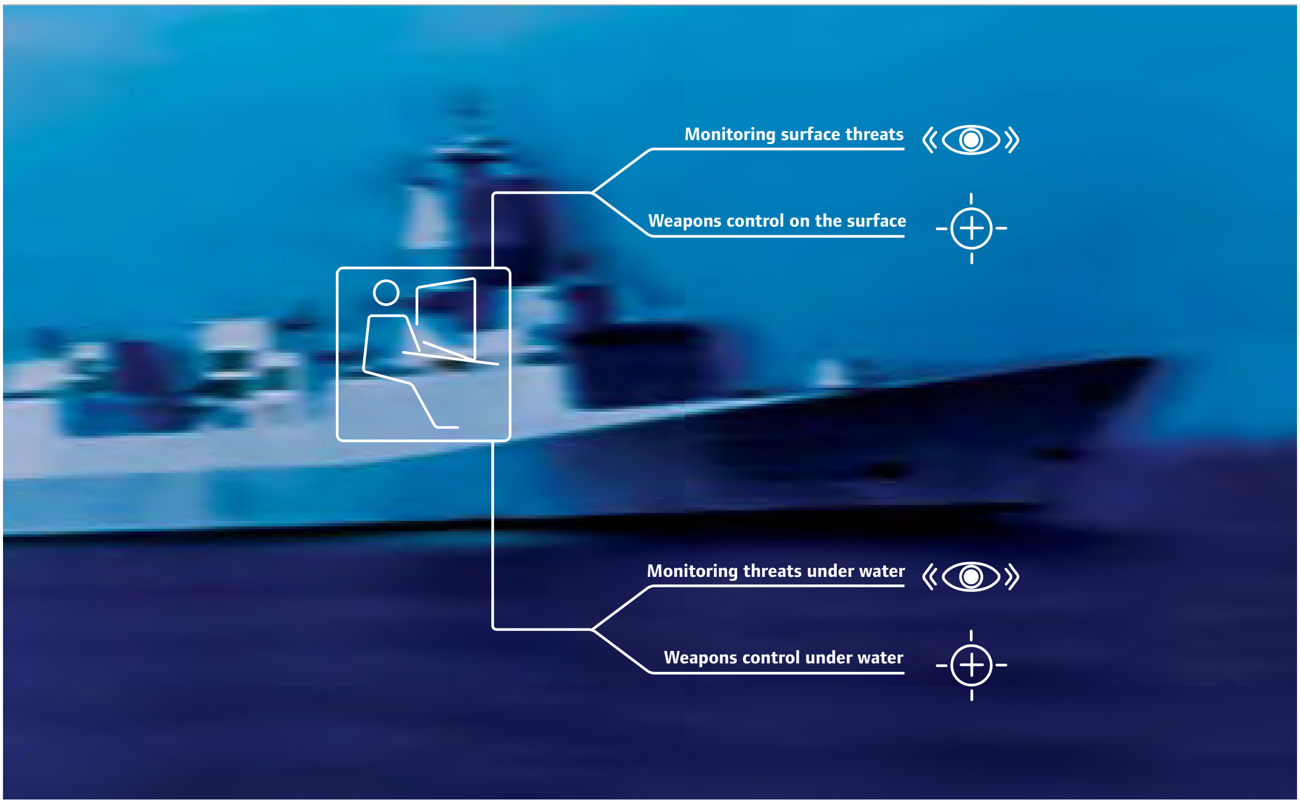
In 2003, Kongsberg Defence & Aerospace concluded a software and service contract with Lockheed Martin for an anti-submarinesystem (the KDX III programme). The deliveries are part of a command and control system that Lockheed Martin will be supplying to the US Navy. The South Korean Navy will be the end user. This is Kongsberg Defence & Aerospace's first export contract based on the cooperation agreement with Lockheed Martin that was signed in connection with the Norwegian frigate programme in 2000.

The KDX III programme is approaching the end of the development phase, and the project is on schedule.

A command and weapons control system has been developed for and delivered to Norway's Ula Class submarines. The system is currently being delivered to German and Italian submarines. The contracts also include deliveries to national land-based facilities for simulator training.

The influx of new orders was sluggish in 2005, but the division still has a backlog of orders for delivery worth MNOK 800-900 over the next two to three years.

Systems for monitoring and control of weapons and sensor systems on naval vessels

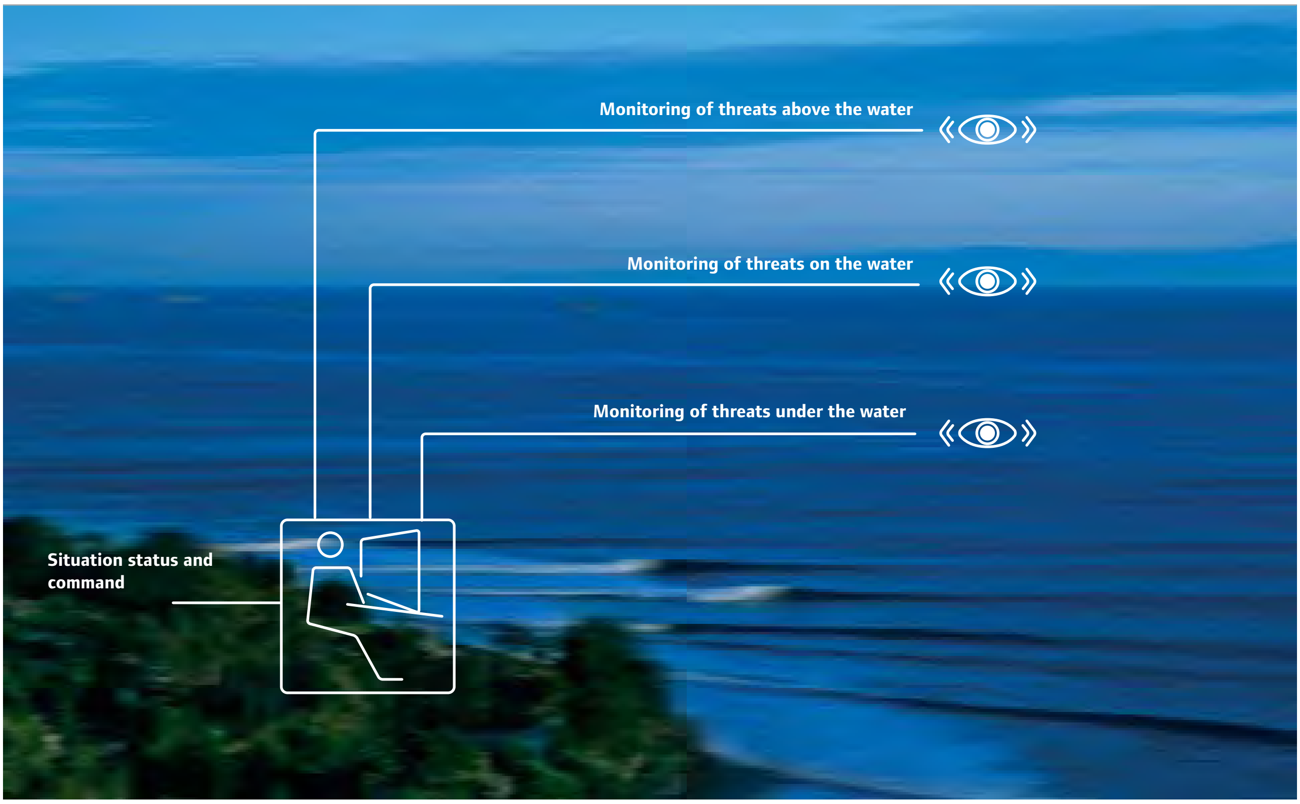


The systems collect information that the operator or the weapon and sensor systems can use to prevent potential threats on or under the surface.

Land Systems & Surveillance

Land Systems & Surveillance is a newly established division of Kongsberg Defence & Aerospace. The new division will focus on maritime and land-based surveillance systems for civilian, military and other public installations, nationally and internationally.
To strengthen the new division, Kongsberg Defence & Aerospace acquired 100 per cent ownership in Norcontrol IT. Norcontrol IT's operations will be integrated into the new division. Norcontrol IT is a market leader in maritime surveillance, with more than 100 installations to its credit world wide. The acquisition of Norcontrol IT will benefit surveillance systems for civilian and military markets alike.

Systems for monitoring threats to ocean and coastal territories



By downloading, collecting and interpreting data from satellites, radars and AIS systems, potential threats in the air and on or under the water can be detected, and measures can be initiated to prevent uncontrolled incidents in ports and along the coast.

Integrated Air Defence Systems

The division delivers command and control systems and fire control for anti-aircraft systems. Along with the Norwegian Air Force and Raytheon of the US, Kongsberg has developed a mobile anti-aircraft system that offers a highly efficient, competitive solution on the international market. Cooperation with Raytheon is strategic, and the cooperation agreement generally involves Kongsberg delivering decision-making tools and command and control systems, while Raytheon delivers missiles, radars and other equipment for the anti-aircraft systems. The cooperation agreement with Raytheon was updated and prolonged for 10 more years in 2004. For Kongsberg Defence & Aerospace, this offers a great opportunity to expand cooperation and enter new markets.

In November, Kongsberg Defence & Aerospace signed an agreement to buy Gallium Software Inc. of Canada. With 65 employees, the company's product programme and geographic location will be advantageous for Kongsberg. Gallium targets the USA and Canada as its primary markets, with its main focus being on the USA. These markets are strategically important for defence activities as well as for the Group as a whole. 2005 was a good year for the division, although new orders were sluggish. In cooperation with Raytheon, the division explored many new projects, and expects a better influx of new orders in 2006. The goal is to penetrate new markets in the coming year.

Command and control systems and fire control for anti-aircraft systems

The command and control systems collect, interpret and display data so that the operator of the anti-aircraft systems can make the requisite decisions with a view to missile launches.

Missiles & Space

The division develops and manufactures anti-ship missiles. The Penguin missile has been operative in Norway and several other countries' naval defence systems for years. It is known for its excellent seeking capabilities and its manoeuvrability adapted to Norwegian coastal waters. The Penguin is still one of the world's leading anti-ship missiles; it can be deployed on helicopters, aircraft and vessels. Although new orders were low in 2005, the Penguin missile is still attractive on the market.

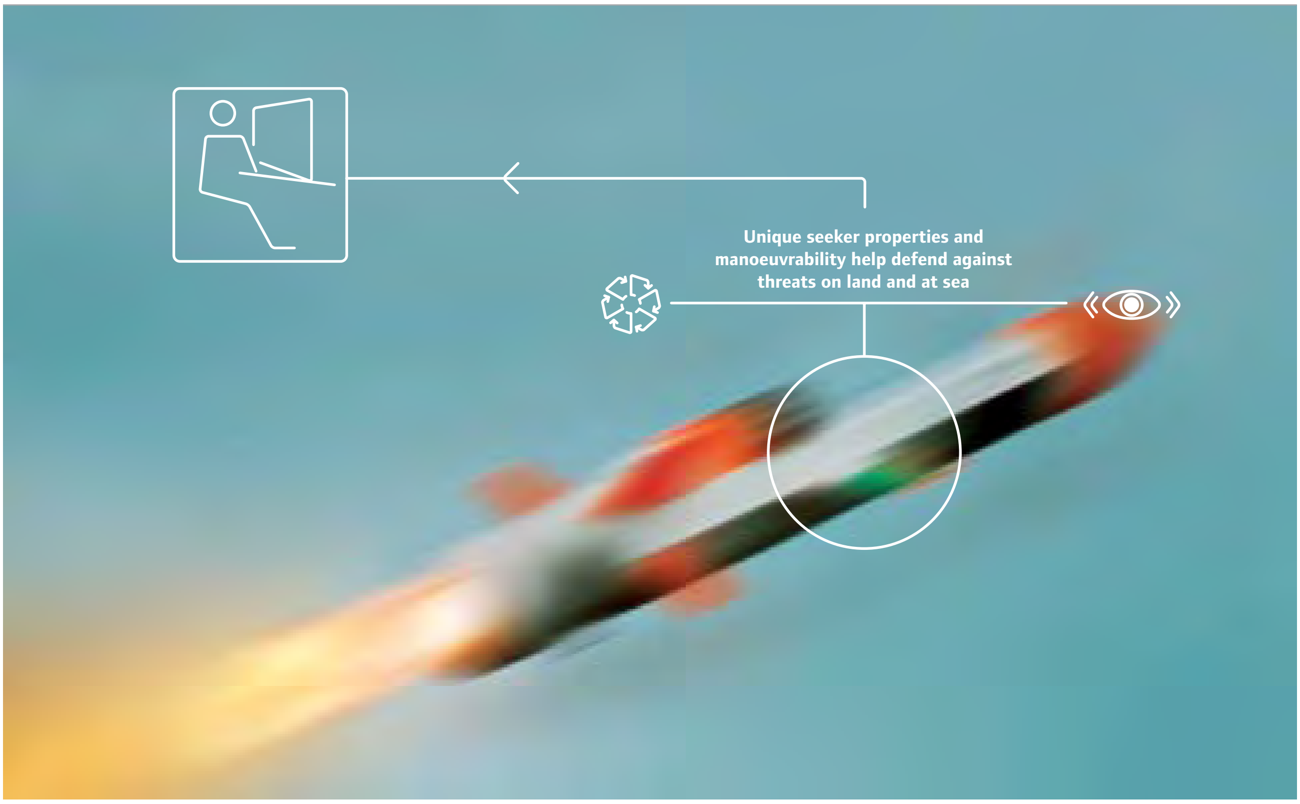
Kongsberg Defence & Aerospace's largest development project is the new NSM anti-ship missile. The project is expected to be completed in 2006, and the goal is to secure a production contract with the Norwegian Armed Forces by year end. The missile's surface and shape will make it difficult to detect on radar. The imaging infrared seeker employs the world's most advanced seeker technology. The NSM will be one of the main weapons deployed on the new Norwegian frigates and MTBs.

Space

Aerospace activities are divided between Kongsberg and Tromsø. Kongsberg Defence & Aerospace is Norway's largest supplier to ESA, the European Space Agency. In conjunction with other European suppliers, KONGSBERG has supplied equipment to space programmes including Huygens, Ariane 5 and the Venus Express.

The subsidiary Kongsberg Spacetec AS of Tromsø delivers ground stations for data from earth observation and meteorological satellites. Kongsberg Satellite Services (KSAT) downloads and analyses satellite data. The company is jointly and equally owned by KDA and the Norwegian Space Centre. It is located in Tromsø and on Svalbard, and is in the process of setting up TrollSAT, a new ground station for satellite data in Antarctica.

The NSM naval strike missile can fly over land and sea, making it effective against targets on land or at sea



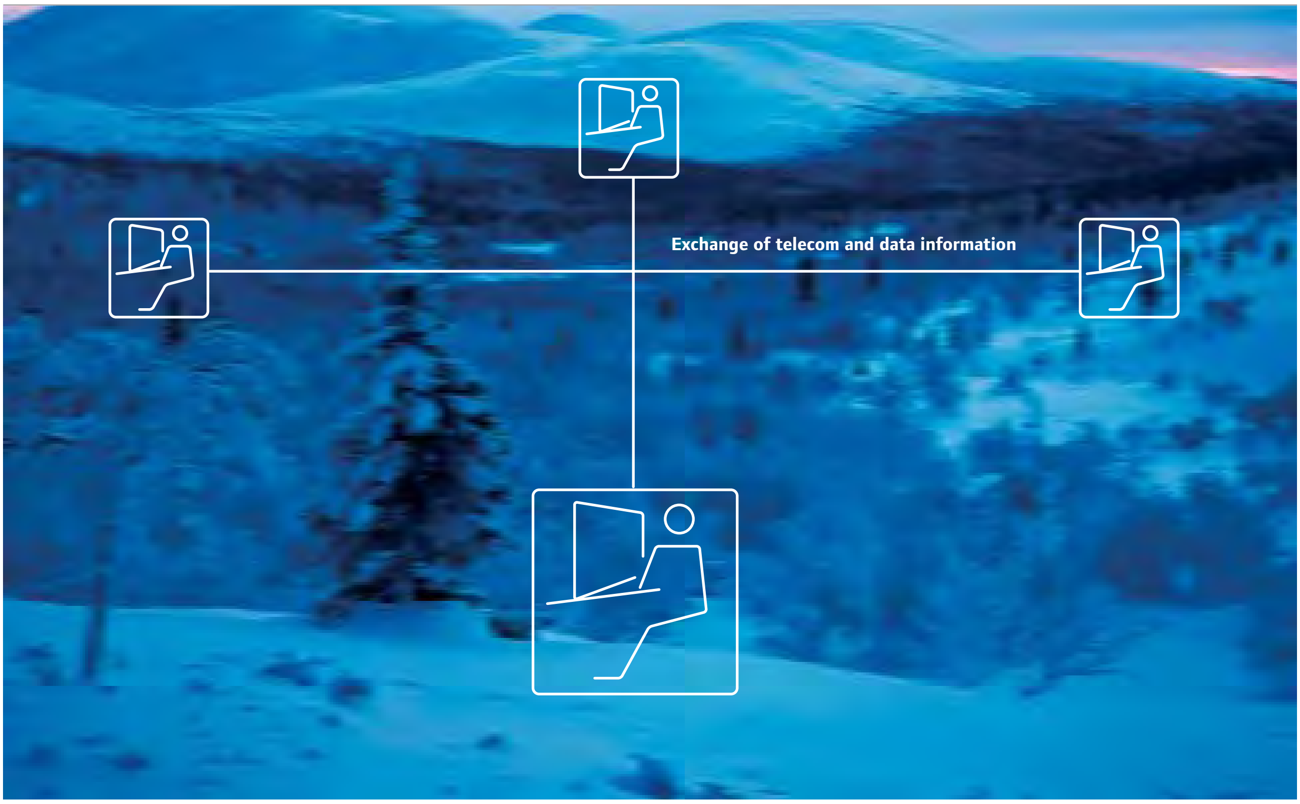
The new Naval Strike Missile (NSM) can be used against targets on land and at sea. It can follow the terrain at great speed at very low altitude. The missile's infrared target seeker finds and commands the missile to the right targets using advanced electro-optics and image processing.

Defence Communication

The division's activities encompass tactical radio and communications systems. The tactical communications segment operates on the export market exclusively, always in competition with large international companies. The largest markets are in the Middle East and Eastern Europe. Having completed two major customer-financed development projects, for the past two years the division has been reorganising to adapt to changing market conditions. There will be fewer large-scale customer-financed projects, but winning more major contracts proves that the division's communication systems have a good foothold in the market.

In 2005, a substantial contract was signed for the delivery of communications solutions to the Royal Saudi Air Defence Forces (RSAF). In addition, the Kuwaiti Ministry of Defence chose KONGSBERG to be in charge of the operation and maintenance of a central communications network. The contract has a duration of two years, and includes an option for a third year. Beyond these contracts, the influx of new orders has been modest. Several contracts have been delayed, but are expected to be signed in 2006.

Tactical radio and communication systems



The tactical radio and communication systems make it possible to collect and exchange information that can be used to support decisions during military operations.

Corporate governance at KONGSBERG

KONGSBERG aspires to generate value for its owners through profitable, sustainable business practices. Good corporate governance and management will ensure the greatest possible value creation, at the same time as Group resources will be used in an efficient, sustainable manner. The added value will 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.

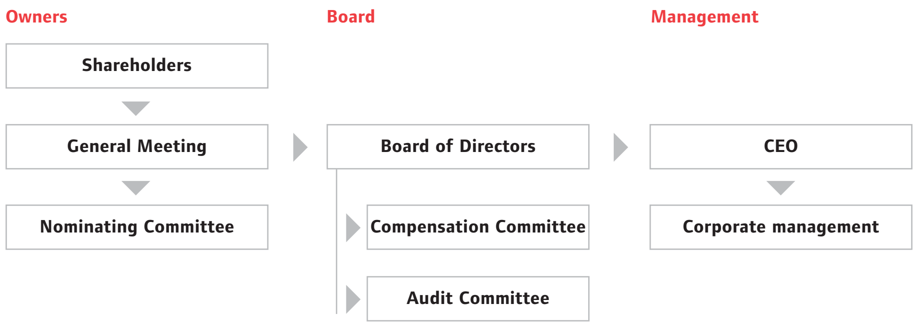
Definition of the concept

Corporate goovernance 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. It 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 2005

Issues related to corporate governance were the subject of in-depth discussions by the Group's Board of Directors in 2005 and early 2006. The Group's corporate governance documents were reviewed and revised. This included the Group's policy for corporate governance, rules of procedure for the Board of Directors and the authorisation matrix. Further, it was decided to establish two Board subcommittees, i.e. an Audit Committee and a Compensation Committee.

KONGSBERG's corporate governance model



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

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

Executive management

KONGSBERG's policy

KONGSBERG will comply with the 'Norwegian Recommendation for Corporate Governance' dated 7 December 2004 and revised on 8 December 2005. KONGSBERG's compliance with and deviations, if any, from the Recommendation will be commented upon and made available to stakeholders.

The above-mentioned was decided 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 a stake comply with the recommendation.

Since the Norwegian State owns a stake of 50.001 per cent, the Group also complies with 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.

Articles of Association for Kongsberg Gruppen ASA
As amended by the ordinary Annual General Meeting on 3 May 2005

§ 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 Chairman of the Board has the power to sign for the Company or, in his/her absence, the Deputy Chairman 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 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.

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 Chairman of the Board or, in his/her absence, by the Deputy Chairman. 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 shall be elected by the ordinary Annual General Meeting. The term of office is two years. The Nominating Committee elects its own chair. The Chairman of the Board shall, without being enfranchised to vote, be called in to at least one meeting of the Nominating Committee before the Nominating Committee presents its final recommendation. The Nominating Committee shall submit to the AGM its nominations for Directors and Deputy Directors. Based on a motion proposed by the Board's shareholder-elected Directors, the AGM shall adopt instructions for the Nominating Committee.

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 website at http://www.oslobors.no/ob/cg.

The description is generally structured like the Recommendation. As recommended, more details are provided on the individual points. Point 15, '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 should 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 2005, page 11 and at www.kongsberg.com.

The Group has drawn up its own corporate Code of Ethics. Compliance with and the follow up of the Code of Ethics have been subject to a thorough in-house process. For more detailed comments, please see KONGSBERG's Sustainability Report and the corporate website at www.kongsberg.com

Departures from the recommendation: None.

2 Activity

- *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 included 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 10.

Departures from the recommendation: None.

3 Investment capital and dividends

- *The company should have 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 capital increases should 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 2005, consolidated equity came to MNOK 1 505, accounting for 23 per cent of total assets. This is considered satisfactory. The Board consistently considers the Group's need for financial strength in the light of the Group's 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 2.00 per share was paid for 2004, and the Board will propose to the AGM that a dividend of NOK 2.15 per share be paid for 2005.

Capital increases

The Board is not authorised to undertake share issues.

The Group conducted a MNOK 600 rights issue for shareholders in 1999, of which MNOK 300 involved the conversion of State debt.

The Group has undertaken no private placement of shares, with the exception of a small share issue for the employees in 1996.

Purchase of treasury shares

The AGM can authorise the Board to purchase up to 10 per cent of the shares in KONGSBERG. On 3 May 2005, the ordinary AGM authorised the Board to buy treasury shares for up to a nominal value 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 50 per share and a maximum price of NOK 175 per share. At 31 December 2005, the Group owned a total of 2 547 shares, or 0.008 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, 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, executive or a party closely 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 in the same group where there are minority shareholders.*
- *The company should have guidelines that guarantee that directors and executives 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 2005, there were no transactions between the company and shareholders, directors, executives, or those close to them, which might be described as significant transactions. Otherwise, please see Note 29.

Guidelines for directors and executives

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 rules of procedure, section 11, independence and disqualification, apply.

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

The Board of Directors should try to ensure that as many shareholders as possible can exercise their rights by participating in the Group's annual general meeting, and that the AGM is a good meeting place for shareholders and the Board, not least by ensuring that:

- *The documents for the AGM, including the Nominating Committee's recommendation, are sent to the shareholders at least two weeks prior to the AGM.*
- *The documents should be detailed enough for the shareholders to take position on all items up for discussion.*
- *The final date for registration should be set as close to the meeting as possible.*
- *Shareholders that cannot participate in person, 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 AGM, the shareholders are guaranteed participation in the Group's supreme governing body. The AGM adopts the Articles of Association.

Shareholders representing at least 5 per cent of the shares can call for an extraordinary general meeting.

Notification

An AGM is ordinarily held by 1 June each year. The 2006 AGM is scheduled for 9 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 state that the final date for registration cannot expire less than five days prior to the AGM. Efforts are made to set this 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 are unable to attend are urged to assign their proxy, and it is possible to sign 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.

Last year's AGM was held on 3 May 2005. A total of 76.91 per cent (60.58 per cent in 2004) 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.

Departures from the recommendation: We have 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 should have a Nominating Committee elected by the AGM.*
- *The Nominating Committee should be stipulated in the Articles of Association.*
- *The Nominating Committee should represent a broad selection of shareholder interests. The majority of the Nominating Committee should be independent of the Board and management. 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 or other representatives of management should not serve 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 Nominating Committee consists of three members from among the shareholders or representatives of shareholders. The General Meeting shall elect all members of the Nominating Committee. The Nominating Committee shall elect its own chair. 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 last revised by the ordinary AGM held on 3 May 2005. A new committee was elected at the ordinary AGM on 6 May 2004 and consists of:

- Morten M. Kallevig, deputy director general, Ministry of Trade and Industry
- Sverre Valvik, managing director, Arendals Fossekompani ASA
- Anne Grethe Dalane, human resources director, Yara International ASA

None of the Committee's members represents KONGSBERG's management or Board. The majority of the members are considered independent of management and the Board. Sverre Valvik is managing director of Arendals Fossekompani ASA, where Erik Must owns a substantial stake, directly and indirectly.

Information about the Nominating Committee and the deadlines for nominations have not been made accessible to the shareholders thus far, except upon direct queries. No new directors will be elected in 2006.

Departures from the recommendation: The company has not thus far made public the deadlines for submitting nominations to the Nominating Committee. This will be done as from the next election period.

8 Board of Directors – composition and autonomy

- *The Corporate Assembly should represent a broad range of the Group's shareholders.*
- *The Board of Directors ought to be composed so that it will protect shareholders' interests, and 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 shall 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 terms of 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.*

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 and John

Giverholt. Roar Marthiniussen, Jan Erik Hagen and Audun Solås have been elected by and from among the employees.

Election of the Board of Directors

The AGM elects the five shareholder-elected representatives to the Board. The Nominating Committee nominates candidates for shareholder-elected directorships prior to the election. The roster of nominations is sent to the shareholders along with the notification of the AGM. Decisions on the composition of the Board require a simple majority. The Norwegian State currently owns some 50 per cent of the shares, and could, in principle, control the election of the shareholder-elected directors.

Three directors are elected directly by and from among the Group's employees.

Directors are elected for two-year terms and can be re-elected.

Composition of the Board

It is essential that the Board as a whole be capable of dealing with Board work and the company's main business activities. According to the company's Articles of Association, there shall be 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 Board is elected for a two-year term and elects its own chair. Finn Jebsen was elected Chair of the Board.

Changes in the Board in 2005

At the AGM, Find Jebsen, Erik Must and John Giverholt were elected the new shareholder-elected members of the Board. Shareholder-elected Christian Brinch, Torolf Rein and Niels Petter Wright left the Board. Audun Solås was elected to succeed Roy Harald Hove as an employee representative.

The Board's autonomy

All shareholder-elected directors are considered autonomous and independent of the Group's executive management. The same applies relative to important business associates. Arendals Fossekompani ASA, in which Erik Must, directly and indirectly, has a substantial stake, owned a 6.85 per cent stake in Kongsberg Gruppen ASA at year end. Ferd AS had a 2.17 per cent stake Kongsberg Gruppen ASA at year end. John Giverholt is Chief Financial Officer of Ferd AS. Otherwise, the Board looks favourably on shareholders being represented on the Board. There should be no conflicts of interest between owners, the Board, management and the Group's other stakeholders.

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 its 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.*
- *The Board shall ensure that the company has good internal control, given the provisions that apply to the business, including the Group's value platform and Code of Ethics.*
- *The Board should provide information in the annual report about how internal inspections are organised.*
- *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 leading employees. Such committees should consist of directors that are independent of the 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. 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 involve helping to draw up and adopt the Group's strategy, performing the requisite control functions and serving as an advisory body for executive management. 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.

Rules of procedure for the Board of Directors

The Board's rules of procedure are extensive and were last revised on 17 March 2004. The rules of procedure cover the following points: notification of Board meetings, deadlines for notification, administrative preparations, Board meetings, Board decisions, keeping the minutes, Board jurisdiction and items of business, division of responsibilities between the Board and management, relations between subsidiaries and the parent company, legal competence, confidentiality and the obligation of professional secrecy, relationship to legislation, articles of association and rules of procedure.

The Board of Directors can decide to deviate from the rules of procedure in certain

Instructions for executive management

There is a clear division of responsibilities between the Board and executive 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.

Internal control

The Group has no special unit for internal audits. Accounting controls are handled through different divisions of responsibilities, guidelines and approval routines. The Group's central accounting service bears overall responsibility for starting businesses and following up guidelines and principles. 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.

The responsibility for the commercial content of contracts and agreements rests with the individual business areas. As for follow up and control relative to the Group's value platform and Code of Ethics, this takes place in the line as part of routine operations.

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

The Board schedules regular meetings each year. Ordinarily, the Board meets 7 or 8 times a year. Additional meetings are convened on an *ad hoc* basis. Ten Board meetings and one Board seminar were held in 2005.

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. Besides the directors, Board meetings are attended by: the CEO, CFO, the Executive Vice President (Corporate Communications) and the General Counsel (secretary of the Board). Other participants are summoned as needed.

The Board takes decisions of particular importance to the Group, including the approval of the annual and quarterly accounts, strategies and strategic plans, the approval of significant investments (usually those in excess of MNOK 10), and the approval of 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

In 2005, an extensive programme was conducted to give new and old directors insight into the Group's business activities.

Legal competence

The Board is bound by the rules regarding disqualification as they appear in §6–27 of the Public Limited Companies Act. In 2005, there were no cases where a member of the Board of Directors had to disqualify him- or herself from discussions.

Use of Board committees

The use of a Nominating Committee is stipulated in the Group's Articles of Association. In 2005, the Board set up two subcommittees: An Audit Committee and a Compensation Committee. Both committees prepare items for consideration by the Board. They are solely responsible to the full Board of the company 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 a director elected to represent the employees. The independent auditor usually attends the meetings. The CEO and the other directors are entitled to attend if they so desire.

Members: John Giverholt, Siri Hatlen, Audun Solås.

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, employment contracts, etc. for executives, as well as other matters related to compensation that the Committee considers to be of special importance to the Group. The Committee consists of the Chair of the Board, a shareholder-elected director and an employee-representative director. The CEO is entitled to participate in the Committee's meetings when he so desires, except when his own situation is under discussion.

Members: Find Jebsen, Erik Must, Roar Marthiniussen.

The Board's self-evaluation

Each year a special Board seminar is organised on topics related to the Group's activities 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. The evaluation is made available to the Nominating Committee.

Departures from the recommendation: None.

10 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 by approved by the Board.*
- *The annual report should contain information about all remuneration to the individual members of the Board. Any remuneration beyond the usual director's fee should be specified.*

The Annual General Meeting stipulates the Board's remuneration each year. The proposal for remuneration will be made by the chair of the Nominating Committee. In 2005, total remuneration to the Board came to NOK 1 208 000 (NOK 1 128 000 in 2004). The remuneration breaks down as follows: Chair of the Board of Directors NOK 300 000, deputy chair NOK 160 000, and the other directors NOK 130 000.

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 other than in their capacity as directors.

Departures from the recommendation: None.

11 Remuneration to leading employees

- *The Board should establish guidelines for remuneration to leading employees. 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, the consequences for the company insofar as accounting is concerned and potential dilution effects.*
- *The guidelines for remuneration for leading employees should be included in the annual report. The same applies to all elements of remuneration to the general manager and individual executives.*

Guidelines

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 executive management is determined by the Board and presented to the AGM for information purposes. The terms are proposed by the CEO, and subject to the approval of the Chair of the Board.

The Board's attitude to managerial salaries is that they should be competitive, but not leading.

Performance-based remuneration

Performance-based remuneration is linked to the value added for the shareholders or to the Group's performance trends over time. The prerequisites for performance-based remuneration are described in Note 29.

Altogether, the Group has 49 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 a long-term perspective. Result-based wages have a ceiling of 2.5 times an individual's monthly salary.

Terms

The terms are described in Note 29.

Departures from the recommendation: The chief executives officer's salary is stated in Note 4 to the parent company's accounts. Remuneration to corporate management is presented collectively in Note 29 to the consolidated accounts.

12 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 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 financial statements in 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 Financial Calendar is published on the Group's website and in the annual report. In addition to the consolidated Annual Report, the Group also sends its Sustainability Report to all the shareholders.

All shareholders are treated equally.

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 management from time to time.

The presentations made for investors in connection with the annual and quarterly reports are available on the Group's website. Beyond that, 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 simultaneously. 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.

Departures from the recommendation: The Board has not stipulated special guidelines for the Group's contact with shareholders outside the general meeting. Such guidelines will be drawn up in 2006.

13 Take-overs

- *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 corporate 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.*
- *Transactions that are in reality divestments of business activities should be decided by the AGM, except where the law states that such decisions shall 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 negotiability of these shares is subject to parliamentary discretion.

Departures from the recommendation: None.

14 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 financial statements. 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 disagree-ment between the auditor and management.*
- *At least once a year, the auditor should review the Group's internal control systems with the Board, including identified weaknesses and suggestions for improvements.*
- *The Board and auditor should have at least one meeting a year without the general manager or 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 shall be put before the Board once a year.

The Chair of the Board conducts a separate meeting with the auditor and management prior to the Board's discussion of the financial statements. The auditor is always present during the Board's discussions of the financial statements. In that connection, the Board is briefed on the financial statements and items of special concern to the auditor, including any points of contention between the auditor and management.

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 or other executive managers.

The auditor has submitted to the Board a written statement on fulfillment of the Statutory Audit Independence and Objectivity requirement, cf. Auditing and 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 environmental reporting. Reference is made to Note 5 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.

15 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 executive management

Corporate executive 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 executive management usually meets once every fortnight, supplemented by routine contact on an operational basis. The Group subscribes to the paramount principle of making binding commitments to agreed targets. Consequently, it practises a decentralised form of corporate governance that gives individual units considerable freedom of action, accompanied by the responsibility that entails.

Executive management's main responsibility is to manage the corporation, where KONGSBERG's general situation governs the decisions that are made. Executive management follows up earnings and budgets on a monthly basis with the various performance centres.

Evaluations

Executive management evaluates its own work and working methods annually.

Intra-Group Boards of Directors

The Group's subsidiaries have their own Boards of Directors, staffed by in-house managers and employees. The president of the owner enterprise or a person so authorised by the president will chair the Boards of the subsidiaries.

The appointment of the boards and board work in the subsidiaries shall take place according to 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 they are distributed to primary insiders. The in-house guidelines require, among other things, that primary insiders must get corporate clearance prior to trading in the company's shares.

Corporate Code of Ethics

The work to communicate and implement the Group's corporate Code of Ethics was carried on in 2005, and will continue in 2006. Read more about this in the Group's Sustainability Report, page 25, and on the Group's website.

Organisation and governance

Organisation

The main bodies in KONGSBERG's management model are the 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 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. The strategy and the objectives are discussed and adopted by the Board. This is an annual process that has a rolling five-year perspective. The process usually 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.

Budgets

The budget process usually starts in mid-September. All profit centres take part in these efforts. Budgetary guidelines are drawn up at the corporate level, based on the strategy document and relevant external framework conditions. 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 is used a tool for short-term financial management for the subsequent calendar year. The budget applies throughout the budget period, and has a binding effect on the managers of the individual units.

Risk reporting to the Board

A comprehensive risk analysis is compiled quarterly. The analysis mainly covers operational risk, business risk, legal risk 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 customer/partners. Financial risk is mainly related to foreign exchange and interest rate fluctuations and funding. The analysis is presented to the Board once each quarter.

Follow up

The CEO conducts monthly follow-up meetings with the business areas in the Group. The CFO and the rest of corporate management usually also take part in these meetings. The Group's financial and market status are discussed. Importance is attached to commenting on non-conformance relative to budgets and planned activities. Corrective measures are then implemented, if need be. Quarterly HSE reports are drawn up and presented to the Board.

Corporate social responsibility

Values

Article 1 of the Norwegian Recommendation for Corporate Governance states *inter alia* that a company should clarify its value platform.

KONGSBERG's values indicate how we should behave and work, providing guidelines for cooperation, internally and externally. A common value platform is essential for building a good culture and reputation. We recognise that this can help us bring out the energy in the organisation.

Read more about values in the Sustainability Report, page 10.

Ethics

Social trends and ever stricter regulations at the national and international levels have intensified the focus on ethics and ethical issues. The topic is comprehensive, embracing numerous challenges and dilemmas. It is not always easy to give exact answers to questions involving ethics. A new version of the Group's corporate Code of Ethics was drawn up in 2003 and revised in early 2006. In 2004 and 2005, we spent a great deal of time discussing and incorporating the code within the Group. This work, which has engendered tremendous commitment on the part of employees, will continue in 2006. KONGSBERG's corporate Code of Ethics applies to the directors, management, employees and all temporary personnel. When signing agency contracts, we require that our corporate Code of Ethics be annexed to the system of agreements. A special Ethics Council, which is responsible for discussing issues and dilemmas, was established to deal with ethics and reputation. The Ethics Council is also responsible for maintaining and developing the Code of Ethics. For further information about our work with ethics, please see the corporate Sustainability Report, page 25, and the Group's corporate Code of Ethics, which you will find on our website at www.kongsberg.com.

Corporate social responsibility

In recent years, the Group has placed additional emphasis on addressing issues related to sustainable development. The work is organised as a separate discipline. A CSR forum has been set up and a separate report is published on sustainability. The report addresses finances (control systems, business activities, key figures), corporate social responsibility and the environment.

The environment

KONGSBERG's main activities are linked to software and systems development. The Group produces little direct pollution of the outdoor environment. The Group's activities are not influenced by environmental regulations to any great extent.

The Group's environmental efforts have been systematised over the past three to four years. Each year, data is obtained on energy consumption, waste treatment and emissions to air and water. This data makes it easier for us to remain aware of the challenges we face and allow us to initiate improvement measures.

The Group has established a separate forum for environmental issues. The Environmental Forum, consisting of representatives of all main units in the Group, meets on an *ad hoc* basis. The Environmental Forum follows up the Group's environmental objectives and helps pave the way for environmental measures.

Social responsibility

KONGSBERG has nearly 3 500 employees in more than 20 countries. It is important for us to ensure compliance with our policy for corporate social responsibility, and to ensure that our corporate Code of Ethics is communicated and followed up in the same way, regardless of where a unit is located.

More detailed information about the Group's environmental and corporate social responsibility can be found in the Group's Sustainability Report for 2005. There, you will find the Group's Policy for Corporate Social Responsibility as well as its Environmental Policy.

Corporate Board of Directors

Finn Jebsen (56)
Chair of the Board
Occupation: Self-employed
Education: Economist, the Norwegian School of Economics and Business Administration in Bergen (1974), master's degree in Business Administration from University of California, Los Angeles (1976).
Other: Previously CEO of the Orkla Group
Number of years on the Board: 1
Number of shares in Kongsberg Gruppen ASA: 5000 through the wholly-owned enterprise Fateburet AS
Directorships outside Kongsberg: Deputy Chairman on the Board for Cermaq ASA and for KLP Forsikring

Benedicte Berg Schilbred (59)
Deputy Chair
Occupation: Executive Chairman of the Board 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: 5
Number of shares in Kongsberg Gruppen ASA: 17 500 (through the company Odd Berg AS)
Directorships outside Kongsberg: Chairman of the Board of Odd Berg AS and Tos Lab AS. Member of the Boards of Norway Pelagic Group AS, Egersund Seafood AS, Fiskeriforskning AS and Norsildmel AS and Norsildmel Innovation AS

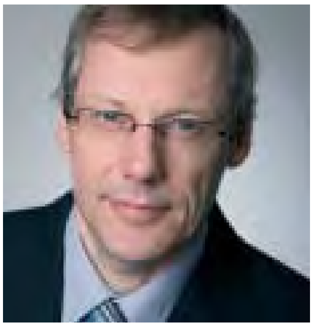
Erik Must (63)
Director
Occupation: Chair of the Board of Fondsfinans ASA and Fondsfinans Kapitalforvaltning Holding AS
Education: Economist, Copenhagen School of Economics (1967)
Number of years on the Board: 1
Number of shares in Kongsberg Gruppen ASA: 100 000 (through Fondsavanse AS), 31 150 (personally)
Directorships outside Kongsberg: Chair of the Board of Arendals Fossekompani and Erik Must AS. Member of the Boards of Gyldendal ASA, Norges Handels- og Sjøfartstidende AS, the Norwegian Museum of Cultural History, the Arenzt Legacy and the Biotechnology Centre at the University of Oslo

Siri Hatlen (48)
DirID
Occupation: 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: 3
Number of shares in Kongsberg Gruppen ASA: 0
Directorships outside Kongsberg: Chair of the Boards of Directors of Health East, AS Vinmonopolet, the State Education Loan Fund, SIFA SF and Det Norske Samlaget Publishing House. Directorships, among others, of Smedvig ASA, NTNU and Det Norske Teateret







John Giverholt (53)
Director
Occupation: 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: 1
Number of shares in Kongsberg Gruppen ASA: 0
Directorships outside Kongsberg: Director of Telenor ASA

Roar Marthiniussen (49)
Director (employee representative)
Occupation: Sales and Marketing Manager at Kongsberg Maritime AS.
Education: Engineer from the Horten College of Engineering
Number of years on the Board: 7
Number of shares in Kongsberg Gruppen ASA: 3 000

Jan Erik Hagen (47)
Director (employee representative)
Occupation: 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: 3
Number of shares in Kongsberg Gruppen ASA: 477

Audun Solås (47)
Director (employee representative)
Occupation: Chief engineer at Kongsberg Defence & Aerospace AS.
Education: Graduate Engineer, Royal College of Technology, Stockholm.
Number of years on the Board: 1
Number of shares in Kongsberg Gruppen ASA: 1

Corporate Management

Jan Erik Korssjøen (58)
Position: Chief Executive Officer
Education: Graduate Engineer from NTH (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: 11
Number of shares in Kongsberg Gruppen ASA: 6 107
Directorships and other offices outside the Group: SINTEF (Chair of the Board), Corporate Assembly of Telenor ASA (Chair), DNV Council (member).

Arne Solberg (53)
Position: Chief Financial Officer
Education: Economist from the Norwegian School of Management – 1980
Other: Formerly in leading positions in finance/administration at Elektrisk Bureau
Number of years with Kongsberg: 19
Number of shares in Kongsberg Gruppen ASA: 6 461
Directorships outside the Group: SG Finans AS (director), Kitron ASA (deputy chair)

Torfinn Kildal (51)
Position: President, Kongsberg Maritime AS
Education: Economist from the Norwegian School of Economics and Business Administration – 1977
Other: Began his professional career with AS Kongsberg Våpenfabrikk, then managerial positions in the Simrad Group.
Number of years with Kongsberg: 9
Number of shares in Kongsberg Gruppen ASA: 7 321
Directorships outside the Group: 0

Tom Gerhardsen (57)
Position: President, Kongsberg Defence & Aerospace AS
Education: Graduate Engineer from NTH (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: 19
Number of shares in Kongsberg Gruppen ASA: 5 769
Directorships outside the Group: 0







Ellen Christine Orvin Raaholt (50)
Position: Executive Vice President, Human Resources
Education: Law degree from the University of Oslo – 1988
Other: Former executive director of ErgoGroup AS, where she was responsible for HR and strategic development initiatives.
Number of years with Kongsberg: 1
Number of shares in Kongsberg Gruppen ASA: 395
Directorships outside the Group: Learning Network (Chair of the Board)

Even Aas (44)
Position: Executive Vice President, Corporate Communications
Education: Economist from the University of Oslo – 1988
Other: Formerly employed by the Norwegian Confederation of Trade Unions, political adviser and later state secretary for commerce and shipping at the Ministry of Foreign Affairs. Also worked for Telenor
Number of years with Kongsberg: 8
Number of shares in Kongsberg Gruppen ASA: 1 582
Directorships outside the Group: Federation of Norwegian Industries (member of the Board and the Members' Council)

Stig Trondvold (52)
Position: Executive Vice President, Business Development
Education: Graduate Engineer, NTH (Norwegian University of Science and Technology) – 1976, and an MBA from IMD in Switzerland – 1984
Other: Began his professional career at SINTEF, followed by several managerial positions in the automotive component industry, including at AS Kongsberg Våpenfabrikk, Kongsberg Automotive AS and Kongsberg Techmatic AS
Number of years with Kongsberg: 6
Number of shares in Kongsberg Gruppen ASA: 2 286
Directorships outside the Group: Kongsberg Innovasjon AS (Chair of the Board of Directors), the National Institute of Technology (Chair), Simrad Yachting AS (director), The Research Board for Innovation, the Research Council of Norway (Board member), Sparebank1 Kongsberg (deputy director)

Shares and shareholders

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 also aspires to project an image that ensures credibility and predictability on the equity market. The Group strives to ensure a long-term competitive return on shareholders' investments that is commensurate with the risk involved. The goal is to pay out 30 per cent of the Group's annual profit to shareholders in the form of dividends. Dividends have been paid every year since 1993, with the exception of in 2000 and 2001. The dividends have averaged about 30 per cent of the net profit.

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 has a separate section featuring investor information. The section contains the Group's annual reports, interim reports and presentation material. The Group has been awarded distinctions for Good Information and Good English by the Oslo Stock Exchange.

In 2005, KONGSBERG focused on improving its investor relations (IR) work. The goal was to enhance the quality of the information provided about the Group's results and operations. A separate IR managerial position was set up to improve the Group's IR work.

Dividends and earnings per share

KONGSBERG has experienced the following trends in dividends and earnings per share in recent years:

NOK	*2005*	*2004*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*
Earnings per share [1]	8.70	4.03	4.23	7.21	4.18	(1.86)	8.84	7.04
Dividends	2.15	2.00 [2]	1.30	2.10	-	-	2.25	2.00

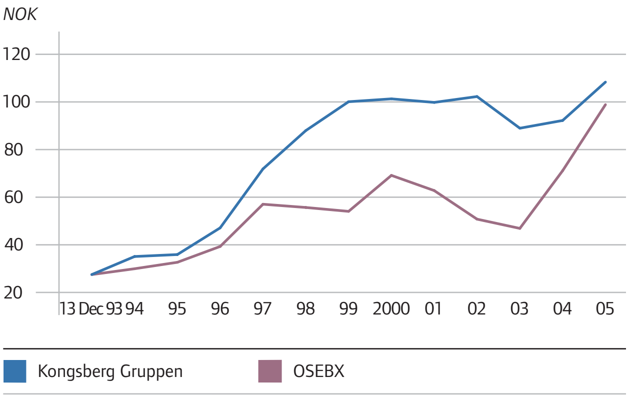
1) No IFRS adjustments have been made in the figures for 2003 or earlier
2) The proposed dividend for 2004 was based on the result prior to the MNOK 150 charge related to the NSM project

The proposed dividend for 2005 is based on the ordinary profit prior to the impact of the sale of Simrad Yachting. The ordinary AGM will be held on 9 May 2006.

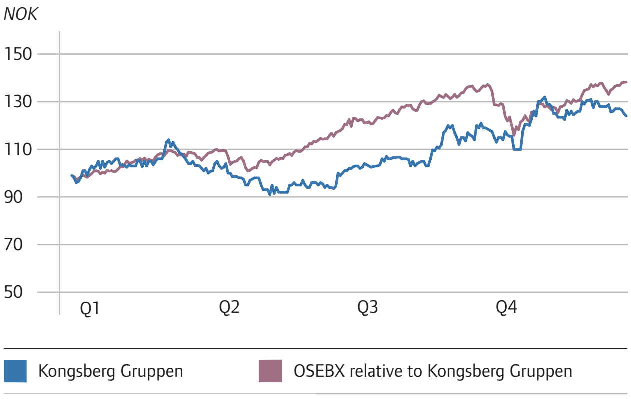
Market capitalisation

Market capitalisation increased by 25.3 per cent on the year, from MNOK 2 970 to MNOK 3 720. The Group was launched on the Oslo Stock Exchange on 13 December 1993 with a market capitalisation of MNOK 643.

Share price trends since the Group's launch on the Oslo Stock Exchange until 31 Dec. 2005



Share price trends in 2005



Share price trends and sales in 2005

The share showed a favourable trend in 2005, ending the year at NOK 124 after having started it at NOK 99. This is an increase of 25.3 per cent. The All-Share Index climbed by 39.6 per cent during the same period.

NOK	*2005*	*2004*	*2003*	*2002*	*2001*	*2000*
Number of shares traded [1]	12 063	12 076	5 258	6 524	9 378	9 329
As a % of bonus shares [2]	80%	81%	35%	43%	63%	62%

1) Change of ownership registered with the Norwegian Registry of Securities.
2) Of shares in circulation. The State's interest of 50.001 per cent (15 000 400 shares) is not included.

Share and option programmes for employees

The Group's annual employee share programme was conducted in spring 2005. This was the ninth time all employees were given the opportunity to buy Group shares at a 20 per cent discount. Altogether, 142 127 shares were sold at a price of NOK 76. The Group held 3 414 treasury shares after the sale. Shares were awarded to 412 employees. There were also options allocated, corresponding to half the number of shares purchased, to all those taking part in the programme. The options are redeemable after two years. A supplementary offer of shares was made in December. Three employees acquired a total of 867 shares at a price of NOK 104. The Group's holding after the supplementary share offer was 2 547 shares.

Number of shares and nominal value

Kongsberg Gruppen ASA has share capital of MNOK 150, divided among 30 million shares with a nominal value of NOK 5 per share. There is just one class of shares, and there are no limitations on voting rights. When launched on the Stock Exchange on 13 December 1993, the Group had 5.85 million shares, with a nominal value of NOK 20. In 1999, the number of shares was increased to 6 million in connection with a share issue directed at the employees. In May 1997, the share was split into four, increasing the number of shares to 4 million, with a nominal value of NOK 5 per share. All key figures for 1997 and earlier years have been adjusted accordingly. In July 1999, six million new shares were issued, bringing the total up to the current level of 30 000 000 shares.

Treasury shares

Kongsberg's ordinary Annual General Meeting held on 3 May 2005 authorised the Board to buy treasury shares. The proxy is limited to 5 per cent of the share capital and applies for 12 months from the date of the general meeting. At 31 December 2005, Kongsberg owned a total of 2 547 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.

Ownership structure at 31 Dec. 2005

The Norwegian State is still the largest shareholder with a stake of 50.001 per cent. The Odin funds, consisting of five different unit trusts, are now the second largest owner. The percentage of shares in foreign hands dropped from 7.0 per cent to 1.0 per cent.

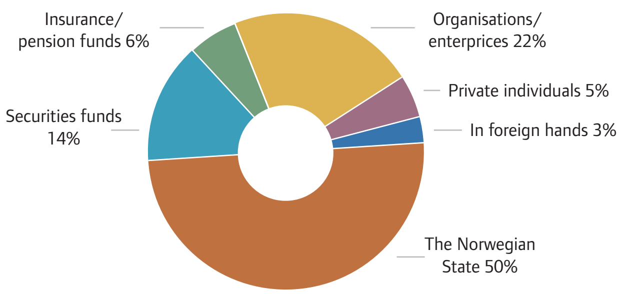
Shares owned by Board members and management

For information about the shares owned by directors and corporate executives, please see Note 29.

List of the principal shareholders at 31 December 2005

Shareholder	*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	2 666 860	8.89
Arendals Fossekompani	2 055 822	6.85
Odin Norge	1 538 000	5.13
MP Pensjon	1 203 200	4.01
Skagen Vekst	944 700	3.15
Odin Norden	937 837	3.13
Ferd AS	650 000	2.17
Odin Offshore	330 800	1.10
Vicama AS	202 753	0.68
Total	**25 530 372**	**85.10**
Other (stake < 0.68%)	4 469 628	14.90
Total number of shares	**30 000 000**	**100.00**

Ownership structure at 21 March 2006



Analytical data

Key figures

Amounts in MNOK	*2005[1]*	*2004[2]*	*2004[3]*	*2003[3]*	*2002[3]*	*2001[3]*	*2000[3]*	*1999[3]*	*1998[3]*	*1997[3]*	*1996[3]*
Operations											
Operating revenues	5 705	5 814	6 439	6 651	6 980	6 176	5 296	4 412	4 404	3 674	3 023
- civilian	58%	53%	58%	54%	58%	63%	64%	73%	71%	71%	61%
- outside Norway	67%	69%	71%	76%	72%	74%	74%	62%	62%	55%	51%
Earnings before interest, tax and the amortisation of goodwill (EBITA)	360	221	223	383	485	437	287	249	278	192	173
Profit before tax	311	179	85	190	291	191	188	205	279	121	117
Net profit for the year	262	118	37	125	216	123	(56)	233	171	73	75
Effective tax rate	31%	39%	56%	34%	28%	38%	-	32%	33%	40%	36%
Net cash flow from operating activities	620	328	242	83	264	321	46	409	423	358	190
Operating margin before interest, tax and amortisation for goodwill (EBITA)	6.3%	3.8%	3.5%	5.8%	6.9%	7.1%	5.4%	5.6%	6.3%	5.2%	5.7%
EBT margin	5.5%	3.1%	1.3%	2.9%	4.2%	3.1%	3.5%	4.6%	6.3%	3.3%	3.9%
New orders	5 597	5 323	5 947	7 421	5 725	5 967	7 648	4 123	4 604	3 952	3 955
Backlog of orders	5 416	5 425	5 425	5 913	5 143	6 401	6 610	4 258	4 551	4 349	4 041
Equity-financed development	258	286	317	302	318	282	184	185	172	146	142
Equity-financed development as a % of operating revenues	5%	5%	5%	5%	5%	5%	3%	4%	4%	4%	5%
Capital											
Total assets	6 543	6 258	6 043	6 008	5 597	5 629	5 371	4 012	3 949	3 412	3 221
Employed capital	3 696	3 930	3 701	3 698	3 260	3 078	2 942	1 796	1 959	1 798	1 888
Pre-payments from customers	1 617	1 044	766	931	818	1 028	957	858	552	555	376
Net interest-bearing debt	284	1 101	1 101	1 164	795	776	1 029	(330)	456	126	298
Equity	1 505	1 626	1 812	1 830	1 741	1 538	1 406	1 490	1 106	1 042	975
Equity ratio	23%	26%	30%	30%	31%	27%	26%	37%	28%	31%	30%
Investments	119	197	197	292	360	339	1 235	305	574	216	715
Depreciation	156	166	278	292	269	267	240	187	228	149	133
Employees											
Number of employees	3 372	3 495	4 017	4 176	4 208	4 012	3 765	3 382	3 333	3 262	3 212
Number graduate engineers/engineers/technicians	2 426	2 898	2 898	2 904	2 871	2 633	2 294	2 106	1 990	1 901	1 901
Wage share	35%	35%	35%	33%	30%	30%	32%	32%	30%	33%	33%
Owners' values											
Market capitalisation	3 720	2 970	2 970	3 180	2 715	2 895	2 550	3 780	1 824	1 824	1 386
Change in value over the year	750	(210)	(210)	465	(180)	345	(1 230)	1 956	0	438	427
Earnings per share in NOK	8.70	4.03	1.38	4.23	7.21	4.18	(1.86)	8.84	7.04	3.04	2.95
P/E	14.25	24.57	71.74	25.06	12.55	23.09	-	16.20	10.80	25.00	19.60
Dividend per share in NOK	2.15	2.00	2.00	1.30	2.10	0.00	0.00	2.25	2.00	1.00	0.88
RISK (the tax-related incoming value of shares)	(5.32)	(2.34)	(2.34)	(1.84)	0.95	0.40	(0.59)	2.13	(1.90)	(0.95)	(0.81)

Notes to the tables and graphs on pages 2 and 3

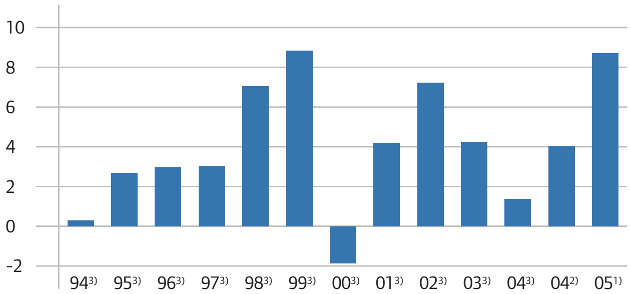
1) The figures are IFRS compliant (International Financial Reporting Standards).
2) The figures have been adjusted for the effects of the transition to IFRS and the sale of Yachting activities.
3) The figures have not been adjusted for the effects of the transition to IFRS, but are presented pursuant to NGAAP and include yachting activities.

Definitions

Operating margin before interest, tax and amortisation for goodwill (EBITA)	Earnings before interest, tax and amortisation of goodwill (EBITA) as a % of operating revenues
EBT margin	Earnings before tax (EBT) as a % of operating revenues
Effective tax rate	Tax as a % of the profit or loss before tax
Net cash flow from operating activities	See the Cash Flow Statement on page 26
Total assets	Aggregate assets
Employed capital	Total assets less current interest-free liabilities
Prepayments from customers	See Note 19 to the consolidated accounts
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)	Equity holders of tFhe parent's share of the net profit or loss for the year relative to the weighted average number of shares
P/E	Price/Earnings Share price at 31 December divided by the profit or loss per share
RISK	The year's adjustment on the tax-related incoming value of shares

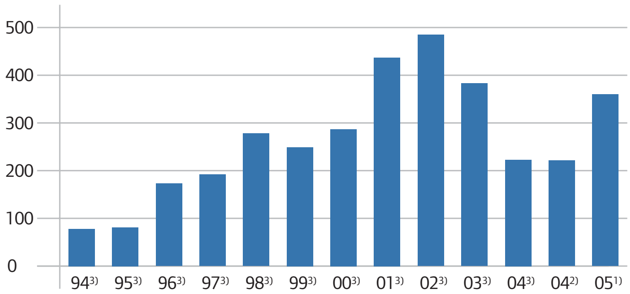
Earnings per share

NOK



EBITA

MNOK



Financial risk and market conditions

Foreign currency

Although most of KONGSBERG's production takes place in Norway, about 70 per cent of its output is exported. The Group's main markets are in Europe, the USA and Asia, and a large part of its earnings are in USD. Purchases in foreign currencies account for 30 to 40 per cent of operating revenues. This means that KONGSBERG's results can be influenced significantly by currency fluctuations, particularly those related to USD.

KONGSBERG's policy is to limit currency risk. At the same time, the Group takes an active approach to the importance of currency as a competitive parameter. All foreign currency contracts are hedged. Budgeted foreign currency earnings are also hedged. The hedging of budgeted currency flows and foreign currency bids for major contracts are based on the individual enterprise's market and competitive situation.

Hedging budgeted foreign currency flows is primarily undertaken by Kongsberg Maritime. This hedging strategy was established in 2000, and USD were hedged at good levels from 2000 to 2002. This has ensured that up to now Kongsberg Maritime has had higher average exchange rates than it would have had if the currencies had been exchanged at spot prices.

The exchange rate for USD showed a declining trend right up until year end 2004, when the exchange rate for one USD was down to almost NOK 6. During 2005, the exchange rate rose to NOK 6.77 at year end. This means that the average price in today's hedging portfolio is still over the spot price, but not as much as in the past few years. The hedging timeline for budgeted cash flows will ordinarily be two to four years. Hedging will be somewhat more common at high price levels than at low levels. Today's hedging portfolio in USD therefore reflects the average exchange rate for the past two to four years. Kongsberg Maritime currently has a volume of budgetary hedging equivalent to roughly two years of new orders in USD with average exchange rates of some NOK 7.

Orders placed with Kongsberg Defence & Aerospace are generally hedged upon receipt. Anticipated new orders are also hedged to a limited extent, but less often than by Kongsberg Maritime.

Equity is hedged in the Group's foreign subsidiaries as well as foreign currency loans to these companies.

At 31 December 2005, the Group had hedged a total of NOK 4.1 billion in foreign currencies, mainly in USD and EUR.

At 31 December 2005, the Group had the following hedges, by hedge category

Hedge category	*Value based on agreed exchange rates*	*Excess (+)/ negative value (-) 31 Dec 05*	*Excess (+)/ negative value (-) 1 Jan 05*
Budgetary hedging (cash flow hedges)	2 486	55	304
Project hedging (fair value hedges)	1 371	(41)	142
Loan hedging (fair value hedges)[1]	24	-	3
Equity hedging (net invest. abroad)	220	(2)	(3)
Total	**4 101**	**12**	**446**

1) Loan hedges are currency hedges attached to foreign currency loans.

The hedging strategy offsets transient currency fluctuations, and gives the Group time to make operational adjustments in the event of lasting changes. Active efforts are being made to reduce the effect of currency fluctuations, not least by increasing the percentage of value added abroad.

See Note 14 to the consolidated accounts for details on hedging.

Funding

In 2005, KONGSBERG had gross debt of roughly NOK 1.2 billion and net interest-bearing debt of about NOK 1.1 billion. At the end of 2005, the Group's net interest-bearing debt had been reduced to MNOK 284. The reduction was ascribable to the sale of Simrad Yachting, as well as a good net cash flows from operating activities. Borrowing requirements vary considerably during the year as a result of seasonal fluctuations in some areas and the terms of payment in major defence contracts. While project costs are relatively constant, payments are linked to milestones. At the beginning of 2006, KONGSBERG had loans totalling NOK 1.0 billion in its corporate funding programme:

Norwegian commercial papers	MNOK 300	
Bond issue	MNOK 300	Due September 2007
Bond issue	MNOK 400	Due June 2009

KONGSBERG's funding is otherwise based on a borrowing limit of MNOK 1 100 on a syndicated loan that will run until 2009. The credit facilities were unused at year end. Financial and liquidity management is coordinated by Kongsberg Finans, the Group's corporate financial services unit. The Group attaches importance to diversified funding, and loan parameters are considered in the light of the Group's growth strategy.

Interest rates

The Group's policy is to have an average fixed-rate period on its external loans of two to four years. At the end of 2005, the Group's loan programme had an average fixed-rate period of 2.4 years. KONGSBERG has hedged its loans through fixed-interest and interest rate swap agreements.

	MNOK	Due date	Years remaining
Interest rate swap agreements			
Agreement 1	300	19 Dec. 2007	2.0
Agreement 2	300	17 June 2009	3.5
Agreement 3	100	17 Dec. 2008	3.0
Fixed interest loan			
Bond issue	300	26 Sept. 2007	1.7
Total	**1 000**		**2.4**

Otherwise, reference is made to Note 14 to the consolidated accounts.

Important assets

Property

KONGSBERG is involved in substantial property operations. In 2005, the holding company Kongsberg Næringseiendom AS (Kongsberg Industrial Park) transferred some of its business activities to Kongsberg Næringsparkutvikling AS (Kongsberg Business Development).

There were no changes in the operating company Kongsberg Industrial Park. The business consists of property management for KONGSBERG and others. The majority of the properties are located in Kongsberg and Horten. Operations encompass the following properties:

1. Owned by KONGSBERG

	Projected gross rental income in 2006 MNOK	*Area m²*
Kongsberg	69.0	82 800
Horten	19.9	27 700
Egersund	2.4	6 200
Other	2.1	700
Total	**93.4**	**117 400**

Rental revenues reflect market rates for comparable properties in the area. The properties enjoy full occupancy, and most of the tenants are KONGSBERG companies.

KONGSBERG's properties in Norway have a book value of MNOK 521.

2. Property rented for KONGSBERG activities
In addition to the Group's own properties, 32 000 m^2 are sub-leased to Group companies. These properties are located in Oslo, Asker, Lillestrøm, Trondheim and Størdal.

3. Property in Kongsberg Industrial Park is owned by external owners, but managed by Kongsberg Næringseiendom.
These properties were previously owned by KONGSBERG and subsequently sold through sale-leaseback agreements, cf. Note 28 to the accounts. These collectively comprise 82 400 m^2.

All in all, KONGSBERG has about 234 000 m^2 of real property under management. KONGSBERG has long experience of property management and maintenance. Kongsberg Industrial Park is a well-run, efficient industrial park, accommodating more than 50 enterprises and 4 000 employees. The Industrial Park's main focus is on knowledge and high technology enterprises that mainly address international markets.

Goodwill
Goodwill represents the difference between purchase price and the value of assets less debt after the assets and liabilities of the acquired business activity have been adjusted to fair value. Capitalised goodwill is derived solely from acquisition activities. According to IFRS, goodwill will no longer be written down. Instead, it will be subject to an annual impairment test. Goodwill cannot be written up. The impairment test at 31 December 2005 identified no need for depreciation. Historical goodwill (value at 31 December 2003) will remain on the balance sheet as a result of the IFRS transitional provisions.

Otherwise, please see Note 13 to the consolidated accounts.

Receivables
At 31 December 2005, the Group had total receivables of MNOK 2 468, cf. Note 18 to the consolidated accounts. The receivables consist of a number of different elements, from small balances owing on invoices, to receivables that refer to large individual projects.

Amounts in MNOK	*31 Dec 05*	*1 Jan 05*
Receivables	942	1 150
Other receivables	247	216
Prepayments to suppliers	29	16
Total	**1 218**	**1 382**

Projects
The Group's business activities consist largely of the development and production of products and systems on the basis of contracts. The Group reports gross balance sheet values attached to long-term production contracts. Gross amounts due from customers for contract work are reported as assets.

The Group has long-term production contracts in both business areas. Most of Offshore & Merchant Marine's projects have a duration of less than two years, and earnings on individual projects make modest contributions to consolidated earnings.
At Defence & Aerospace, projects are of longer duration. There, the overall earnings on an individual project make a substantial contribution to the Group's activities. For a more detailed description of the projects, see Note 19 to the consolidated accounts.

Financial Calendar

Annual General Meeting
The ordinary Annual General Meeting will be held at 2 p.m. on Tuesday, 9 May 2006 at the Conference Centre, Kongsberg Industrial Park, Kongsberg

Dividends will be paid on 23 May 2006.

Presentation of the quarterly results in 2006
Q1: 9 May
Q2: 9 August
Q3: 23 October

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Translation to English
Linda Sivesind, Informatic Translations

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