KONGSBERG

ANNUAL REPORT & SUSTAINABILITY REPORT

2016

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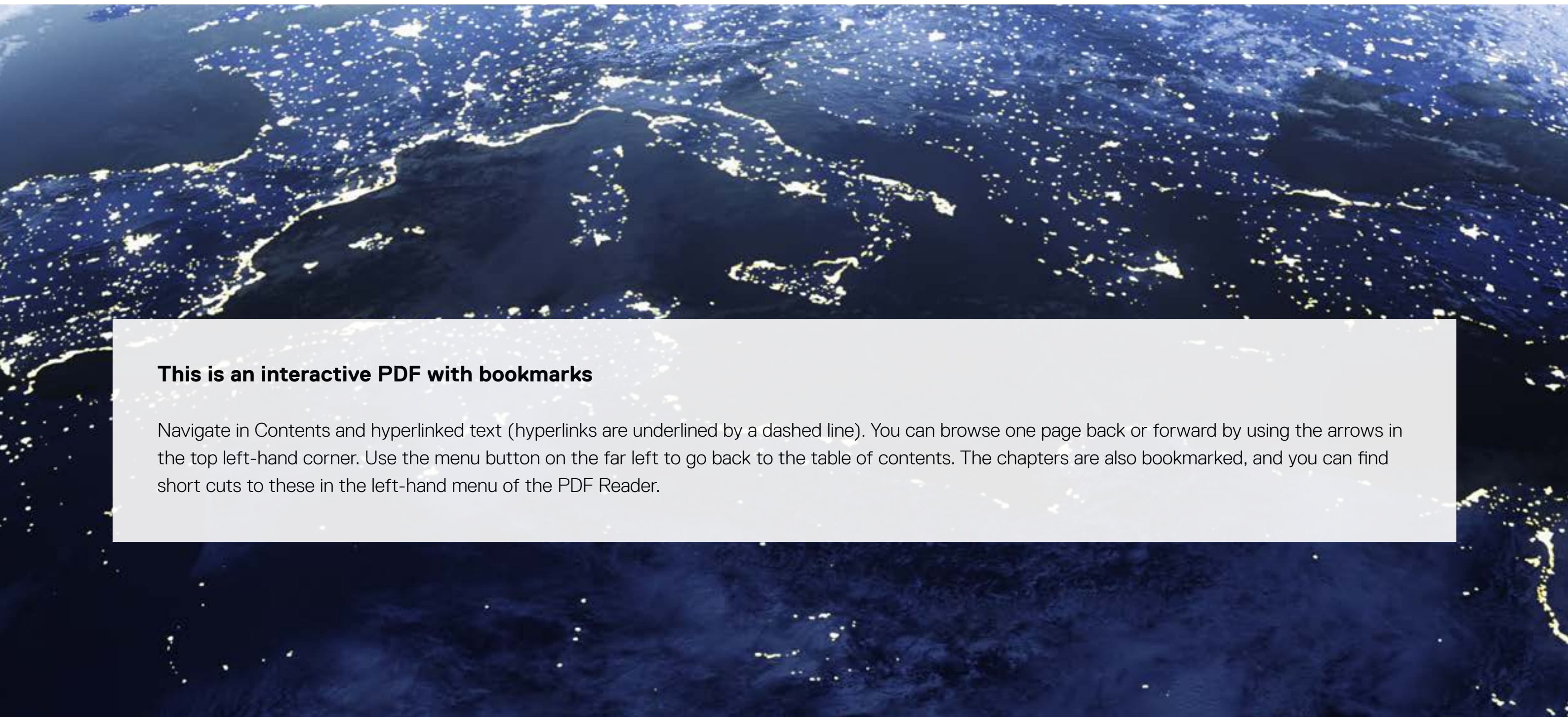

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KONGSBERG

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

KONGSBERG's solutions contribute to safer, more efficient operations at sea, on land and in space. Whether we are talking about defence, the merchant marine, the exploitation of oil and gas resources or fishery resources, our products are of strategic importance to our customers. We also supply technical solutions for global challenges such as environmental monitoring and resource management.

Organisation

The Group is divided into three business areas and other operations. The three business areas are Kongsberg Maritime, Kongsberg Defence Systems and Kongsberg Protech Systems. The other operations consist of Kongsberg Digital, real estate business and the corporate services. The corporate services supports the business areas, the

- Offshore oil & gas
- Seaborne transportation
- Energy management
- Aquaculture
- Subsea & Marine Robotics

- Develops concepts, by integrating deck management and energy management together with the operational systems that provide unique customer benefits both on vessels and foreland operations.
- Are among the market leaders in dynamic positioning, automation and surveillance systems, process automation, deck management equipment, fisheries, satellite navigation and hydro-acoustics.

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

- Premier supplier of defence and aerospace-related systems. The portfolio comprises products and systems for command and control, weapons guidance and surveillance, communications solutions and missiles.
- Has the expertise and production facilities to make advanced composite and engineering products for aircraft, offshore and helicopter markets.

- Remote Weapon Station
- Medium Caliber Turrets

- Is the world's leading supplier of remotely controlled weapon stations.
- Main product is the PROTECTOR Remote Weapon Station. The system enhances safety for military personnel.

Chief Executive Officer and the Board along with associated committees and councils. The corporate services have expertise in financial affairs, business development, investor relations, corporate law, anti-corruption, corporate social responsibility, communication, HSE and HR.

Ownership structure

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

Financial value added

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

Sustainability and corporate social responsibility

Sustainability and corporate social responsibility are important topics for KONGSBERG and will be key to our strategy and management. In addition, our stakeholders require that we operate our business in a sustainable, accountable and responsible manner and that we carry out our corporate social responsibility in accordance with the applicable expectations of society. This gives KONGSBERG the necessary "licence to operate" in order to execute our business.

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

Sustainability and corporate social responsibility are an integral part of the Group's strategy process. Sustainable technology development is a central element in contributing towards solving the major global challenges the world faces. For KONGSBERG, this means business opportunities in several markets viewed in the light of our broad technology and competence platform.

KONGSBERG'S GLOBAL PRESENCE

VISION, AMBITIONS AND VALUES

Extreme performance for extreme conditions

KONGSBERG develops and delivers advanced systems and technologies for extreme conditions. Our solutions ensure efficiency, safety and high performance in operations ranging from deep sea to outer space. KONGSBERG's objective is to secure and increase the stakeholders' values through profitable and growth-oriented industrial development in a long-term and international perspective.

VISION

WORLD CLASS – through people, technology and dedication

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

AMBITIONS

KONGSBERG is a leading technology group with a world-class position and a technology growth agenda. We aspire to achieve sustainable development with a good balance between financial performance, value creation and social and environmental responsibility.

KONGSBERG develops and delivers value-adding solutions for our customers in key technology-intensive industries. We develop superior expertise to deliver leading systems, products and services in our international market segments. It is of great importance that the strategic and business-related decisions made by the Group are based on a sustainable perspective.

- We aim for annual average growth of 10 per cent over the next five years, about half of which is organic. Organic growth is expected to increase gradually throughout the period.
- We shall be a "double digit" EBITA-margin business.
- New projects and initiatives will be evaluated against a 10–15 per cent return on capital employed dependent upon the project's risk.

OUR VALUES

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

Determined
(intent, resolute, goal-oriented)
We are known for our drive and persistence. We always strive to meet our customers' expectations. We set ambitious goals for ourselves and we are driven towards them with a clear and constant focus.

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

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

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

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

We collaborate as individuals and as an organisation.

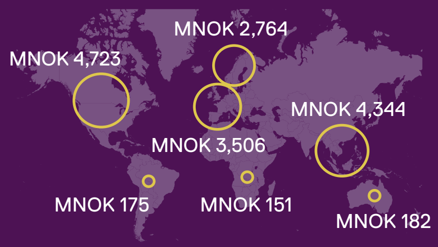
Reliable
(dependable, trustworthy)
Our customers and partners can trust KONGSBERG to deliver, always. Dealing with KONGSBERG means dealing with reliable people, a reliable corporation and reliable products. KONGSBERG is a responsible organisation characterised by integrity and concern for health, safety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

We are reliable people. We are responsible citizens.

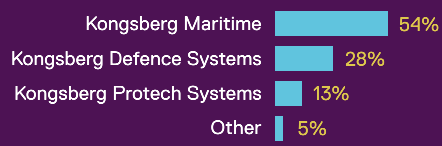
KEY FIGURES

MNOK	*2016*	*2015*	*2014*	*2013*	*2012*	*2011*	*2010*	*2009*	*2008*	*2007*
SALES										
Revenues	**15 845**	17 032	16 613	16 323	15 652	15 128	15 497	13 816	11 056	8 306
New orders	**14 319**	15 238	22 097	15 043	14 605	15 016	13 584	17 605	14 635	14 338
Order backlog	**16 914**	19 597	21 020	15 687	16 523	17 839	17 759	19 892	16 692	12 646
Book-to-Bill Ratio	**0.9**	0.9	1.3	0.9	0.9	1.0	0.9	1.4	1.5	1.5
PERFORMANCE										
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**1 217**	1 784	2 060	2 142	2 294	2 385	2 485	1 619	1 319	1 560
Earnings before interest, taxes and amortisation (EBITA)	**835**	1 405	1 718	1 797	1 971	2 123	2 216	1 376	1 122	796
Earnings before interest and taxes (EBIT)	**692**	944	1 258	1 659	1 840	2 026	2 113	1 263	1 038	1 346
Earnings before taxes (EBT)	**729**	944	1 285	1 644	1 809	1 991	2 097	1 169	861	685
Profit for the year	**651**	755	880	1 225	1 304	1 418	1 500	828	587	490
PROFITABILITY										
EBITDA %	**7.7%**	10.5%	12.4%	13.1%	14.7%	15.8%	16.0%	11.7%	11.9%	18.8%
EBITA %	**5.3%**	8.2%	10.3%	11.0%	12.6%	14.0%	14.3%	10.0%	10.1%	9.6%
EBIT %	**4.4%**	5.5%	7.6%	10.2%	11.8%	13.4%	13.6%	9.1%	9.4%	16.2%
BALANCE SHEET										
Equity	**6 725**	6 127	6 282	6 657	6 274	5 484	4 881	3 726	1 894	2 758
Equity ratio %	**31.7**	32.0	31.0	38.2	38.6	35.1	35.0	30.0	15.0	30.0
Net interest-bearing debt	**2 195**	(941)	(3 551)	(1 935)	(1 198)	(2 191)	(1 813)	(634)	1 439	(242)
Working capital	**3 468**	2 749	3 274	3 319	3 528	2 250	1 957	1 183	(217)	1 425
EMPLOYEES										
Number of employees, total	**7 159**	7 688	7 664	7 493	7 259	6 681	5 681	5 423	5 243	4 205
Number of recordable injuries per million hours (TRI)	**3.5**	4.1	4.7	3.7	1.5	1.7	6.3	5.5	3.5	
Injury severity rate (number of days lost per one million man hours worked) (ISR)	**32.0**	14.2	45.3	15.6	13.6	1.1	22.3	58.2	5.6	
THE ENVIRONMENT										
Energy consumption (GWh)	**122.8**	119.35	123.7	127.0	114.7	108.9	103.2	100.0	74.4	
CO_2 emissions (metric tonnes)	**33 464**	39 268	26 006	25 294	19 579	22 747	20 005	12 980	7 801	
Waste (metric tonnes)	**1 986**	2 368	1 788	1 935	1 784	1 622	1 772	1 473	1 256	
Total water consumption (m3)	**155 086**	180 741	176 743	115 968						
OWNERS' VALUE										
Market capitalisation	**14 940**	17 400	14 760	15 300	14 940	13 920	15 960	10 590	9 840	10 170
Earnings per share after tax (EPS) in NOK	**5.44**	6.23	7.28	10.24	10.91	11.83	12.46	6.83	4.86	4.04
P/E in NOK	**22.95**	23.05	16.77	12.49	11.46	9.82	10.64	12.92	16.87	20.96
Dividend per share in NOK	**3.75**	4.25	9.25	5.25	3.75	3.75	3.75	2.00	1.38	1.25

KEY FIGURES 2016



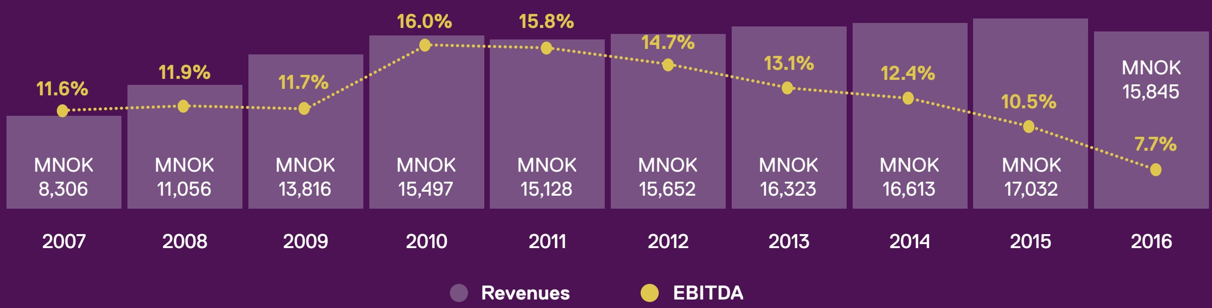
REVENUES
MNOK 15,845



EBIT
MNOK 692

EBITDA
MNOK 1,217

PROFIT FOR THE YEAR
MNOK 651



NUMBER OF EMPLOYEES
7,159

Norway	Europe	America	South America	Asia	Australia	Africa
4,599	528	703	101	1,216	8	4

EARNINGS PER SHARE AFTER TAX
NOK 5.44

MARKET CAPITALISATION
MNOK 14,940

DIVIDEND PER SHARE
NOK 3.75

KEY FIGURES 2016

	Kongsberg Maritime	Kongsberg Defence Systems	Kongsberg Protech Systems
REVENUES	MNOK 8,597 -15.7% from 2015	MNOK 4,336 4.5% from 2015	MNOK 2,096 18.0% from 2015
EBITDA	MNOK 280 -74.8% from 2015	MNOK 801 15.3% from 2015	MNOK 126 -44.5% from 2015
NEW ORDERS	MNOK 7,940 -15.9% from 2015	MNOK 3,819 15.4% from 2015	MNOK 1,705 8.2% from 2015
NUMBER OF EMPLOYEES	4,157	1,837	600

PRESIDENT & CHIEF EXECUTIVE OFFICER GEIR HÅØY

Dear shareholders!

It has been an eventful year with a number of important changes, both within the KONGSBERG organisation and in the markets where we operate. In 2016, we won important contracts, launced new innovations and positioned ourselves for the opportunities lying ahead of us. Aquisition of 49.9 per cent of the shares in Patria of Finland, establishing the subsidiary Kongsberg Digital and reorganising our maritime business area have been important strategic measures in the past year.

2016 has involved more changes for us compared to recent years. There have been some considerable changes in our markets. Some of our markets are going through a difficult period while in other areas we see growth and opportunities.

Both with regards to opportunities and challenges, we have worked with great determination and courage to strengthen our competitiveness. In order to meet these opportunities and challenges we must leave no stone unturned. We need to be well-positioned for what lies ahead of us and to optimise our performance in current markets. Last year we focused on this work and it will also be important going forward.

2016 has also been a year where we made important strategic decisions for the future of KONGSBERG. In March, we announced the aquisition of 49.9 per cent of the shares in the Finnish defence technology group Patria. Patria is Finland's leading defence supplier, with approximately 2,800 employees, and the company owns 50 per cent of the shares in Norwegian Nammo. This acquisition is an important proactive step in the ongoing consolidation within the defence industry. The three companies have both complimentary and world-leading products, as well as being located in geographical key areas that strengthen each other. As a consequence of this strategic move, KONGSBERG has strengthened its position both in the Nordic region and internationally.

"2016 HAS BEEN A YEAR WHERE WE MADE IMPORTANT STRATEGIC DECISIONS FOR THE FUTURE OF KONGSBERG."

In 2016, industrial digitalisation was on the agenda for technology companies such as KONGSBERG, and it won't become less important in 2017 and the years to come. Digitalisation and digital technology is not new to us. Much of what we do and have done for many years involves fully or partially digital products and solutions. However, we now see intensified development and maturity of core technologies in this digital shift.

To be able to meet and lead the way in this area of opportunity, KONGSBERG took an important strategic step in 2016 by establishing the subsidiary Kongsberg Digital. The company was fully operational as of 1 July, and there is considerable interest in the market for the competence, technologies and ambitions we have for Kongsberg Digital. In autumn 2016, Kongsberg Digital invested in eSmart Systems and entered into a strategic alliance with the company for digital development within advanced analysis and machine learning. eSmart Systems' competence and market positions are complimentary to ours. Together we are building a strong Norwegian industrial player of international potential within the power and energy sector. This digital expertise is also relevant for other industrial areas.

"THE OCEAN SPACE IS AN IMPORTANT FOCUS AREA FOR US GOING FORWARD."

The ocean space was a common theme for KONGSBERG in 2016. Many of our products and product areas are associated with the oceans, whether it be fisheries and marine management, or subsea technology for production of natural resources or other purposes. Marine management and utilisation is becoming more important, and many countries look to the oceans for energy, food, minerals, transportation and other strategically important opportunities. We are well-positioned, and we will continue to innovate to provide our customers with the technologies and solutions they need. The ocean space is an important focus area for us going forward.

2016 was a good year for the Group's defence segments. KONGSBERG's product portfolio is modern, and it meets both the short and long term needs of many countries.

At the end of 2015, we won the important first contract for the delivery of PROTECTOR MCT-30 (Medium Caliber Remote Weapon Station) to General Dynamics and the US Army. In 2016, we have developed and delivered the first eight systems. The US Army is an important reference customer for this application.

Our PROTECTOR RWS (Remote Weapon Station) is world-leading and has been delivered to 18 countries. In 2016, we delivered 800 weapon stations, which is almost twice as many as in 2015. We have delivered more than 18,500 systems in total, and this entails an aftermarket with considerable growth potential. Development and innovation is a continuous process, and a low profile solution was among the products we introduced in 2016. The US Army's decision towards the end of 2016 to procure this solution for its M1A2 Abrams battle tanks was positive news for us.

KONGSBERG has a missile history that goes back to the late 50s with the development of the Penguin. Today we see great opportunities for the Joint Strike Missile (JSM), which is still under development, and also many new opportunities for the Naval Strike Missile (NSM).

The JSM went through several tests in 2016. The latest test was carried out in the US, demonstrating safe missile separation from the aircraft and highly advanced flight characteristics. The qualification program for the JSM is planned to be carried out in 2018, and the development is on schedule. When this unique missile has been fully developed, it will be the world's only 5th generation missile that fits into the bomb room of the F-35 fighter. Moreover, JSM has completed successful "fit checks" for other types of aircraft. Australia and Norway are also jointly developing further advanced capabilities for the missile. We estimate a potential total revenue of NOK 25 billion during the missile's lifetime.

Our second missile, the NSM, is already in operation by the Polish and Norwegian Armed Forces, and it has been chosen by the Royal Malaysian Navy. We are also very pleased that Germany in February 2017 announced that they will equip their vessels with the missile. This underlines the strong position KONGSBERG's technology and this missile in particular holds. NSM has considerable opportunities for us going forward.

In February 2017, the Norwegian authorities announced a collaboration with Germany for the procurement of new Norwegian submarines. This submarine order involves large agreement opportunities for KONGSBERG and the Norwegian defence industry. In addition to the procurements by Norway and Germany, other countries are also set to buy new submarines. For more than 50 years, KONGSBERG has developed world-leading competence for combat management systems which have been delivered to Norwegian,

"IN THE AUTUMN OF 2016, WE ALSO SIGNED AGREEMENTS FOR UPGRADE OF THE NORWEGIAN ARMED FORCES' ULA CLASS SUBMARINES AND THE FRIDTJOF NANSEN FRIGATES."

German, Italian, South Korean, Dutch and Indonesian submarines. In the autumn of 2016, we also signed agreements for upgrade of the Norwegian Armed Forces' ULA class submarines and the Fridtjof Nansen frigates, which underlines KONGSBERG's position within marine defence systems.

Our deliveries to the F-35 fighter programme continue to increase in scope as the manufacturer Lockheed Martin delivers more fighters. This will intensify in 2017 and KONGSBERG is well prepared for the increased rate of deliveries. We are also positioned for any new opportunities that may arise from the programme.

KONGSBERG has been working with helicopter maintenance for a number of years. We were very pleased to sign an agreement towards the end of the year with Leonardo Helicopters for maintenance, repair and overhaul of dynamic components for the NH-90 and AW101 helicopter models. The agreement is set for 30 years and includes a scope of estimated MEUR 300. It involves a helicopter fleet of more than 100 helicopters from Norway, Sweden, Finland, Denmark and Canada.

The NASAMS air defence system is world-leading and we continue to innovate and develop the system for both existing and new users. Seven countries, including the US, Norway and Spain, are currently using NASAMS. In February 2017, the Norwegian Armed Forces also decided that the Army would invest in a mobile air defence system.

2016 has been a year of growth within defence communication solutions, and we see this segment to hold good opportunities going forward. KONGSBERG's technology and product portfolio within communication and encryption solutions is advanced and relevant for a number of countries.

Our advanced defence technology competence and product portfolio also involves spin-offs for other industrial areas. The agreement we signed with Avinor in autumn 2015 for the delivery of remote tower solutions to airports is well underway. In autumn 2017, the first solutions will be in use at airports in Northern Norway and remotely operated from Bodø. The product has already attracted considerable international interest, and this will intensify when Avinor becomes the first aviation company in the world to introduce this system.

KONGSBERG is the largest aerospace industry company in the Nordic region, and 2016 has been a very good year for the Group's aerospace segment. We deliver niche products and services within areas ranging from satellite launches to on-board communication and downloading of data. Due to its downloading stations on Svalbard and Antarctica and the pole-to-pole concept, Kongsberg Satellite Services is uniquely positioned within the latter area.

In 2016, we signed agreements for the comprehensive Inmarsat communication satellite and MetOp meteorological satellite programmes, and we will continue delivering to ESA's Copernicus programme. The latter is a very important organisation for KONGSBERG and the Norwegian aerospace industry. In addition to the contracts we have been awarded and delivered on in the past year, we have also worked on positioning ourselves for the future aerospace market which is undergoing rapid technology development. KONGSBERG is working on strengthening existing segments and positioning itself within new segments.

"IN ADDITION TO THE AGREEMENTS WE HAVE WON AND DELIVERED ON IN THE PAST YEAR, WE HAVE ALSO WORKED ON POSITIONING OURSELVES FOR THE FUTURE AEROSPACE MARKET THAT IS UNDERGOING RAPID TECHNOLOGICAL DEVELOPMENT"

Our maritime business had a difficult year due to challenges within the oil and gas market. This has led to restructuring, new thinking and reorganisation. We believe we have implemented important measures to meet today's and tomorrow's oil and gas market, a segment which is still very important for KONGSBERG.

Like many other sectors, the maritime industry faces significant changes, both in terms of industry dynamics and technology shifts. We aim to be at the front of development and use our knowledge, competence and market positions. Technologies such as autonomy, smart data and advanced data analysis, along with battery and hybrid technologies, are important areas going forward.

"LIKE MANY OTHER SECTORS, THE MARITIME INDUSTRY FACES SIGNIFICANT CHANGES, BOTH IN TERMS OF INDUSTRY DYNAMICS AND TECHNOLOGY SHIFTS."

In 2016, we launched our new "triangle concept" where we integrate more vessel functions in order to supply the operator with a more complete decision support and operation system. With this concept we are able to offer our existing and future customers a fully integrated system that will simplify operations and reduce costs. Our customers will thereby benefit from more efficient maritime operations. Fully integrated systems will become more important in the future, and this opens up new market opportunities.

KONGSBERG's subsea technology holds a strong position, and this was further strengthened in 2016. The portfolio is continuously being developed, and our world-leading technology within fisheries, research, production of natural resources and environmental monitoring are requested by customers. Our autonomous vessels and ocean observatories are becoming more advanced along with the rapid technology and digital development.

The HUGIN, MUNIN, REMUS and Seaglider underwater vehicles are products with technology that can be used for a number of ocean-space applications, from bathymetric survey or monitoring of pipelines and subsea installations to exploration and research purposes. Several customers have set the ocean space observatory K-Lander into operation, including the Centre for Arctic Gas Hydrate Environment and Climate at the University of Tromsø that uses the observatory to monitor natural methane emissions outside of Svalbard. We won several important contracts in the past year, and there are exciting opportunities ahead.

Another exciting project within subsea technology and autonomous vessels is the collaboration with Eelume – a startup company in Trondheim where we and Statoil are on board. The snake-like swimming robot which is under development represents a disruptive, new modular autonomous underwater vehicle that can easily be adapted to various types of inspection and maintenance tasks.

Fishery and research have seen growth in 2016, and KONGSBERG holds a strong position and product portfolio within technology for sustainable fisheries. We are also contributing to innovations such as SalMar's Ocean offshore fish farming that will be tested outside the Trøndelag coast. Here we apply a number of our technologies from other maritime areas, including sensor and echo sounder as well as automation, navigation and communication technology.

It was a good year for the merchant marine segment, but with more fluctuations in individual segments than in previous years. Overall, contracting is reduced and, as with our other maritime segments, we are trying to adapt to the current market at the same time as we are proactively seeking future opportunities.

In 2016, we completed the group level "DeltaOne" efficiency programme. This is a very important project that has delivered good results, but our effort to improve and become more efficient does not end here. We will continue this work and focus on further strengthening our competitiveness.

"WE ARE VERY PLEASED THAT YET MORE STUDENTS AND YOUNG TALENTS CONSIDER KONGSBERG TO BE ONE OF NORWAY'S MOST EXCITING TECHNOLOGY COMPANIES."

Our most important asset is the knowledge each one of us possesses. We are therefore very pleased that more students and young talents consider KONGSBERG to be one of Norway's most exciting technology companies. According to Universum's survey, students rank us as the second most attractive technology employer in the country, and our summer programmes have an average of ten applicants per vacancy. For the summer of 2017, we have also initiated Norway's first national and cross-industrial aerospace

"KONGSBERG'S CORPORATE SOCIAL RESPONSIBILITY INVOLVES A WIDE RANGE OF ASPECTS AND WE ARE HIGHLY COMMITTED."

summer project. By the closing date, we had received 250 applications for 15 positions.

KONGSBERG's corporate social responsibility involves a wide range of aspects and we are highly committed. "Responsible business" deals with how we can contribute to sustainable development and our conduct to comply with the laws, rules, norms and ethical standards that are expected of us as a business.

In autumn 2016, the so-called Rumania case ended for KONGSBERG. The charges of corruption, which were made in connection with the sale of communications equipment to Romania from 2000 to 2008, were dropped after almost two and a half years of investigation. We are glad to see this case dropped and we can now move on. Our compliance rules and routines are continuously being updated in accordance with leading national and international codes of conduct, and we are highly committed to this work.

"Responsible business" involves a real business opportunity for us in relation to green solutions, technology and sustainability. We already deliver many products and solutions to green technology categories, such as wind power, and to industries that are restructuring, e.g. solutions for "green shipping". A growing number of customers want more efficient and sustainable solutions, which involves opportunities for us. This is good business, and it is an important part of our corporate social responsibility.

I want to conclude by highlighting the importance of KONGSBERG's diversified portfolio, both across and within the business areas. We experience challenging market conditions in certain areas, while others are characterised by growth and highly promising future prospects. Our core competence, vision, values and strong company culture serve as a common platform. Our culture of being innovative, determined, reliabe and collaborative is world class. These values must continue to be nurtured and strengthened.

It is with great enthusiasm and respect that I take on the responsibility of leading the Group, and I look forward to continue developing KONGSBERG as a technology company. On the behalf of KONGSBERG, I would like to thank the owners for the trust they show us, our employees for their dedication and our customers for the exciting and demanding challenges we solve together. I also want to thank our partners, sub-contractors and stakeholders for our collaboration.

Geir Håøy,
President & chief executive officer
February 2017

02

DIRECTORS' REPORT & FINANCIAL STATEMENTS

DIRECTORS' REPORT 2016

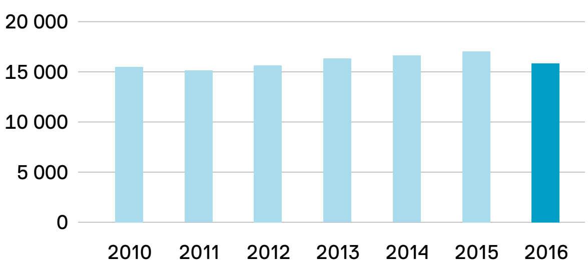
2016 was an eventful, but also challenging year for KONGSBERG. Operating revenues amounted to MNOK 15,845, a reduction of 7 per cent compared with 2015. The reduction comes primarily from the oil and offshore-related business areas of the Group. In total the Group had a good level of new order intake in 2016, although somewhat lower than in 2015. We have experienced a negative development in oil and gas, but at the same time, our defence businesses have developed in a positive direction, and the non-offshore-related parts of our maritime business have developed satisfactorily. During the year several strategic decisions have been taken that are expected contribute to KONGSBERG's growth in the years to come: KM has made significant adjustments to its capacity and organisational model, KPS signed a breakthrough contract for MCT-30 and is well under way with the delivery, KDS has made a strategic entry into Finnish Patria and Kongsberg Digital is established. Despite the obvious challenges in some markets, KONGSBERG is well positioned and we see significant opportunities ahead. The Group continues to invest major resources in new and existing products. As in previous years, over MNOK 1,000 was spent on internally financed product development and maintenance. Geir Håøy was appointed as President and CEO in June 2016.

EBITDA for the Group in 2016 amounted to MNOK 1,217, compared to MNOK 1,784 in 2015. Profit for the year after tax amounted to MNOK 651 (MNOK 755), corresponding to NOK 5.44 per share (NOK 6.23). On this basis, the Board proposes to the General Meeting a dividend for the accounting year 2016 of NOK 3.75 per share (NOK 4.25). The dividend represents 68.9 per cent (68.2 per cent) of the profit for the year, and 50.2 per cent (50.0 per cent) of the profit for the year adjusted by MNOK 243 due to impairment of the order backlog in KM along with other impairments. The Group had a positive cash flow of MNOK 134 in 2016.

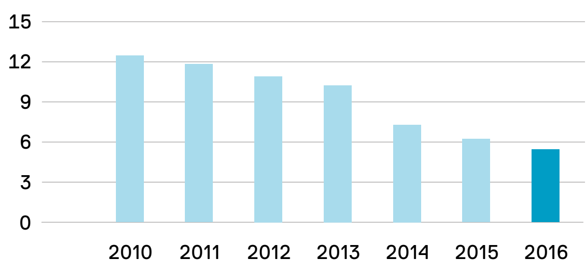
IMPORTANT EVENTS IN 2016

2016 has been a challenging year for parts of our business. KM reduced its level of operating revenues compared with

REVENUES
MNOK



EARNINGS PER SHARE
NOK



2015 by 15.7 per cent, which can mainly be explained by a decline in offshore related markets. Meanwhile, other segments like the merchant marine, fisheries and "marine robotics" had high activity and good results. In 2016 KM underwent extensive restructuring and the EBITDA margin has been negatively affected as a result of restructuring costs. There has also been a gradual shift towards more sales of larger integrated solutions with lower margin levels in Offshore. The Offshore division has also carried out extensive impairments of its order backlog which has had a negative effect on the profit for the year. KDS had a 4.5 per cent growth in turnover and achieved a record high EBITDA margin of 18.5 per cent in 2016. The margin includes MNOK 143 in net results from Patria that have been entered under the equity method. The EBITDA margin without Patria is 15.2 per cent. KDS bought 49.9 per cent of Patria on 24 May 2016 for MNOK 2,664. The operating revenue in KPS increased by 18.0 per cent in 2016, while EBITDA remains low because of high market activity. KDI was established on 1 July 2016 and is an important step in the development of next generation digitalised products and services. The areas included in KDI show an overall improvement in earnings from 2015. At the end of 2016, KDI invested MNOK 100 in the company eSmart Systems AS, giving a stake of 34.19 per cent.

KONGSBERG acquired 49.9 per cent of Patria Oyj
On 24 May 2016 KONGSBERG acquired a 49.9 per cent stake in Patria for a transaction price of MNOK 2,664. Patria is Finland's leading defence supplier, and also owns 50 per cent of shares in the Norwegian company Nammo. The new constellation is a leading defence supplier in the Nordic countries, and a major player on the European defence market, with a total gross turnover in 2016 of NOK 15.1 billion. KONGSBERG's share of the net result in Patria in the ownership period was MNOK 143.

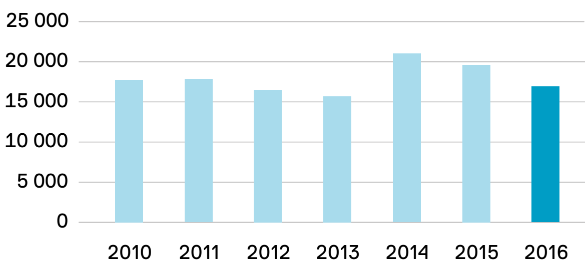
Establishment of Kongsberg Digital (KDI)
KDI was established 1 Jun 2016 with approx. 450 employees from the existing software and simulation environments in Kongsberg Oil & Gas Technologies and Kongsberg Maritime. The company has a significant portfolio and revenue from advanced data, software and simulation products. In addition, KDI started to develop the next generation of digitised products and services, where in 2016 there has been a major focus on the development of the "Digital Platform", and building up of the organisation and visibility in the market. KDI reports under other activities.

FUTURE STRATEGY AND PRIORITIES IN 2017

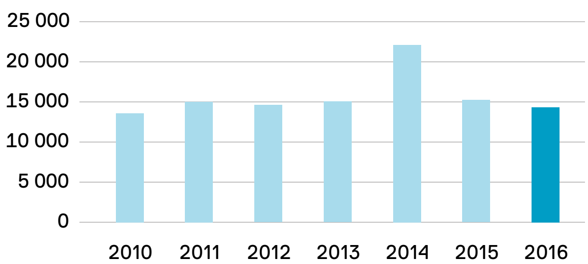
KONGSBERG's focus is still to ensure increased competitiveness while also laying the foundation for continued profitable growth. The Group's growth ambition is to achieve an average growth rate of ten per cent annually in the period 2016 to 2020. The growth will be achieved through a combination of organic growth and acquisitions, where it is expected that the majority of the organic growth will come in the latter half of the period. The organic growth should be based on development and expansion of existing products, services and market positions as well as developing or assemble new products for new markets. KONGSBERG focuses on continuous product development and is striving to maintain its leading position within innovation and technology development. Acquisitions will be a means to both expand the scope of the Group's deliveries, and also to further develop the industrial product range within the main segments. KONGSBERG has considered a number of acquisition opportunities over the past few years, but has only completed a few, partly due to what we have considered to be too high pricing. We are seeing significant structural changes in our main markets. The acquisition of 49.9 per cent of the shares in the Finnish company Patria, which also owns 50 per cent of the shares in Norwegian company Nammo, was an important step and we are still considering acquisition opportunities in strategically important areas.

KONGSBERG has leading positions in the marine market. The main focus for KM will therefore be on achieving growth through further development of these leading positions, as well as extending the range of deliveries and after-market activities by continued innovation and acquisitions. In 2016,

BACKLOG OF ORDERS
MNOK



NEW ORDERS
MNOK



extensive restructuring was carried out and reorganisation of the value chain was started within offshore and the merchant marine market. KM has also invested significantly in new concepts and solutions that will be an important basis for realising the business area's strategies in the future.

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

KONGSBERG's modern product portfolio makes it well-positioned in the international defence market. The main focus within the defence organisation is therefore growth in selected geographical areas, both through its own activity and together with partners, in order to strengthen its presence. KONGSBERG has a long and successful cooperation with the Norwegian Armed Forces. This is important for continued international success.

KONGSBERG's purchase of Patria was an offensive step to meet the ongoing consolidation in the defence industry. Patria's strong position within and outside of Finland and KONGSBERG's strong global alliances and position in Norway constitute a strength in a growing global defence market. KONGSBERG and Patria see significant opportunities for cooperation in a number of our core areas.

There are considered to be significant opportunities in the current technology shift, both in Norway and internationally. As part of the Group's strategy for developing the next generation of digitalised products and services, Kongsberg Digital was established in 2016. Kongsberg Digital will be a hub for the development of digital products and solutions, and an important driver for the digitalisation of the entire Group. In addition, Kongsberg Digital will take forward new solutions and gradually establish positions in new markets. This will ensure that customers have continued access to leading edge technology in the future. Kongsberg Digital will be an essential part of the Group's development of the new digital solutions and associated technology alliances.

The Group's objective is that Group's growth should generate good returns for both the company and the owners and that the Group's EBITA margin should be above ten per cent. As a result of changes in the main markets in combination with intensified strategic and self-financed initiatives that we have chosen to make within specific technology and market areas, the Group's aggregate margin has been under pressure in recent years. Regardless, we will maintain our long-term minimum targets for the Group's EBITA margin at 10 per cent. The Group and the business areas maintain a continuous focus on improvements and constantly seek to adapt the cost levels to the current situation in the market, in relation to challenges and opportunities. Special focus areas are process innovation, sourcing, and sharing of "best practices" internally.

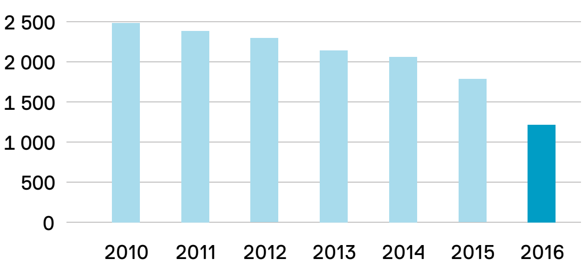
THE BUSINESS AREAS' PRIORITIES IN 2017

Kongsberg Maritime
- Expanded scope of delivery of new and innovative products and solutions, including the Triangle concept
- Secure and take new market positions within new and established main segments
- Further develop after-market activity, the service portfolio and business models
- Market-adapted efficiency and productivity improvements throughout the entire value chain, including the implementation of a new organisational structure

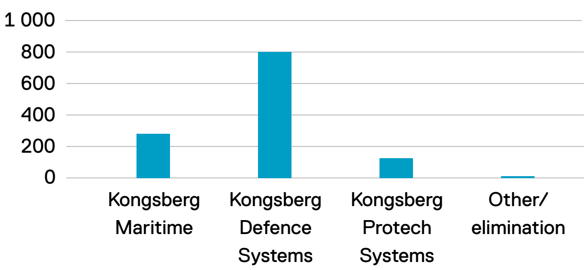
Kongsberg Defence Systems
- Ensure continued satisfactory completion of the large, ongoing programmes in missiles, air defence systems, aerostructure parts for F-35 and other delivery projects
- Further develop positioning and cooperation with Patria
- Secure participation in international industrial cooperation connected to Norwegian defence investments
- Maintain a high level of market activity towards large international opportunities

Kongsberg Protech Systems
- Position itself for further new opportunities for MCT-30
- Maintain its position in the US to ensure continued

EBITDA
MNOK



DISTRIBUTION OF EBITDA
MNOK



contracts on CROWS after 2017
- Maintain a high level of market activity as it relates to new and existing programmes
- Continued focus on growth in the after market

Kongsberg Digital
- Build up and develop the business, including developing the "Digital Platform"
- Promote KONGSBERG as a digital player in established and emerging markets

COMMENTS TO THE FINANCIAL STATEMENTS

Operating revenues
The Group's operating revenues were MNOK 15,845 in 2016, down 7.0 per cent from MNOK 17,032 in 2015. KDS and KPS increased operating revenues by 4.5 per cent and 18.0 per cent respectively, in 2016. KM had a reduction in operating revenues of 15.7 per cent.

EBITDA development
In 2016, EBITDA totalled MNOK 1,217 (MNOK 1,784), resulting in an EBITDA margin of 7.7 per cent (10.5 per cent). In 2016, EBITDA has been negatively affected by restructuring costs in KM and other operations for a total of MNOK 171, as well as by significant impairments of inventories, currency hedging and other project related items in KM in the third quarter for MNOK 354. EBITDA has also been positively affected by gains from the sale of shares in KBC Advanced Technologies with MNOK 54, and the result of clarifications with customer in KPS with MNOK 38. KDS increased both its EBITDA and EBITDA margin in 2016 compared with 2015, whilst KM and KPS showed a decline in EBITDA.

Profit/loss
Profit before tax amounted to MNOK 729 (MNOK 944). The profit after tax was MNOK 651 (MNOK 755), corresponding to NOK 5.44 (NOK 6.23) per share. Return on average capital employed (ROACE) was 6.9 per cent in 2016 (13.5 per cent). KONGSBERG's dividend policy stipulates that dividend over time shall constitute between 40 per cent and 50 per cent of the company's profit for the year. On this basis, the Board proposes an ordinary dividend for the accounting year 2016 of NOK 3.75 per share (4.25). The dividend represents 50.2 per cent (50.0 per cent) of the profit for the year adjusted by MNOK 243 due to impairment of the order backlog in KM along with other impairments, and 68.9 per cent (68.2 per cent) of the profit for the year.

Cash flow
In 2016, KONGSBERG had a positive cash flow from operational activities of MNOK 809 (MNOK -1,087). This primarily consists of an EBITDA of MNOK 1,217, after tax and adjusted for changes in current assets, current liabilities, net change in investments and associated and joint ventures and other accruals. The Group has had temporary liquidity effects related to currency hedging of approx. NOK 1.5 billion (NOK 1.8 billion) which are expected to recover over the next two to three years.

In 2016, there was a negative cash flow related to investment activities of MNOK -3,343 (MNOK -449). Of this, MNOK 613 was paid out for the purchase of property, plant and equipment, MNOK 261 is connected to capitalised self-development, and MNOK 2,786 relates to the net cash flow from aquisitions and sale of subsidiaries and associated companies, of which MNOK 2,664 represents the aquisition of 49.9 per cent of the Finnish company Patria. The group also received payments from the sale of shares available for sale totalling MNOK 317, for shares in Navico, KBC Advanced Technologies and Kitron. MNOK 510 has been disbursed in dividens to shareholders. In 2016 interest-bearing loans have increased by MNOK 3,252.

Net change in cash and cash equivalents, after the effect of exchange rate changes in 2016, was MNOK 81. Cash and cash equivalents at the end of the period is MNOK 1,888.

Capital structure
The Group's equity at 31 December 2016 was MNOK 6,725, or 31.7 per cent of the total assets. The recognised equity increased by MNOK 598 during 2016, mainly as a result of

		KONGSBERG consolidated	*Kongsberg Maritime*	*Kongsberg Defence Systems*	*Kongsberg Protech Systems*	*Misc/ Eliminations*
Operating revenues	2016	15 845	8 597	4 336	2 096	816
	2015	17 032	10 197	4 149	1 777	909
	Change in per cent	(7.0)%	(15.7)%	4.5%	18.0%	(10.2)%
EBITDA	2016	1 217	280	801	126	10
	2015	1 784	1 109	695	227	(247)
	Change in per cent	(31.8)%	(74.8)%	15.3%	(44.5)%	(104.0)%
EBITDA margin	2016	7.7%	3.3%	18.5%	6.0%	1.2%
	2015	10.5%	10.9%	16.8%	12.8%	(27.2)%

profit for the year, a positive development of the fair value of the Group's currency portfolio, a negative exchange difference relating to investments abroad and dividend payments. The Group's net interest-bearing debt (cash minus interest-bearing debt) on 31 December 2016 was MNOK -2,195 (MNOK 941). Long-term interest-bearing debt mainly consists of six bond loans totalling MNOK 3,250 and a bridge loan related to the financing of Patria of EUR 53 million. Current interest-bearing debt mainly consists of one bond loan that is due in 2017. The change from 2015 is mainly related to financing the acquisition of Patria. The Group also has an undrawn syndicated loan facility of MNOK 1,500, which expires in April 2019. The loan facility requires that net interest-bearing debt does not exceed 3 times EBITDA, but can be up to 3.5 times EBITDA for a maximum of three quarters. During March 2017 KONGSBERG has agreed terms for a new credit facility of MNOK 2300 that will replace the above mentioned credit facility. The credit facility has a 5 year term to maturity, with an option of 1+1 years, and this new credit facility requires that the interest-bearing debt does not exceed 4 times EBITDA, but can be up to 4.5 times EBITDA for a maximum of four quarters, of which three quarters may be consecutive. It is expected that the agreement will be signed in the first quarter of 2017.

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

IMPORTANT EVENTS IN 2016

Acquired 49.9 per cent of the shares in Finnish defence technology group Patria, and thereby created a strong Nordic partnership between, KONGSBERG, Patria and Nammo.

Comprehensive testing of Joint Strike Missile. The qualification programme for JSM is in the final phase and is scheduled for completion in 2018.

Strong growth in space technology. KONGSBERG is the Nordics' leading supplier to the space industry.

First deliveries of PROTECTOR MCT-30 Medium Caliber to General Dynamics for the US Army's Stryker vehicles.

Adjustment of capacity and organisational modell in Kongsberg Maritime to strenghten our position in more challenging markets.

Launched a new integrated concept for vessels and finalised the first major contracts for deliveries within this area.

Established Kongsberg Digital as a part of the Group's strategy to stay ahead in digital developments.

Foreign currency

KONGSBERG has a currency policy which implies that contractual currency flows are hedged by forward exchange contracts (fair value hedges). In addition, the Group hedges a portion of the expected new orders according to an established policy (cash flow hedges).

At the end of 2016, the balance of forward exchange contracts related to fair value hedges was MNOK 9,183 measured at the hedged rates. At 31 December 2016, these forward exchange contracts had a net negative fair value of MNOK 832. The Group also had MNOK 5,067 in cash flow hedges measured at hedged rates, constituting forward exchange contracts. At 31 December 2016, these forward exchange contracts had a net negative fair value of MNOK 144.

DEVELOPMENT IN THE BUSINESS AREAS

Kongsberg Maritime

Amounts in MNOK	*2016*	*2015*
Operating revenues	8 597	10 197
EBITDA	280	1 109
EBITDA margin	3.3%	10.9%

Kongsberg Maritime has reduced turnover in 2016 by 15.7 per cent and has a significantly lower EBITDA margin compared with 2015. EBITDA in 2016 was affected by restructuring costs of NOK 127 million as well as impairments of inventories, currency hedges and other items, including receivables, with MNOK 354 in the 3rd quarter. KM is largely affected by a declining market for Offshore. KM has focused on sales of integrated EIT / EPC solutions. In 2016, both new orders and the activity for this type of solution were good. Integrated solutions normally provide lower margins than sales of traditional KM equipment. Subsea has also been affected by the decline in the oil and gas market, but has a high level of activity in other segments. Particularly in fisheries and marine robotics, which saw growth of around 30 per cent in 2016 and good profitability.

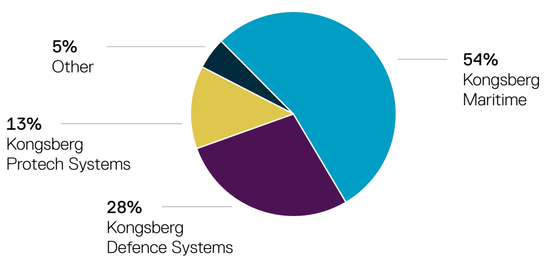
KONGSBERG

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

Headquarters	Kongsberg
Number of employees	7,159
Share of employees outside Norway	36%
Number of locations, countries	25
Revenues outside Norway	83%

DISTRIBUTION OF REVENUE

Per cent



In 2016, significant cost-cutting measures were made in KM in order to adapt its cost base to the weak oil and gas market. The number of employees and contractors at the end of 2016 decreased by more than 800 since the 2nd quarter 2015. Some of the core markets are very challenging, but nevertheless significant investments are being made in the development of new prioritised products and solutions in existing and new markets. KM has, amongst other things, used resources to develop its own energy solution.

Total for new orders in 2016 constituted MNOK 7,940 (MNOK 9,441). The volume of orders in the merchant marine and subsea segment has been relatively good, whilst new orders in traditional offshore have declined in line with the overall offshore market.

Expanded scope of delivery to the individual vessels has been an important area of focus for KM in recent years. The establishment of a dedicated engineering business in 2008, Kongsberg Maritime Engineering, as well as the Triangle concept, where KM has launched its own energy solution, are examples of this. In 2016 this resulted in an order including three RoPax (roll-on/roll-off passenger) vessels and two semi-sub heavy-lift/accommodation-vessels, with a total contract value of over MNOK 800. These are deliveries where KM covers a significantly greater scope than a traditional "full picture" project. In addition to traditional KM systems, including navigation and automation, contracts include the delivery and integration of, for example, electrical and telecommunications systems.

KM has received cancellations of MNOK 217 accumulated over 2016, which is on a par with 2015. As a result of the many projects being postponed, and parts of the order backlog for deliveries to the offshore market being uncertain, KM undertook an impairment of the order backlog of MNOK 660 in the 3rd quarter of 2016. The remaining order backlog to traditional offshore units, such as drill- and supply vessels, is now 70 per cent lower than when the order backlog was at its highest for this segment.

KM's after-market revenues is not included in the order backlog. KM has a well-established after-market network that serves more than 18,000 vessels with KM equipment. The decline in the oil and gas market in 2016 also affected this part of the business to a greater extent, but the trend seems to have stabilised somewhat during the 2nd half of the year. In 2016 the after-market activities amounted to around a third of KM's turnover.

From 1 January 2017, a new function-based organisation was established, which gathers and sharpener product development with a clear focus on increased efficiency of maritime operations. This will contribute to better prioritisation of development resources, and fewer parallel products and systems in relation to the previous market-based organisation. Subsea continues largely as before.

Kongsberg Defence Systems

Amounts in MNOK	*2016*	*2015*
Operating revenues	4 336	4 149
EBITDA	801	695
EBITDA margin	18.5%	16.8%

In 2016, Kongsberg Defence Systems (KDS) had an increase in operating revenues of 4.5 per cent and returned a good profit. The EBITDA margin increased from 16.8 per cent in 2015 to 18.5 per cent in 2016, giving an EBITDA of MNOK 801 (MNOK 695) including MNOK 143 in profit share from Patria. Generally there has been a high level of activity, and good project performance. KDS enters 2017 with an order backlog of MNOK 8,076, compared to MNOK 8,622 at the beginning of 2016. Over time, KDS has strengthened the EBITDA margin. This is due to a combination of many factors, including the volume effect related to the production of aircraft parts, a greater share of projects are in the delivery phase versus the start-up phase, and overall efficiency improvements throughout the whole organisation. The major supply projects are on schedule. The NASAMS project for Finland, which was signed in 2009, was finalised in the 2nd quarter of 2016. There has been high activity throughout the year in the NASAMS project, with Raytheon running as expected and passing important milestones in 2016. KDS's activity directed towards the F-35 programme has increased over the year and has realised significant streamlining in production. The F-35 programme, including JSM, is estimated to have a potential of more than NOK 40 billion for KONGSBERG over the programme's lifetime. In the 4th quarter, a successful test of the Joint Strike Missile (JSM) was carried out in the United States. The missile demonstrated safe separation from the aircraft and highly advanced flight abilities. The qualification programme for JSM is scheduled for completion in 2018.

Accumulated new order intake in 2016 is MNOK 3,819. New order intake in 2016 has been particularly good in communications, naval and space-related solutions. New orders in the other areas in KDS are low, but as expected. The business area signed important orders for the upgrading of Norwegian submarines in the ULA class and frigates in the Fridtjof Nansen class to a value of respectively MNOK 220 and MNOK 313 in 2016. In 2016, Kongsberg Norspace signed a contract with a value of MNOK 300 with Airbus Defence and Space for development and delivery of electronics for the first two Inmarsat 6 satellites, and Kongsberg Satellite Services (50 per cent owned) has signed several large orders during the year. KDS also signed an agreement with Leonardo Helicopters for maintenance, repair and overhaul of dynamic components of the helicopter models NH-90 and AW101, which is expected to have a value of more than EUR 300 million over the next 30 years. There are good prospects for contracts within several core areas in 2017. In Q1 2017, the Norwegian authorities announced a partnership for the new submarine project. In connection with this, parts of an industry agreement between Norway and Germany were also presented, which states that Germany is expected to purchase NSM. According to the Norwegian authorities, Germany's expected future acquisition of NSM has a potential value of NOK 10 billion. At the beginning of 2017, Norway also announced that work is under way on a directed request to KDS for the delivery of air defence systems to the Norwegian army.

KDS has a product portfolio that is well positioned to meet future needs and the expected market development. There is considerable international interest in KONGSBERG's missiles and air defence systems, and high market activity around several major programmes in Europe, the USA and Asia. KONGSBERG is the Nordic countries' largest supplier of equipment and services in the space sector, and the level of activity in this segment is increasing.

The defence market is characterised by relatively few, but large contracts. Hence, fluctuations in new orders are regarded as normal. Decisions on defence investments often take a long time. The customers for large defence systems are the defence authorities in the respective countries. These customers consider national security and domestic economic development as significant factors, in addition to product price and performance, when purchasing defence equipment.

The defence market is not subject to international free trade agreements and is often characterised by more national protectionism than is seen in most other industries. It is important for the Norwegian defence industry that the emphasis is on securing solid agreements in connection with the purchase of defence equipment from abroad – be it repurchase agreements, joint development agreements or market access agreements. When the Norwegian Armed Forces make significant investments through foreign suppliers, this ties up a significant part of the defence budget, and purchases from domestic suppliers may be negatively affected. To ensure that military supplies are well adapted to Norwegian conditions and to guarantee a sustainable and competitive Norwegian defence industry, we emphasise the importance of Norwegian participation in such programmes. Both the Government and the Parliament have stressed the importance of industrial participation for Norwegian industry, and that this is in line with international practice. Such participation for KONGSBERG also means increased activity for many of the business area's approximately one thousand Norwegian subcontractors.

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

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

Kongsberg Protech Systems

Amounts in MNOK	*2016*	*2015*
Operating revenues	2 096	1 777
EBITDA	126	227
EBITDA margin	6.0%	12.8%

The operating revenues in 2016 are MNOK 2,096, up 18.0 per cent from 2015. EBITDA is MNOK 126, corresponding to an EBITDA margin of 6.0 per cent. In 2016 the EBITDA was posi-

tively influenced with MNOK 38 in connection with clarifications with customers. In 2015 the EBITDA was MNOK 227, and includes effects relating to reversals of provisions and reduction of pension schemes totalling MNOK 221. The low EBITDA level is, as planned, due to high activity on the marketing and business development side, particularly related to the medium calibre investment.

In 2016, KPS signed new orders worth MNOK 1,705. Approximately MNOK 600 of this relates to the MCT-30 (medium calibre turret) for the US Army's Stryker vehicle, where KPS was chosen as a supplier at the end of 2015 and awarded the first contract in early 2016. With this programme, new orders have come in the form of several smaller contracts. The first eight systems for testing purposes were assembled and shipped from Norway to the US in 2016. Assembly has now been moved to KONGSBERG's facilities in Johnstown, Pennsylvania, USA, which will assemble the rest of the deliveries in the programme. The latest system under the current contract is scheduled for delivery to the customer in the 2nd quarter 2018. KPS has an order backlog related to MCT-30 of approximately MNOK 500 at the end of 2016. The business area has also signed major orders for the low profile version of the PROTECTOR Remote Weapon Station through the CROWS III programme, and in 2016 also began series deliveries of the low profile version of the PROTECTOR RWS to the US Army. KPS has an order backlog of MNOK 2,912 at the end of 2016, of which around 60 per cent is for delivery in 2017.

During the last 15 years, KPS has grown to become the world's leading supplier of remotely controlled weapon stations. More than 18,500 systems have been sold to customers in 18 countries. The US Army is, both directly and via vehicle suppliers, our largest customer. In 2017 the work continues to maintain KPS's position in the USA in order to ensure continued contracts for CROWS after 2017. Meanwhile, there will be continued focus on growth in the after-market, as well as on the creation of new positions in the market for RWS outside of the US.

The business area has a product range considered to be well aligned to future market requirements. The product portfolio has been extended in latter years with several versions of the core product. Several major vehicle programmes have been decided in different nations, offering significant potential for both traditional weapon stations and medium calibre.

Other activities

Other activities consist of Kongsberg Digital (KDI), as well as eliminations and external operating revenues from the real estate business.

KDI was established in 2016 as an important step in the development of the next generation of digitalised products and services. The areas included in KDI show an overall improvement in earnings from 2015. The main focus in 2016 has been the development of the "Digital Platform", the building-up of the organisation and visibility in the market. At the end of 2016, KDI invested MNOK 100 in the company eSmart Systems AS, giving a stake of 34.19 per cent.

In 2016, MNOK 44 was expensed for restructuring costs in 'Other activities'.

In 2016, KONGSBERG sold its shares in Navico, KBC Advanced Technologies and Kitron with an recognised profit of MNOK 39, 54 and 104 respectively. The profit from Navico and Kitron is classified as financial income, whereas the profit from KBC is included in the operating profit.

OTHER FACTORS AND INCIDENTS

The charge in corruption case Romania has been dismissed

In February 2014, charges were brought against Kongsberg Gruppen ASA, Kongsberg Defence & Aerospace AS and an employee of Kongsberg Defence & Aerospace AS with allegations of serious corruption related to deliveries of communication equipment to Romania from 2003 to 2008. The National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway (Økokrim) announced on 16 August 2016 that the charges against Kongsberg Gruppen ASA and Kongsberg Defence & Aerospace AS have been dropped. As the charges have been dropped, Kongsberg Gruppen ASA and Kongsberg Defence & Aerospace AS are no longer under investigation or under suspicion of corruption. Økokrim has decided to prosecute a former employee of KONGSBERG with charges of fraud against the company.

New President and Chief Executive Officer (CEO) from June 2016

Geir Håøy was appointed as President and CEO of Kongsberg Gruppen ASA on 6 June 2016.

Geir Håøy was employed by KONGSBERG in 1993. Håøy has been President of KM and a member of corporate executive management since 2010. Håøy has long international and industrial experience, and has, among other things, led KM's companies in Singapore and South Korea.

The Board thanks former President and CEO Walter Qvam for his contriibutions to the development of KONGSBERG for 8 years.

Other changes in corporate executive management

Egil Haugsdal succeeded Geir Håøy as Group Executive Vice President and President of Kongsberg Maritime. Haugsdal has wide management experience within KONGSBERG, and was until 2016 the President of Kongsberg Oil & Gas Technologies. He has previously been Group Executive Vice President of Business Development and President of Kongsberg Protech Systems.

Hege Skryseth is appointed Group Executive Vice President and President of Kongsberg Digital, and will also assume the role as Chief Digital Officer of KONGSBERG. Skryseth held the position of Group Executive Vice President responsible for staff functions and has experience of leading several companies, Microsoft Norway being the latest one of these.

Wenche Helgesen Andersen succeeded Hege Skryseth as Group Executive Vice President responsible for staff functions at KONGSBERG. Helgesen Andersen has extensive international management experience and comes from a director position in FMC Technologies with global product line management responsibility. She is a qualified engineer and has 26 years of international experience in the oil and gas industry.

On 5 January 2017, Eirik Lie was appointed President of KDS. Lie has been the Acting President since August 2016, and took office immediately. Lie succeeds Harald Ånnestad who passed away in August 2016 after a period of illness. Lie is a qualified software engineer and has worked in KONGSBERG's defence activities throughout his career. Since 2006, Lie has been the Divisions Director for Integrated Defence Systems. Prior to this, he was on assignment in the US as a specialist for air defence systems and development manager.

PROSPECTS FOR 2017

Kongsberg Maritime has seen a considerable decrease in contracting of deliveries for new offshore vessels in 2016, and the activity has dropped significantly in this segment. The order intake within the subsea segment and for more complex EIT/EPC deliveries was good in 2016, and a positive development within these areas is also expected in 2017. The underlying level of earnings depends on project composition, market conditions and implementation of the comprehensive restructuring initiated in the business area. Further cost base adjustments are considered continuously according to the market situation. Lower revenues are expected in 2017 compared to 2016, and there is still uncertainty in parts of the order backlog.

Kongsberg Defence Systems is well positioned in its niches in a generally stronger defence market. This is expected to give more contract opportunities in the years to come. The order coverage for 2017 is very good at the start of the year, which provides the basis for somewhat increased revenues in 2017.

Kongsberg Protech Systems has a strong market position with its product portfolio. Investment decisions in the marked for weapon stations have in general been more time consuming in recent years. The order coverage for 2017 is somewhat lower than in 2016 at the start of the year. The long-term potential for KPS remains the same, but no growth is expected in 2017.

As a part of the Group's strategy for developing the next generation of digitalized products and services, Kongsberg Digital was established in 2016. The main focus for KDI in 2017 is to continue building and developing its operations, including work on the Digital Platform. No significant profit contribution is expected from KDI in 2017.

KONGSBERG SHARES AND SHAREHOLDERS

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

The price of KONGSBERG shares went down from NOK 145.00 at the end of 2015, to NOK 124.50 at the end of 2016. This gives a market value at the end of 2016 of MNOK 14,940. Including a dividend of NOK 4.25 per share, the return in 2016 amounted to minus 11.2 per cent. In the same period, the main index (OSEBX) on the Oslo Stock Exchange saw an increase of 12.1 per cent. As of 31 December 2016, KONGSBERG had 9,288 shareholders (8,372). The Group had 984 (1,017) foreign shareholders who collectively owned 13.14 per cent (13.96 per cent) of the shares.
The Norwegian State, represented by the Ministry of Trade, Industry and Fisheries, is the largest shareholder with 50.001 per cent of the shares. At the end of the year, the ten largest shareholders held a total of 75.32 per cent (76.50) of the shares. The number of shares outstanding is 120 million, each with a nominal value of NOK 1.25. By the end of 2016, KONGSBERG held a total of 1,049 treasury shares.

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

At the general meeting on 9 May 2016, an ordinary dividend of NOK 4.25 per share for 2015 was decided upon.

For the financial year 2016, the Board proposes to pay an ordinary dividend of NOK 3.75 per share. The dividend represents 50.2 per cent of the profit for the year before impairment, and 68.9 per cent of profit for the year. In determining the size of the dividend, impairment was not included in the assessment basis, in line with previous practice.

In 2016, a total of 14.3 million (15.0 million) KONGSBERG shares were traded in 44,397 (53,375) transactions. The company works actively to promote interest in the shares through activities within the investor markets. KONGSBERG is regularly represented at road shows, meetings and conferences both in Norway and abroad. The goal for 2017 is to continue the high activity against the investor market. Investor presentations are held in connection with the quarterly reports, as well as at an annual Capital Markets Day. At year-end, 11 brokers had active coverage of the shares.

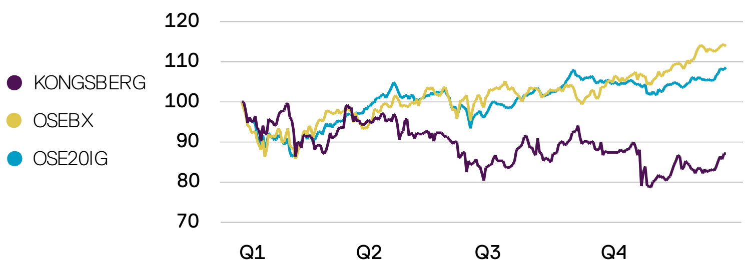
The Board believes that employee share ownership is positive. As at 31 December 2016, more than 2,600 employees held approximately four million shares in total in KONGSBERG. This represents just over three per cent of the shares. During the spring of 2016, the Group's annual share programme for employees was run for the 20th time. A total of 571,896 (583,382) shares were sold at a price of NOK 105.20 (20 per cent discount on the market price). 2,244 (2,521) employees took advantage of the offer.

RISK FACTORS AND RISK MANAGEMENT

KONGSBERG is exposed to different types of risks, and the Board closely monitors trends in the various risk areas. The Board is of the opinion that there is a healthy balance between the overall risk and the Group's capacity to deal with risk. The administration prepares monthly operating reports and quarterly risk reports which are reviewed by the Board. The risk reports are based on a process that systematically outlines risk from the bottom and up and encompasses everything in the Group's structure. In addition, the Board

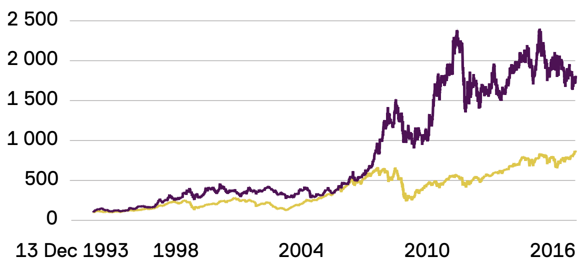
SHARE PRICE DEVELOPMENT IN 2016

NOK (Indexed at NOK 100 – 1 January 2016)



SHARE PRICE DEVELOPMENT SINCE LISTING ON THE OSLO STOCK EXCHANGE

NOK (Indexed at NOK 100 – 13 December 1993)



and the administration perform risk analyses when considering major investments, tenders, initiatives and acquisitions. The Board has an Audit Committee to supporting the Board in exercising its responsibility examining financial statements and relevant judgemental items, and to follow up internal control, compliance and risk management within the Group. The Audit Committee meets, as a minimum, in connection with the issue of annual and interim financial statements.

The Group's activities are international with delivery of high-tech systems and solutions, primarily to customers in the offshore market, merchant marine and defence. Market risk could therefore vary somewhat within these different segments.

The offshore market comprises exploration, development, production and transport of oil and gas. There are also support functions such as supply services, operational support, as well as maintenance and service on platforms and vessels. KONGSBERG is a supplier of products and services for all these segments. Energy demand and oil price trends affect the investment commitment in this market, something which KM especially has clearly seen the results of in 2016. The investment levels could also vary between the various geographical areas depending on e.g. oil reserves and the level of exploration and production activities. More challenging oil and gas fields and increased focus on costs in the industry in general create new niches in the market, which in turn creates the need for new technological solutions.

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

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

KONGSBERG has a range of projects in progress and a significant order backlog. The negative trends in the oil and offshore market have increased corporate risk and affected the corporate activity level. The Group operates in several markets that are greatly affected by independent drivers. Cyclical fluctuations will also influence these markets to various degrees and at different points in time.

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

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

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

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

KONGSBERG has for several years established and developed compliance functions at group level and within the business areas. Regulations, as well as monitoring and reporting systems, are established for managing risks related to areas such as anti-corruption, supply chains and whistleblowing. Training within the area of ethics and compliance is carried out in the entire organisation, both in Norway and abroad. An extensive external evaluation of KONGSBERG's anti-corruption programme was carried out in 2014. The evaluation confirmed that the programme satisfies both national and international regulations, as well as requirements for sound routines, training, etc. The Board considers KONGSBERG's compliance program to have a good international level. The group will make an updated evaluation in 2017.

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

TECHNOLOGY, RESEARCH AND DEVELOPMENT

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

RESPONSIBLE BUSINESS CONDUCT

KONGSBERG shall represent a sustainable development characterised by a sound balance between economic performance, creating value and social responsibility.

Sustainability and corporate social responsibility shall be integrated into the Group's strategy processes. Sustainable technological development is a central element in contributing towards solving the major global challenges the world faces. For KONGSBERG, this means business opportunities in several markets viewed in the light of our broad technological and skills platform.

We are aware of the risk associated with our "license to operate" – both in regards to compliance with rules and regulations, and the worldwide development of scarcity of resources, tension in the political climate and expansion of global megatrends etc.

In 2015, KONGSBERG will continue to focus on anti-corruption, follow-up of human and employee rights and corporate social responsibility in the supplier network – both within our own organisation, and with our business partners. Reference is made to the corporate responsibility report for a more detailed description of the Group's corporate social responsibility efforts. The report has been evaluated and approved by the Board.

HEALTH, SAFETY AND THE ENVIRONMENT

The Board believes that health, safety and environment (HSE) should be managed in a manner that promotes job satisfaction and a sound working environment. Health, safety and environment are equally as important for KONGSBERG as other business activities. One basic principle is that HSE work should be preventive. The board follows HSE work closely, reviewing the HSE reports every quarter. Key Performance Indicators (KPI) have been established that show the development of these over time. During 2016, there has still been a focus on HSE training and separate guidelines have been established to further improve HSE reporting routines. Risk analyses are carried out regularly and are an important part of the preventive HSE work. The reporting routines of the foreign subsidiaries are good, and figures on absence due to illness and accidents from the offices abroad are a natural part of the HSE report.

During 2016 there were 432 work accidents within the Group. Forty injuries that resulted in absence were recorded. 136 events required treatment. The total number of work-related injuries with and without absence (TRI) constituted 3.5 per cent in 2016, a reduction from 4.1 per cent in 2015. There were no registered occupational diseases or work-related fatalities during 2016. Total sickness absence in the Group was 2.5 per cent (2.6 per cent in 2015); for operations in Norway it was 2.8 per cent, the same level as in 2015. In 2017 there will continue to be a strong focus on maintaining low sickness absence, as well as having processes in place that allow a faster return to work.

All employees in Norway have access to company health services. This varies in accordance with local practices and legislation in our foreign business activities. KONGSBERG has many employees outside Norway, 36 per cent at the end of 2016. This requires great attention and insight with respect to HSE issues in the countries in which we operate.

CLIMATE AND ENVIRONMENT

The climate and environmental statement provides an overview of KONGSBERG's consumption of energy, CO_2 emissions and waste processing and our consumption of water.

The Groups' most significant positive contribution to the climate challenges is that an increasing number of our products and solutions are contributing in various ways to reduced emissions. This is a key topic of the new sustainability strategy that we prepared in 2016.

According to the climate statement, our CO_2 emissions were reduced by 15 per cent from 2015 to 2016. This reduction is caused by a lower number of flight in travel and lower emissions related to transport of goods and services.
A detailed overview of the climate and environmental statement for 2016 can be found in the Group's report on sustainability for 2016, pages 148-151.

The Group reports to the international "Carbon Disclosure Project" framework on issues relating to climate changes and the level of greenhouse gas emissions. Our goal of increasing our quality and score in this reporting resulted in our score going from an E for 2015 to a B for 2016.

The Group has adopted a target of reducing CO_2 greenhouse gas emissions by 20 per cent relative to turnover by the end of 2020, based on figures as of 31 December 2015.

No serious incidents related to environmental pollution were reported in 2016.

PERSONNEL AND ORGANISATION

Number of employees	*31 Dec 16*	*31 Dec 15*
Kongsberg Maritime	4 157	4 726
Kongsberg Defence Systems	1 837	1 729
Kongsberg Protech Systems	600	663
Other	565	570
Total in the Group	**7 159**	**7 688**
Proportion outside Norway	**36%**	**38%**

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

An important condition for long-term success is that KONGSBERG properly manages employee competencies. The goal is to develop and increase the diversity within the Group, so that different experiences, cultures, educational backgrounds and ways of thinking are represented. This helps to increase the ability for renewal and provides for better decisions. The Group is aiming to increase the exchange of knowledge and staff between the business areas. Good work processes and development opportunities are important incentives in recruiting and retaining good employees. KONGSBERG places great emphasis on skills development, and works continuously to further develop our employees. 64 per cent of KONGSBERG's employees have college or university level education.

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

The Group educates skilled workers within several disciplines in cooperation with the education company Kongsberg Technology Training Centre AS, partly owned by KONGSBERG. During 2016, there were 43 apprentices in total. In addition, the company facilitates and encourages employees to acquire apprenticeship completion certificates as private candidates, known as practice candidates.

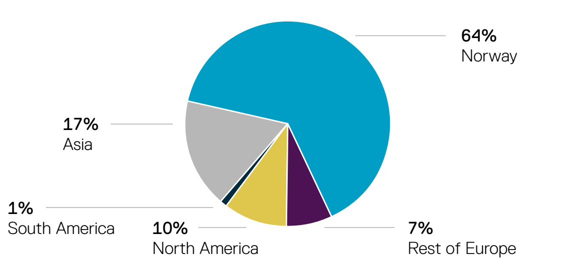
Collaboration with employee unions and organisations through established cooperation and representation arrangements functions well and constitutes a valuable contribution towards meeting the Group's challenges in a constructive manner.

DIVERSITY

KONGSBERG has a personnel policy designed to ensure equal opportunities and rights, and to prevent discrimination on the grounds of ethnicity, national origin, skin colour, language, religion, beliefs, age or gender. A total of 1,518 (21.2 per cent) of employees are women, and two of five shareholder-elected directors on the Board are women. As of 31 December 2016, there are two women in the corporate executive management. The company considers it important to promote gender equality and prevent discrimination in conflict with the Gender Equality Act. Long- and short-term goals have been established to help increase the percentage of women in the Group, both in terms of employment and in terms of management positions. The Board Compensation Committee has a particular responsibility for follow-up on diversity. In the opinion of the Board, the Group complies with current regulations.

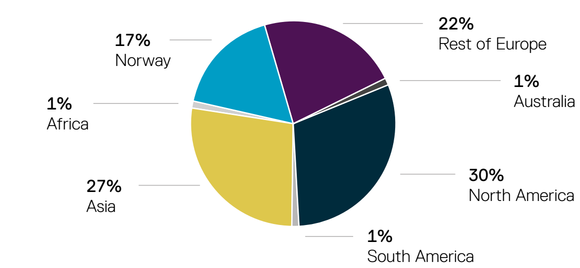
GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES

Per cent



GEOGRAPHICAL DISTRIBUTION OF REVENUES

Per cent



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

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

CORPORATE GOVERNANCE

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

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

According to Section 3-3b of the Accounting Act, the company shall prepare a statement on corporate governance. The statement will, pursuant to Section 5-6 of the Public Limited Liability Companies Act, be discussed at the Annual General Meeting. The description on pages 100-113 is based on the latest revised version of the Norwegian Code of Practice for Corporate Governance of 30 October 2014.

SALARIES AND OTHER REMUNERATION TO SENIOR EXECUTIVES

The Board has a separate Compensation Committee which deals with all significant matters related to salaries and other remuneration to senior executives before the formal discussion and decision by the Board. In line with the Norwegian Companies Act, the Board has also prepared a statement on the remuneration of the Group CEO and Executive Management included in Note 28 to the consolidated financial statements.

PROFIT FOR THE YEAR AND ALLOCATION OF NET PROFIT

The parent company Kongsberg Gruppen ASA made a net profit of MNOK 547 in 2016. The Board proposes the following allocation of net profit in Kongsberg Gruppen ASA:

Dividends	MNOK	450
To other equity	MNOK	97
Total allocated	MNOK	547

The proposed dividend constitutes 50.2 per cent of the Group's profit for the year before impairment.

Impairment is not included in the dividend assessment. The ordinary part of the dividend complies with the company's dividend policy.

The Group's liquidity and financial position are good, and the future prospects are good.

GOING CONCERN

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

For definitions, see Note 33 of the consolidated financial statements.

Kongsberg, 8 March 2017

Finn Jebsen, *Chairman*
Irene Waage Basili, *Deputy chairman*
Morten Henriksen, *Director*
Jarle Roth, *Director*

Anne-Grete Strøm-Erichsen, *Director*
Rune Sundt Larsen, *Director*
Helge Lintvedt, *Director*
Roar Marthiniussen, *Director*
Geir Håøy, *President & CEO*

FINANCIAL STATEMENTS AND NOTES

INCOME STATEMENT 1 JANUARY–31 DECEMBER

KONGSBERG (Group)

MNOK	*Note*	*2016*	*2015*
Operating revenues	6, 8	15 845	17 032
Total revenues		**15 845**	**17 032**
Cost of goods sold	9	(5 949)	(5 983)
Personnel expenses	10, 11	(6 136)	(6 192)
Other operating expenses	30	(2 773)	(3 160)
Share of net income from joint arrangements and associated companies	7	230	87
Operating profit before depreciation and amortisation (EBITDA)	6, 33	**1 217**	**1 784**
Depreciation	6, 12	(360)	(362)
Impairment on property, plants and equipment	6, 12	(22)	(17)
Operating profit before amortisation (EBITA)	6, 33	**835**	**1 405**
Amortisation	6, 12	(140)	(161)
Impairment intangible assets	6, 13, 14	(3)	(300)
Operating profit (EBIT)	6, 33	**692**	**944**
Financial income	15	197	109
Financial expenses	15	(160)	(109)
Profit before tax		**729**	**944**
Income tax expense	16	(78)	(189)
Profit for the year		651	755
Attributable to			
Equity holders of the parent		653	747
Non-controlling interests		(2)	8
Earnings per share in NOK			
- ordinary earnings per share / diluted earnings per share.	17	5.44	6.23

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY–31 DECEMBER

KONGSBERG (Group)

MNOK	*Note*	*2016*	*2015*
Profit for the year		**651**	**755**
Specification of other comprehensive income			
Items to be reclassified to profit or loss in subsequent periods			
Change in fair value:			
– Cash flow hedges, currency	21C	1 029	(428)
– Interest rate swap/ basis swaps	21C	34	3
– Available-for-sale shares	18	(104)	101
Income tax effect in cash flow hedges and interest rate swaps	16	(273)	80
Translation differences, currency		(266)	268
Total items to be reclassified to profit or loss in subsequent periods		**420**	**24**
Items not to be reclassified to profit or loss			
Actuarial gain/loss on pension	11	20	254
Tax effect on actuarial gain/loss on pension	16	(5)	(69)
Total items not to be reclassified to profit or loss		**15**	**185**
Other comprehensive income for the period		**435**	**209**
Comprehensive income for the period[1)]		**1 086**	**964**
Attributable to			
Shareholder in the parent company		1 088	956
Non-controlling interests		(2)	8

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

KONGSBERG (Group)

MNOK	*Note*	*2016*	*2015*
ASSETS			
Fixed assets			
Property, plant and equipment	12	2 723	2 542
Goodwill	13, 14	1 998	2 012
Other intangible assets	13	748	644
Shares in joint arrangements and associated companies	7	3 174	366
Available-for-sale shares	18	35	233
Other non-current assets	19	229	106
Total non-current assets		**8 907**	**5 903**
Current assets			
Inventories	9	4 666	4 136
Receivables	20	3 354	4 056
Construction contracts in progress, asset	8	2 049	2 935
Derivatives	21A	332	284
Cash and cash equivalents	22	1 888	1 807
Total current assets		**12 289**	**13 218**
Total assets		21 196	19 121
EQUITY, LIABILITIES AND PROVISIONS			
Equity			
Issued capital		982	982
Other reserves		(160)	(580)
Retained earnings		5 869	5 684
Equity attributable to owners of the parent		**6 691**	**6 086**
Non-controlling interests		34	41
Total equity	23	**6 725**	**6 127**
Non-current liabilities and provisions			
Long-term interest-bearing loans	21D	3 820	866
Pension liabilities	11	467	497
Provisions	24	165	166
Deferred tax liability	16	1 174	983
Other non-current liabilities		24	13
Total non-current liabilities and provisions		**5 650**	**2 525**
Current liabilities and provisions			
Construction contracts in progress, liability	8	2 848	2 736
Derivatives	21A	1 277	3 069
Provisions	24	803	811
Short-term interest-bearing debt		263	-
Other current liabilities	25	3 630	3 853
Total current liabilities and provisions		**8 821**	**10 469**
Total liabilities and provisions		**14 471**	**12 994**
Total equity, liabilities and provisions		21 196	19 121

Kongsberg 8 March 2017

Finn Jebsen, *Chairman* — **Irene Waage Basili**, *Deputy chairman* — **Morten Henriksen**, *Director* — **Jarle Roth**, *Director*

Anne-Grete Strøm-Erichsen, *Director* — **Rune Sundt Larsen**, *Director* — **Helge Lintvedt**, *Director* — **Roar Marthiniussen**, *Director* — **Geir Håøy**, *Chief executive officer*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 1 JANUARY–31 DECEMBER

KONGSBERG (Group)

		Equity holders of the parent							Non controlling interests	Total equity
		Issued capital		Other reserves			Retained earnings	Total		
MNOK	*Note*	*Share capital*	*Other issued capital*	*Hedge reserve*	*Availa-ble-for-sale reserve*	*Translation difference*				
Equity at 1 Jan 15		150	832	(954)	3	347	5 875	6 253	29	6 282
Profit for the year							747	747	8	755
Other comprehensive income				(345)	101	268	185	209		209
Trading in treasury shares	23						8	8		8
Dividends paid							(1 110)	(1 110)		(1 110)
Purchase/sale, non-controlling interests							(21)	(21)		(21)
Dividends, non-controlling interests								-	(2)	(2)
Translation differences, non-controlling interests								-	6	6
Equity at 31 Dec 15		150	832	(1 299)	104	615	5 684	6 086	41	6 127
Equity at 1 Jan 16		150	832	(1 299)	104	615	5 684	6 086	41	6 127
Profit for the year							653	653	(2)	651
Other comprehensive income				790	(104)	(266)	15	435		435
Trading in treasury shares							5	5		5
Dividends paid	23						(510)	(510)		(510)
Reversal of previous years' impairment							22	22		22
Dividends, non-controlling interests									(3)	(3)
Translation differences, non-controlling interests									(2)	(2)
Equity at 31 Dec 16		150	832	(509)	0	349	5 869	6 691	34	6 725

CONSOLIDATED STATEMENT OF CASH FLOW 1 JANUARY–31 DECEMBER

KONGSBERG (Group)

MNOK	*Note*	*2016*	*2015*
Profit for the year		**651**	**755**
Depreciation/impairment of property, plant and equipment	12	382	379
Amortisation of intangible assets	13	140	161
Impairment of intangible assets	13, 14	3	300
Net finance items	15	(37)	-
Income tax expense	16	78	189
Operating profit before depreciation and amortisation		**1 217**	**1 784**
Adjusted for			
Changes in construction contracts in progress, asset		516	(302)
Changes in construction contracts in progress, liability		112	(854)
Changes in other current liabilities		(664)	(529)
Changes in inventories		(530)	(409)
Changes in receivables		716	(393)
Changes in provisions and other accruals		(440)	(257)
Income tax paid		(118)	(127)
Net cash flows from operating activities		**809**	**(1 087)**
Cash flow from investing activities			
Proceeds from property, plant and equipment	12	28	14
Purchase of property, plant and equipment	12	(641)	(363)
Capitalised internal developed intangible assets (R&D)	13	(266)	(103)
Proceeds of sale/purchase of intangible assets	13	5	(2)
Settlement from acquiring subsidiaries and associated companies		(2 786)	(45)
Sale of shares held for sale	18, 23	317	-
Net cash flow from investing activities		**(3 343)**	**(499)**
Cash flow from financing activities			
Proceeds from loans	21D	3 252	-
Interest received		23	40
Interest paid		(83)	(37)
Transactions with treasury shares	23	(12)	(12)
Transactions with non-controlling interests		(3)	(23)
Dividends paid	23	(509)	(1 107)
Net cash flow from financing activities		**2 668**	**(1 139)**
Total cash flow		134	(2 725)
Effect of changes in exchange rates on cash and cash equivalents		**(53)**	**108**
Net change in cash and cash equivalents		**81**	**(2 617)**
Cash and cash equivalents at the beginning of the period		**1 807**	**4 424**
Cash and cash equivalents at the end of the period	22	**1 888**	**1 807**

NOTES

KONGSBERG (Group)

1. GENERAL INFORMATION

Kongsberg Gruppen ASA is a public limited liability company headquartered in Kongsberg, Norway. The company's shares are traded on the Oslo Stock Exchange. The Board approved KONGSBERG's consolidated financial statements for the accounting year 2016 at its meeting on 8 March 17. The consolidated financial statements for 2016 include the parent company and subsidiaries (collectively referred to as "KONGSBERG" or "the Group"), as well as the Group's investments in associates and jointly arrangements.

2. BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and their interpretations, as well as the Norwegian disclosure requirements pursuant to the Accounting Act applicable.

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

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

Significant accounting judgements, estimates and assumptions

During the preparation of the financial statements, the company's management has applied its best estimates and assumptions considered to be realistic based on experience and market conditions. Situations can arise which alter the estimates and assumptions, which will affect the company's assets, liabilities, revenues and expenses. The estimates are reviewed on an ongoing basis and are recognised in the period in which they occur. In the preparation of the consolidated financial statements, management has made some significant judgements relating to the application of accounting policies.

For more detailed information about estimation uncertainty and areas for application of judgement that could have a significant impact on the amounts recognised in the following financial period, please see the following notes:

- Note 3 C "Summary of significant accounting policies – Revenue recognition"
- Note 3 F "Summary of significant accounting policies – Intangible assets" and Note 13 "Intangible assets"
- Note 3 H "Summary of significant accounting policies – Leases, sale and leaseback"
- Note 3 J "Summary of significant accounting policies – Financial Instruments" and Note 21 "Financial Instruments"
- Note 8 "Construction contracts in progress"
- Note 11 "Pensions"
- Note 14 "Impairment testing of goodwill"
- Note 20 "Receivables"
- Note 24 "Provisions"

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Basis of consolidation

Subsidiaries

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

They are deconsolidated from the date that control ceases. On initial recognition, subsidiaries are measured at their fair value on the date of acquisition. Fair value is allocated to the identified assets, liabilities and contingent liabilities. When new subsidiaries are purchased, the results, assets and liabilities in the consolidated accounts are recognised from the time of purchase. The date of acquisition is the date when KONGSBERG obtains control of the acquired company. Normally, control will be achieved when all the terms of the agreement are satisfied. Examples of terms include approval of the Board, the General Meeting or approval from the competition authorities. For business combinations achieved in stages, the financial statements are based on the values at the time when the Group obtained control. Goodwill is calculated at the date control is obtained. When enterprises are acquired and there are non-controlling interests, goodwill is limited to KONGSBERG's proportionate share.

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

Entities that constitute the Group are listed in Note 31 "List of Group Companies".

Joint arrangements

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

Associates

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

Elimination of transactions

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

Non-controlling interests

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

B) Foreign currency

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

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

Translation – foreign subsidiaries

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

C) Revenue recognition

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

Construction contracts/system deliveries

A significant part of KONGSBERG's operations is to develop and manufacture products and systems on the basis of signed contracts.

A construction contract is a contract negotiated with the view to manufacture an asset or a combination of assets that are closely related or interdependent. KONGSBERG has applied the following criteria to define a construction contract:

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

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

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

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

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

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

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

Goods/standard production/services

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

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

Licence revenues

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

If the sale of the licence depends on customer acceptance, licence revenues will not be recognised until the customer has accepted. In cases that involve adaptations or additional work, the total contract amount, including consideration for the licences, is recognised as revenue at the same stage of completion as deliveries.

Maintenance and service/support are recognised as revenue incrementally as the service is performed or on a straight-line basis during the period in which the service is performed.

Combined deliveries of goods, services and licence sales

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

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

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

- Identification of the various elements for delivery, e.g., licence, service, maintenance and consultancy services.
  - Expected costs are estimated for service, maintenance and consultancy services. A reasonable profit margin is also estimated on the various elements, and the assumptions for the estimation must be consistent from one period to the next. The contract amount is estimated as licence revenue less estimated revenue from service, maintenance and consultancy services.
  - The estimated cost plus the profit margin constitutes deferred revenue and is recognised on a straight-line basis throughout the period in which the services are delivered.
  - The contract amount is recognised upon delivery.

D) Taxes

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

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

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

E) Financial income and expenses

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

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

F) Intangible assets

Goodwill

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

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

Impairment is calculated by comparing the recoverable amount with the individual cash-generating unit's recognised value. The recoverable amount is the highest utility value or net sales value. The Group uses the value in use to determine the recoverable amount of the cash-generating units. In determining the value in use, the expected future cash flows are discounted to net present value using a discount rate before tax that reflects the market's target for a return on investments for the cash-generating unit in question. If the value in use of the cash-generating unit is less than the carrying amount, impairment reduces the carrying value of goodwill and then the carrying value of the unit's other assets on a pro rata basis, based on the carrying value of the individual assets. Impairment on goodwill is not reversed in a subsequent reporting period even if the recoverable amount of the cash-generating unit increases. Any impairment will be recognised through profit and loss in the financial statements. Impairment of goodwill is described in Note 13 "Impairment testing of goodwill".

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

Development

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

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

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

The calculation of financial benefits is based on the same principles and methods as for the impairment testing. The calculation is based on long-term budgets approved by the Board. Note 13 "Impairment testing" has more details on the calculation.

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

Maintenance

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

Technology and other intangible assets

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

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

G) Property, plant and equipment

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

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

H) Leases, sale and leaseback

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

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

I) Impairment of non-financial assets

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

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

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

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

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

J) Financial instruments

Financial assets and liabilities

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

Classification

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

I. fair value through profit and loss
II. loans and receivables
III. financial assets available for sale
IV. financial liabilities

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

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

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

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

Impairment of financial assets

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

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

Derivatives

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

Hedging

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

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

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

(i) Fair value hedges

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

Hedge accounting is ended in the event that:

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

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

(ii) Cash flow hedges

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

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

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

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

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

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

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

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

(iv) Interest hedging

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

Reference is made to Note 21 "Financial instruments" for further information.

Follow-up of hedging effectiveness

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

K) Classification

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

L) Inventories

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

M) Receivables

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

N) Cash and cash equivalents

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

O) Equity

i. Treasury shares

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

ii. Costs related to equity transactions

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

iii. Hedge reserves

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

iv. Available-for-sale reserve

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

v. Translation differences

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

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

P) Provisions

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

Warranty provisions

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

Restructuring

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

Onerous contracts

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

Q) Employee benefits

Defined contribution pension schemes

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

Defined benefit pension plans

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

Share transactions with employees

For a number of years, the Group has been conducting a share programme for all employees, i.e. offering shares at a discounted price. Discounts on shares are recognised as payroll expenses. The Group also has a share programme for leading employees. See the description in Note 28 "Statement on remuneration of the Group CEO and Executive Management".

Compensation to employees as selling shareholders in connection with acquisitions

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

R) Earnings per share

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

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

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

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

IFRS 9 Financial instruments

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

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

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

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

IFRS 15 Revenue from contracts with customers

The standard requires that the customer contracts are divided into individual performance obligations. A performance obligation may be goods or a service. According to IFRS 15, revenue shall be recognised when a customer obtains control of goods or services and thus has the ability to direct the use of and receive the benefits of the goods or services. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations.

KONGSBERG is in the process of considering how the effects of implementing the standard will affect the consolidated financial statements and has identified the following areas which are likely to be affected:

- The business area Kongsberg Maritime may have a significant number of contracts which, by today's standards, are recognised as revenue according to the project's percentage of completion in accordance with IAS 11, Construction Contracts, which cannot be recognised as revenue over time in accordance with IFRS 15. This could imply a different periodisation of earnings.
- The business area Kongsberg Defence Systems may have some individual contracts which, today, under IAS 11, the revenue is recognised by the project's percentage of completion where an assessment according to IFRS 15 will provide revenue recognition on delivery rather than income recognition over time. Some contracts will also have to be divided into more performance obligations than under IAS 11. This could imply a different periodisation of earnings.
- The business area Kongsberg Protech Systems has, under current regulations, mainly revenue recognition upon delivery. Based on an evaluation of contracts according to IFRS 15, some contracts can satisfy requirements for revenue recognition over time.
- In the area "other", no significant changes have been identified.
- IFRS 15 in principle only regulates revenue recognition, and to a lesser extent costs related to contracts. The costs related to contracts will largely depend on evaluations according to other standards such as IAS 2 inventories and IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Application of these standards by the accrual of costs in the projects may produce a different result than with the current regulations.
- In accordance with IFRS 15, cost of obtaining a contract shall be recognised as an asset if this cost would not have incurred if KONGSBERG had not got the contract. This may be relevant to some of KONGSBERG's contracts.
- According to IFRS 15 that there will be other guidelines for the classification of project assets and liabilities in the balance sheet. This may have an impact on KONGSBERG's key figures.

KONGSBERG will conduct a more detailed assessment of the impacts on the financial statements during the next twelve months. During this period, KONGSBERG will also decide on the method of transition to the new regulations.

The standard will come into effect from 1 January 2018. There is the possibility for early adoption. KONGSBERG will adopt the standard from 1 January 2018.

IFRS 16 Leases

IFRS 16 sets principles of which both parties in a contract, i.e. the customer ("lessee") and the supplier ("the lessor"), must follow to provide relevant information about rental agreements so that the accounting represents the reality of the transactions. The standard requires the lessee to recognise assets and liabilities on the balance sheet for almost all leases.

KONGSBERG is in the process of assessing the potential effects of IFRS 16, and expects that this will affect some of the Group's lease contracts, especially sales and leaseback contracts, as discussed in Note 27. Beyond this, KONGSBERG's operating lease agreements consist of the hiring of various operating equipment. The leases vary in size and duration. To date, KONGSBERG has not assessed which of these contracts will result in the listing of assets and liabilities in the balance, nor what effect this will have on the Group's earnings and classification of cash flows. KONGSBERG has substantial hiring of property and buildings which, according to IAS 17, are classified as operational lease agreements, but which according to IFRS 16 must be entered as financial lease agreements. The annual hiring amount is approximately MNOK 154, see note 27. Some of the other lease agreements for other types of operational equipment will fall under the exemption for durations of less than twelve months or low monetary value.

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

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

4. FAIR VALUE

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

Intangible assets

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

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

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

Property, plant and equipment

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

Inventories

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

Investments in equity instruments

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

Derivatives

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

Non-current liabilities

Fair value of interest-bearing loans, cf. Note 21F "Financial instruments – Summary of financial assets and liabilities", is calculated using estimates of the interest curve and KONGSBERG's interest margin as stipulated on the balance sheet date. The estimated cash flows are discounted by the market interest rate expected for comparable loans at the date of the balance sheet. The market interest rate, before the credit mark-up, is based on NIBOR, the money market interest rate.

5. MANAGEMENT OF CAPITAL AND FINANCIAL RISKS

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

Funding and capital management

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

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

KONGSBERG emphasises financial flexibility, and has capital structure requirements to ensure a balance between liquidity risk and refinancing risk.

In periods with excess liquidity, this is placed in term deposits and low-risk money market funds. See Note 22 "Cash and cash equivalents". Loans are to be renegotiated well in advance of their due date, and the aim of the Group is that the average term to maturity for current loans is to be at least two years.

KONGSBERG aims to have a diversified selection of funding sources and a balanced maturity structure. This implies the use of banks based on syndicated credit facilities and the issue of debt instruments on the Norwegian capital market. Please refer to Note 21D "Financial instruments – Interest rate risk associated with loans".

Due to covenants on existing loans, KONGSBERG shall have a moderate gearing ratio (net interest-bearing liabilities/EBITDA). Net interest-bearing liabilities should not exceed three times the EBITDA, but can be up to 3.5 times the EBITDA for a maximum of three consecutive quarters. During March 2017 KONGSBERG has agreed terms for a new credit facility of MNOK 2,300 that replaces an existing credit facility of MNOK 1,500. The credit facility has a 5 year term to maturity, with an option of 1+1 years, and this new credit facility requires that the interest-bearing debt does not exceed 4 times EBITDA, but can be up to 4.5 times EBITDA for a maximum of four quarters, of which three quarters may be consecutive. It is expected that the agreement will be signed in the first quarter of 2017.

Liquidity risk

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

Short-term liquidity needs are normally covered by bank deposits and the balance on the group cash pool systems. Any further liquidity needs may be covered by short-term loans within the framework of the syndicated credit facility. KONGSBERG has Group bank account schemes to which all subsidiaries are connected. These schemes optimise availability and flexibility in terms of liquidity management. The Group's liquidity trend is routinely monitored through monthly carry-forwards of liquidity forecasts from the most material units, as well as budgets and reporting by segment for major investments. Please also refer to 21E "Financial instruments – Liquidity risk".

Currency risk

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

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

According to policy, a part of anticipated new orders are also hedged (cash flow hedges). In this manner, the Group seeks to mitigate the effects of currency fluctuations on tenders submitted and on price lists. The Group's foreign currency policy is evaluated annually and presented to the Board for approval.

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

Note 21 B "Financial instruments – Foreign currency risk and the hedging of foreign currency" has more information.

Interest rate risk

As of 31 December 2016, KONGSBERG had six bond loans totalling MNOK 3,507 and an undrawn syndicated credit facility of MNOK 1,500. Otherwise the Group holds a bridging loan related to the acquisition of the shareholding in Patria Oyj for EUR 53 million. The bond loan KOG07, has a fixed interest rate, and an interest rate swap agreement from fixed to floating interest in relation to this loan, whilst the bond loan KOG09 has a fixed interest rate. The loans KOG06, KOG08 and KOG10 have a floating interest rate.

KONGSBERG has a policy of emphasising predictability for interest expenses at times when the interest level have a significant impact on consolidated profits. Each year, the funding plan is presented to the Board to consider the interest rate exposure. Note 21 D "Financial instruments – interest rate risk" has more information.

Credit/counterparty risk

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

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

Historically, the Group has had a relatively low percentage of bad debts. Kongsberg Defence Systems and Kongsberg Protech Systems mainly have government customers, and so have a low exposure to credit risk. Kongsberg Maritime generally serves customers from the private sector, and is more exposed to credit risk. Unrest in the global economy in general and the volatility in the shipyard and shipping industry in particular increases the credit risk in the markets addressed by Kongsberg Maritime. Kongsberg Maritime has made provisions to take this into account. Kongsberg Maritime has its own credit manual and dedicated employees to monitor and reduce the credit risk. Credit insurance is used only to a limited extent, but is considered in certain cases.

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

Note 20 "Receivables and credit risk" has more information.

Market risk arising from financial investments

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

Note 18 "Available-for-sale shares" has more information.

6. OPERATING SEGMENTS

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

Kongsberg Maritime develops and delivers systems for positioning, monitoring, navigation and automation for merchant marine and the offshore industry. The business area is a market leader in dynamic positioning, automation and surveillance systems, process automation, fisheries, satellite navigation and hydroacoustics, as well as back-deck handling equipment for use on offshore vessels. Countries with significant offshore and shipbuilding industries are important markets. At Kongsberg Maritime, 49 per cent of the operating revenue is within Offshore, 27 per cent within Subsea, 17 per cent within Merchant Marine and 7 per cent within Emerging Business.

Kongsberg Defence Systems is a leading supplier of defence and space-related systems and products. The business area supplies products and systems for command and control, remote weapon stations, monitoring, communications solutions and missiles. The business area has expertise and production equipment to make advanced composite and engineering products for the aircraft, offshore and helicopter markets. One key element of the market strategy is to form alliances with major international defence enterprises. For Kongsberg Defence Systems, 17 per cent of the operating revenues are related to Missile Systems, 40 per cent to Integrated Defence Systems, 17 per cent to Space and Surveillance, 16 per cent to Aero-structures and 10 per cent to Defence Communications.

Kongsberg Protech Systems is the world-leading supplier of remotely controlled weapon stations. The main product for the business area is the PROTECTOR Remote Weapon Station weapons control system. The system enhances safety for military personnel.

Restructuring between the business areas from 2016
In the years 2013–2016, Kongsberg Oil & Gas Technologies (KOGT) has reported as a separate operating segment. As of 2016, KONGSBERG has carried out a restructuring of the areas that previously were part of KOGT.

KOGT's area for oil and gas related engineering services is placed under the corresponding area in Kongsberg Maritime. KOGT's largest unit historically, Software & Services, is incorporated as an important part of the newly established Kongsberg Digital. As a result of this, KOGT ceased to be a separate business area from 2016 and will therefore no longer be an operating segment that is required to report. The remaining activity in KOGT is being phased out and has been transferred to "Other". In the restructuring process the simulation business in Kongsberg Maritime has been transferred to Kongsberg Digital. The comparison figures have been retrospectively changed both for the operating segment Kongsberg Maritime and for Others.

Other
The remainder of the Group's activities is included in the column "Other". These activities include income, expenses, assets, liabilities and other elements that are not assigned to the segments in an appropriate manner. This generally involves shareholder costs, certain overheads, effects on profit/loss related to property occupied by parties other than the Group's own units. In addition, Kongsberg Digital was established in 2016 and deals with the development of digitised products and services. The main focus in 2016 was building up the business, including development of the "Digital Platform".

Kongsberg Digital is provisionally of limited extent as regards the Group's activities and it does not, therefore, report as a separate operating segment.

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

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

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

Operating segment data

MNOK	*Kongsberg Maritime*	*Kongsberg Defence Systems*	*Kongsberg Protech Systems*	*Other*	*Elimina-tions*	*Consoli-dated*
2016						
Revenue from external customers	8 588	4 214	2 083	960	-	15 845
Revenue from group companies	9	122	13	478	(622)	-
Total revenues	**8 597**	**4 336**	**2 096**	**1 438**	**(622)**	**15 845**
Operating profit before depreciation and amortisation (EBITDA)	**280**	**801**	**126**	**10**	**-**	**1 217**
Depreciation	(178)	(137)	(37)	(13)	-	(360)
Impairment of property, plant and equipment	(7)	-	-	(15)	-	(22)
Operating profit before amortisation (EBITA)	**95**	**669**	**89**	**(18)**	**-**	**835**
Amortisation	(43)	(32)	(30)	(38)	-	(143)
Operating profit (EBIT)	**52**	**637**	**59**	**(56)**	**-**	**692**
Segment assets[1]	7 477	5 570	1 339	714	(202)	14 898
Segment investments[2]	364	372	149	24	-	909
Current segment liabilities and provisions[3]	2 711	3 125	711	540	(201)	6 886
2015						
Revenue from external customers	10 141	4 051	1 735	1105	-	17 032
Revenue from group companies	56	98	42	450	(646)	-
Total revenues	**10 197**	**4 149**	**1 777**	**1 555**	**(646)**	**17 032**
Operating profit before depreciation and amortisation (EBITDA)	**1 109**	**695**	**227**	**(247)**	**-**	**1 784**
Depreciation	(191)	(105)	(50)	(16)	-	(362)
Impairment of property, plant and equipment	(9)	-	-	(8)	-	(17)
Operating profit before amortisation (EBITA)	**909**	**590**	**177**	**(271)**	**-**	**1 405**
Amortisation	(48)	(30)	(33)	(50)	-	(161)
Impairment of intangible assets	-	-	-	(300)	-	(300)
Operating profit (EBIT)	**861**	**560**	**144**	**(621)**	**-**	**944**
Segment assets[1]	8 762	4 491	1 469	829	(222)	15 329
Segment investments[2]	292	179	25	14	-	510
Current segment liabilities and provisions[3]	3 539	3 181	442	484	(218)	7 428

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

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

Reconciliation of assets

MNOK	*2016*	*2015*
Segment assets	**14 898**	**15 329**
Available-for-sale shares [1]	35	233
Shares in joint arrangements and associated companies [2]	3174	366
Other non-current assets	229	106
Derivatives	332	284
Fair value adjustments related to financial instruments	640	996
Cash and cash equivalents	1 888	1 807
Total assets	**21 196**	**19 121**

1) Comparison figures are discussed in Note 18 "available for sale shares"
2) See Note 7 "Shares in joint arrangements and associated companies"

Reconciliation of current liabilities and provisions

MNOK	*2016*	*2015*
Current segment liabilities and provisions	**6 886**	**7 428**
Short-term interest-bearing debt	263	-
Derivatives	1 277	3 069
Fair value adjustments related to financial instruments	366	(49)
Calculated income tax payable	29	21
Total current liabilities and provisions	**8 821**	**10 469**

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

MNOK	*Norway*	*Europe*	*America*	*South America*	*Asia*	*Australia*	*Africa*	*Total*
2016								
Operating revenue from external customers	2 764	3 506	4 723	175	4 344	182	151	15 845
Operating revenues as % of the total revenue	17%	22%	30%	1%	27%	1%	1%	
Fixed assets [1]	4 091	125	871	22	360	-	-	5 469
2015								
Operating revenue from external customers	2 904	3 609	4 602	196	5 310	258	153	17 032
Operating revenue as % of the total revenue	17%	21%	27%	1%	31%	2%	1%	
Fixed assets [1]	3 860	140	837	24	334	1	-	5 196

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

7. SHARES IN JOINT ARRANGEMENTS AND ASSOCIATED COMPANIES

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

MNOK	*Registered office*	*Share*	*Net holding 1 Jan 16*	*Access in the period*	*Dividends received*	*Profit/loss in the period*[1)]	*Comprehensive income in the period*[2)]	*Net holding 31 Dec 16*
Patria Oyj	Helsinki, Finland	49.9%	-	2 664	-	143	(118)	2 689
Kongsberg Satellite Services AS	Tromsø, Norway	50.0%	317	-	(60)	75	-	332
Other			49	100	(8)	12	-	153
Total			**366**	**2 764**	**(68)**	**230**	**(118)**	**3 174**

1) The results from companies that are separate tax entities, such as private limited companies, are adopted after tax.
2) Comprehensive income is mainly exchange differences. Parts of the investment in Patria are hedged in basic swaps. See note 21B "Financial instruments - foreign currency and hedging foreign currency".

Acquisition of shares in Patria Oyj
On 24 May 2016, KONGSBERG (KDS) bought 49.9 per cent of the shares in Patria Oyj for a transaction price of MNOK 2,664.

In assessing whether KONGSBERG has a significant influence in Patria, emphasis is placed on KONGSBERG's ownership and right to representation on the board of the company.

Balance figures Patria Oyj

MNOK (100%)	*24 May 16*	*31 Dec 16*
Current assets	2 123	1 945
Fixed assets	2 582	2 525
Current liabilities	(2 337)	(1 542)
Non-current liabilities	(276)	(699)
Net assets incl. minority interests	**2 092**	**2 229**

Preliminary excess value allocation

MNOK	*24 May 16*	*31 Dec 16*
KONGSBERG's share of net assets [1)]	978	1 090
Goodwill	1 458	1 417
Deferred tax liability	(57)	(46)
Order backlog	149	104
Technology	136	124
Carrying amount of KONGSBERG's share in Patria Oyj	**2 664**	**2 689**

1) KONGSBERG's share is 49.9 per cent of the net assets, with deduction for minority interests in Patria Oyj.

Income in the ownership period

	24 May 16–31 Dec 16	
	MEUR	*MNOK*
Earnings after tax in Patria (100%)	44	
Minority interests	(5)	
Earnings after tax in Patria (100%), majority	39	368
KONGSBERG's share (49.9%)		184
Amortisation of added value after tax		(40)
Share of net income in the period		**143**

Acquisition of shares in eSmart Systems AS
On 13 December 2016, KONGSBERG (KDI) bought 34.19 per cent of the shares in eSmart Systems AS for a transaction price of MNOK 100. The investment is included in "Other" in the specification of the balance line "Shares in joint arrangements and associated companies 1 Jan – 31 Dec"

Preliminary excess value allocation

MNOK	*13 Dec 16*	*31 Dec 16*
KONGSBERG's share of net assets (34.9 per cent)	45	45
Goodwill	54	54
Deferred tax liability	(1)	(1)
Technology	2	2
Carrying amount of KONGSBERG's share in eSmart Systems AS	**100**	**100**

8. CONSTRUCTION CONTRACTS IN PROGRESS

A significant part of the Group's operations is development and manufacture of products and systems on the basis of orders received. For recognition and classification of construction contracts please refer to Note 3C "Income recognition – Construction contracts/system deliveries".

Projects in progress in the table below are the net amount of accumulated earned operating revenues minus accumulated invoicing for all ongoing construction contracts where the accumulated operating revenues exceed the cumulative invoicing. Prepayments from customers are the net amount of the accumulated earned operating revenues minus the cumulative cash receipts from the customer for all ongoing construction contracts where payments exceed the accumulated operating revenues. Project accruals are the net amount of costs incurred according to the project completion rate minus the accumulated costs charged to the construction contract.

Financial position

MNOK	*31 Dec 16*	*31 Dec 15*
Projects in progress [1)]	3 215	4 434
Prepayments received from customers	(2 150)	(3 365)
Project accruals assets	977	1 079
Project accruals liability	(2 841)	(1 949)
Net construction contracts in progress	**(799)**	**199**

MNOK	*31 Dec 16*	*31 Dec 15*
Construction contracts in progress, asset [1)]	2 049	2 935
Construction contracts in progress, liability	(2 848)	(2 736)
Net construction contracts in progress	**(799)**	**199**

1) There has been a reclassification between the lines "Inventory" and "Construction contracts in progress, asset". Comparable figures from 31 December 2015 in this context have been changed due to an increase of MNOK 461 on the line "Work in progress". "Construction contracts in progress, asset" is reduced accordingly. See also Note 9 "Provisions".

The Group has construction contracts in all business areas, but to the greatest extent in Kongsberg Maritime and Kongsberg Defence Systems. In the business are Kongsberg Maritime, the majority of projects are of shorter duration than two years, and the revenue of the individual projects comprises a limited share of the total revenues. At Kongsberg Defence Systems the projects are of longer duration and total revenues from the individual projects comprise a substantial amount in relation to the Group's total revenues.

Summary of significant contract data

MNOK	*2016*	*2015*
Total orders in progress in the period	46 707	50 175
Operating revenues for the year	9 320	10 369
Accumulated operating revenues	35 434	36 644
Accumulated variable costs	26 730	27 254
Remaining operating revenues	11 273	13 531
Prepayments received from customers	2 150	3 365
Remaining variable cost of loss-making projects	78	69

Estimated uncertainty connected to the recognition of construction contracts
Recognition of the contracts takes place in line with the calculated progress. Progress of completion is normally calculated on the basis of costs incurred compared to total expected costs or incurred hours measured against the expected time consumption. See also Note 3C "Income recognition – Construction contracts/system deliveries". Contract income is agreed, and expected total costs are estimated, based on a combination of experience-based estimates, systematic estimation procedures and follow-up of efficiency metrics and good judgement. Normally, a large share of the total costs will be the number of hours remaining that employees must use to develop or complete the project. The uncertainty in the estimates is affected by the project's duration and technical complexity. Principles have been established for categorising projects in terms of technological complexity and degree of development. This forms the basis for an assessment of risk and recognition of revenue in the projects. The projects are evaluated at least every quarter.

9. INVENTORIES

The Group's total inventories include the following:

MNOK	*31 Dec 16*	*31 Dec 15*
Raw materials	2 318	2 297
Work in progress [1]	1 239	923
Finished products	1 109	916
Total	**4 666**	**4 136**
Recognised changes in value for inventories		
Impairment of inventories in the financial year	166	41
Reversal of previous years' impairment	-	(7)
Year's total cost of goods amounts to	**5 949**	**5 983**

Impairment of inventories in the financial year relate primarily to the business area Kongsberg Maritime, and are a consequence of a declining market within the offshore sector.

1) There has been a reclassification between the lines "Inventory" and "Construction contracts in progress, asset". Comparable figures from 31 December 2015 in this context have been changed due to an increase of MNOK 461 on the line "Work in progress". "Construction contracts in progress, asset" is reduced accordingly. See also Note 8 "Construction contracts in progress".

Estimation uncertainty
Inventories are measured at the lowest of acquisition cost and net realisable value. Judgement is used when assessing net sales value. Market conditions and technical condition are taken into consideration, amongst other things, for the assessments.

10. PERSONNEL EXPENSES

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

MNOK	*Note*	*2016*	*2015*
Salaries		4 623	4 699
Performance-based salary	29	26	26
Social security expenses		876	916
Pension expenses, defined benefit plans [1]	11	67	(14)
Pension expenses, defined contribution pension schemes	11	349	332
Other benefits		195	233
Total personnel expenses		**6 137**	**6 192**
Average no. of FTEs (full-time employees)		7 299	7 589

1) In 2015 the Group had a recognised income connected with the discontinuation of the policy earnings on disability pension of MNOK 168, including employers' social security tax.

11. PENSIONS

KONGSBERG has a service pension plan that complies with legislation, and consists of a defined contribution plan and a closed defined benefit plan. The service pension plans include all employees of the Group in Norway. As at 31 December 2016, there are approximately 4,680 employees in Norway who are covered by the plan. KONGSBERG endeavours to ensure that as many of its employees as possible outside Norway are also covered by service pension plans.

The defined contribution pension scheme (ITP)
The Group introduced a defined contribution pension scheme for all employees under the age of 52 as of 1 January 2008. The contribution rates are 0 per cent of salary up to 1G, 5 per cent of salary between 1G and 6G, and 8 per cent of salary from 6G up to 12G. The employees can influence the way the funds are managed by choosing between three investment options; with either 30, 50 or 80 per cent of their shares in the portfolio. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The Group's deposits in this plan is 18 per cent of the portion of the base salary that exceeds 12G, up to a ceiling of 15G. Special terms and conditions apply for executives. This is described in Note 28 "Statement on the remuneration of the Group CEO and Executive Management". The unfunded scheme has been closed to new members since 2015. The supplementary plan has the same investment choices as the main plan. KONGSBERG's companies abroad generally have defined contribution plans. As at 31 December 2016, approximately 4,370 employees in Norway and the majority of the employees abroad were covered by these plans. The contributions are expensed as incurred. The contribution rates as of 1 January 2017 have been changed, see note 28.

The defined benefit plan (YTP)
In connection with the transition to the defined contribution plan on 1 January 2008, employees aged 52 or more remained in the defined benefit plan. The pension plan is insured through DNB Life Insurance. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. Pension costs are distributed over the employee's accrual period. Given a calculated state pension based on the Norwegian National Insurance Scheme's

rules before 1 January 2011 and full earning, the scheme provides approx. 65 per cent of the final salary including National Insurance benefits until the age of 77, after which the service pension section is reduced by 50 per cent for the remaining lifetime. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The collective, unfunded benefits plan corresponds to about 60 per cent of the share of salary that exceeds 12G until the age of 77, and then the benefit is reduced by 50 per cent for the remaining lifetime. Special terms and conditions apply for executives. This is described in Note 28 "Statement on the remuneration of the Group CEO and Executive Management". These supplementary plans were discontinued in connection with the transition to defined contribution pension schemes.

Risk coverage

Disability pension from the Group was changed on 1 January 2016 and will provide an addition to the estimated disability benefits from national insurance. National insurance will cover 66 per cent of the pension basis up to 6G, while the Group plan covers 66 per cent of the pension basis between 6G and 12G. The Group plan also provides an additional 3 per cent of the pension basis from 0G to 12G, a pay increase of 25 per cent of G and any child supplement of 4 per cent per child (maximum 3 children). From 1 January 2016, KONGSBERG has decided to terminate the paid-up policy accrual for disability pensions as part of the adaptation to the new regulations. The employees have been issued individual paid-up policies for the already earned paid-up policy rights. The new scheme is a one-year risk cover and the premiums will be expensed as they accrue. From 1 January 2013 the risk pensions are unfunded for the share of salary that exceeds 12G. In practice this implies that KONGSBERG is self-insurer for the risk pension for future periods. The unfunded scheme has been closed for new members since 2015.

Early retirement

In 2009, the Group introduced new rules for early retirement for newly hired members of executive management and others in certain key positions. The rules entail early retirement from the age of 65 at the latest, but with reciprocal rights for the Group and the employees to request retirement from the age of 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 contribution years. If the employee resigns between 63 and 65, this will reduce pension earnings for other plans.

The Group decided not to continue the scheme with early retirement agreements for executives employed after 1 July 2013. This also applied to employees in certain key positions who previously were offered agreements on early retirement. These individuals instead receive an additional contribution of 12 per cent of the basic salary in excess of 12G to the unfunded pension scheme as long as they hold the post, but only until the age of 65 at the latest. After an overall assessment of the State's ownership report, the Group decided on 1 October 2015 not offer any early retirement options.

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

	31 Dec 16	*31 Dec 15*
Economic assumptions		
Discount rate	2.50%	2.60%
Asset return	2.50%	2.60%
Wage adjustment	1.50%	1.75%
Pension base level (G) adjustment	2.00%	2.25%
Pension adjustment	1.00%	1.50%
Demographic assumptions		
Mortality	K 2013	K 2013
Disability	IR 73	IR 73
Voluntary turnover	4.5% for all ages	4.5% for all ages

The pension calculations are based on mortality table K2013. The reason is an increased life expectancy which will lead to higher pension obligations. IR 73 concerns tables for expected disability. The mortality and disability risks are based on public tables and observations of disabilities at KONGSBERG. The probability that an employee in a given age group will become disabled or die within one year, and the life expectancy is as follows:

	Disability%		Mortality%		Estimate life	
Age	*Men*	*Women*	*Men*	*Women*	*Men*	*Women*
20	0.1	0.2	<0.1	<0.1	89	94
40	0.3	0.4	0.1	<0.1	88	92
60	1.4	1.8	0.4	0.3	87	90
80	-	-	4.4	3.0	90	92

The disability rate in IR 73 was chosen because it offers the best approach to KONGSBERG's disability statistics.
This is based on KONGSBERG's history in which approx. 25 per cent of the disability pension is reimbursed through an international pool.

The year's pension costs were calculated as follows:

MNOK	*2016*	*2015*
Present value of the year's earned pensions	50	117
Interest cost on accrued pension liabilities	49	56
Estimated return on pension plan assets	(38)	(40)
Administration costs	14	16
Accrued social security expenses	11	21
Total	**86**	**170**
Settlement pension scheme incl. social security costs.	(8)	(168)
Total net pension costs for the year including finance items	**78**	**2**
Adjusted for net interest classified as finance expense	(11)	(16)
Total net pension costs for the year	**67**	**(14)**
Costs of defined contribution plans in Norway	309	297
Defined contribution pension scheme costs abroad	40	35

Net interests costs are classified as finance expenses.

Change in net pension liabilities recognised on the balance sheet

	2016			2015		
MNOK	*Funded*	*Unfunded*	*Total*	*Funded*	*Unfunded*	*Total*
Changes in gross pension liabilities						
Gross pension liabilities at 1 January	1 756	247	2 003	2 371	265	2 636
Present value of current year's contribution	35	15	50	101	16	117
Interest expenses on pension liabilities	43	6	49	51	5	56
Actuarial losses/gains	(1)	5	4	(192)	(19)	(211)
Settlement of pension scheme	(2)	(5)	(7)	(147)	-	(147)
Plan change	(11)	-	(11)	(295)	-	(295)
Payments of pensions/paid-up policies	(99)	(27)	(126)	(83)	(18)	(101)
Net change in social security expenses	(3)	(1)	(4)	(50)	(2)	(52)
Gross pension liabilities at 31 December	**1 718**	**240**	**1 958**	**1 756**	**247**	**2 003**
Changes in gross pension fund assets						
Fair value pension plan assets 1 January	1 506	-	1 506	1 721	-	1 721
Expected return on pension funds	38	-	38	40	-	40
Actuarial losses/gains	22	-	22	11	-	11
Premium payments	49	-	49	128	-	128
Fund transferred from YTP to ITP	(6)	-	(6)	-	-	-
Plan change	(11)	-	(11)	(295)	-	(295)
Payments of pensions/paid-up policies	(107)	-	(107)	(99)	-	(99)
Fair value, pension plan assets 31 December	**1 491**	**-**	**1 491**	**1 506**	**-**	**1 506**
Net capitalised pension liabilities at 31 December	**(227)**	**(240)**	**(467)**	**(250)**	**(247)**	**(497)**

The distribution of pension plan assets by investment categories at 31 Dec 16 and in previous periods:

MNOK	*2016*	*2015*	*2014*	*2013*	*2012*
Long-term bonds	436	492	599	576	559
Loans and receivables	314	271	-	-	-
Money market	377	366	386	403	357
Short-term bonds	180	98	248	264	248
Shares	77	125	194	139	93
Property	96	149	258	227	264
Other	11	5	36	22	31
Total	**1 491**	**1 506**	**1 721**	**1 631**	**1 552**
Recognised return on pension plan assets	**3.6%**	**4.5%**	**5.4%**	**4.4%**	**5.6%**

The secured pension scheme is insured in DNB Liv, and the Group's pension funds are thereby regulated by an insurance policy. The insurance policy cannot be traded, and the value is determined in accordance with the legislation on insurance businesses. The insurance has an interest guarantee, implying that DNB Liv carries the risk for the return on the pension funds.

MNOK	*2016*	*2015*	*2014*	*2013*	*2012*
Net liabilities at 1 January	(497)	(915)	(757)	(532)	(460)
Recognised pension cost	(75)	(149)	(144)	(138)	(96)
Settlement pension scheme/gift pension	7	147	(10)	-	(13)
Premium payments	49	128	135	127	141
Disbursements	27	18	22	30	27
Purchase/sale	-	-	-	(6)	-
Transition to the equity method	-	-	7	-	-
Actuarial losses/gains	18	222	(147)	(209)	(122)
Net change in social security expenses	4	52	(21)	(29)	(9)
Net capitalised pension liabilities at 31 December	**(467)**	**(497)**	**(915)**	**(757)**	**(532)**

Actuarial loss/gain is recognised in the statement of comprehensive income by MNOK 21 incl. social security expense.

Historical information

MNOK	*2016*	*2015*	*2014*	*2013*	*2012*
Gross pension liabilities at 31 December	1 958	2 003	2 636	2 388	2 084
Fair value, pension plan assets 31 December	1 491	1 506	1 721	1 631	1 552
Net pension liabilities 31 December	**(467)**	**(497)**	**(915)**	**(757)**	**(532)**
Actuarial gains/losses pension liabilities 31 December	4	(211)	160	162	76
Actuarial gains/losses pension assets 31 December	22	11	13	(47)	(46)
Accumulated estimated gains/losses recognised in the statement of comprehensive income after tax	**(1 316)**	**(1 331)**	**(1 521)**	**(1 399)**	**(1 227)**
Of which constitute experience deviations	(943)	(898)	(1 002)	(1 056)	(1 076)

Contractual early retirement plan

The Group's general contractual early retirement plan gives a life-long supplement to the ordinary pension. Employees can choose to draw on the new plan from the age of 62, even if they continue to work. The new plan is a defined benefit multi-employer pension plan, and it is funded through premiums established as a percentage of wages. For the moment, there is no reliable measurement or allocation of liabilities and funding as regards the plan. For accounting purposes, the scheme is therefore considered to be a defined contribution pension scheme in which premium payments are expensed on an ongoing basis, and no provisions are made in the financial statements. A premium is paid to the new plan of the total payments made between 1G and 7.1G to the Group's employees. For 2016, the premium was 2.5 per cent, and the same rate is set for 2017 (estimated at MNOK 79). There is no accumulation of capital in the plan and further increases in the premium level are expected over the coming years.

Other

Pension expenses for the year are calculated on the basis of the financial and actuarial assumptions that apply at the beginning of the year. Gross pension liabilities are based on the financial and actuarial assumptions made at the end of the year. The gross value of pension fund assets is calculated on the assumption that there will be an annual return of 2.5 per cent, being the expectation on 31 December 16. The value adjusted return on investments was 3.5 per cent, but will not be included in the capitalised assets until 2017.

The premium payments for the closed defined benefit plan for 2017 are expected to be approximately MNOK 50. Pension benefits depend on the number of years of service and salary level when reaching retirement age. Net pension liabilities are determined on the basis of actuarial estimates made on assumptions related to the discount rate, future wage growth, pension adjustments, projected return on pension fund assets and employee turnover. These assumptions are updated annually. The discount rate is stipulated on the basis of the covered bond interest rate, which reflects the time frame for paying out on the pension liabilities for the benefit plan. In KONGSBERG's opinion, the market for covered bonds is sufficiently deep and shows reliable pricing. The pension liability would have been approx. 10 per cent higher using a government bond rate of 1.5 per cent, all other factors held constant. Pension adjustments are now calculated after adjustment for inflation compared to minimum adjustments in previous years. The pension liability would have been approx. 6 per cent lower using minimum adjustment, all other factors held constant.

The balance sheet shows net pension liabilities including social security.

"Flexible retirement" affects employees who continue to work even if they take out a pension, or employees who retire before the normal retirement age. Since 2011 it has been possible to receive a pension on a more flexible basis. Accumulated, these "flexible pensioners" constitute approximately MNOK 70 excluding employers' social security tax. Obligation is recognised in gross pension liabilities and other comprehensive income.

Expected pension payments:

MNOK	
2017	104
2018	109
2019	109
2020	114
2021	116
Next 5 years	612

Sensitivity analysis of pension calculations

The following estimates are based on facts and circumstances that applied at 31 Dec 16, provided that all other parameters are constant. Actual results may deviate significantly from these estimates.

	Discount rate		Annual salary growth		Annual basic amount	
Changes in % are percentage points	*1%*	*(1%)*	*1%*	*(1%)*	*1%*	*(1%)*
Change in pension						
Defined benefit obligation (PBO)	(9%)	10%	2%	(2%)	(1%)	1%
Net pension cost for the period	(9%)	11%	7%	(6%)	(3%)	3%

	Annual adjustment of pensions		Resignation rate		Mortality	
Changes in % are percentage points	*1%*	*(1%)*	*1%*	*(1%)*	*1 year lower expected lifetime at age 67*	*1 year increased lifetime at age 67*
Change in pension						
Defined benefit obligation (PBO)	9%	(8%)	(0.2%)	0.2%	(3%)	3%
Net pension cost for the period	7%	(6%)	(0.5%)	0.7%	(2%)	2%

When calculating the sensitivity for mortality, we adjust K2013 so that the life expectancy for a 67 year old is increased by 1 year and reduced by 1 year, respectively. This is relevant for life expectancy for a 67 year old in 2016 according to the mortality table K2013.

12. PROPERTY, PLANT AND EQUIPMENT

MNOK	*Land*	*Buildings and other fixed property*	*Machinery and plant*	*Equipment and vehicles*	*Plant in progress*	*Total*
Acquisition cost						
1 Jan 15	230	1 806	1 304	1 819	120	5 279
Additions through business combinations	-	-	-	5	-	5
Additions	-	153	80	144	(14)	363
Disposals	-	(15)	(23)	(173)	-	(211)
Translation differences	8	70	39	53	9	179
Acquisition cost 31 Dec 15	**238**	**2 014**	**1 400**	**1 848**	**115**	**5 615**
Additions	5	204	106	190	136	641
Disposals	(12)	(26)	(38)	(64)	-	(140)
Translation differences	(2)	(33)	(46)	(24)	(1)	(106)
Acquisition cost 31 Dec 16	**229**	**2 159**	**1 422**	**1 950**	**250**	**6 010**
Accumulated depreciation and impairment						
1 Jan 15	**-**	**742**	**643**	**1 410**	**5**	**2 800**
Adjustment of opening balance 1 Jan 15	-	-	8	(6)	-	2
Depreciation for the year	-	90	111	161	-	362
Impairment for the year	-	2	13	2	-	17
Accumulated depreciation through disposal	-	(9)	(18)	(170)	-	(197)
Translation differences	-	23	24	41	1	89
Total accumulated depreciation and impairment 31 Dec 15	**-**	**848**	**781**	**1 438**	**6**	**3 073**
Depreciation for the year	-	91	114	155	-	360
Impairment for the year	-	6	10	6	-	22
Accumulated depreciation through disposal	-	(14)	(34)	(58)	-	(106)
Translation differences	-	(9)	(32)	(21)	-	(62)
Total accumulated depreciation and impairment 31 Dec 2016	**-**	**922**	**839**	**1520**	**6**	**3 287**
Carrying amount 31 Dec 15	**238**	**1 166**	**619**	**410**	**109**	**2 542**
Carrying amount 31 Dec 16	**229**	**1 237**	**583**	**430**	**244**	**2 723**
Useful life	N/A	10–33 years	3-10 years	3-10 years		
Annual rent paid for off-balance sheet property, plant and equipment	-	234	3	4		241

Estimation uncertainty

For property, plant and equipment, there is estimation uncertainty with regards to the determination of estimated remaining useful life and expected residual value. These factors are assessed annually.

13. INTANGIBLE ASSETS

MNOK	*Goodwill*	*Technology*	*Capitalised development*	*Other intangible assets*	*Total*
Acquisition cost					
1 Jan 15	2 808	782	704	100	4 394
Additions through business combinations	37	-	-	-	37
Additions	-	-	103	2	105
Disposals	-	-	-	(4)	(4)
Translation differences	80	43	-	5	128
Acquisition cost 31 Dec 15	**2 925**	**825**	**807**	**100**	**4 657**
Additions	2	-	263	3	268
Disposals	(4)	(152)	(118)	-	(274)
Translation differences	(14)	(11)	-	(3)	(28)
Acquisition cost 31 Dec 16	**2 909**	**662**	**952**	**100**	**4 623**
Accumulated amortisation and impairment					
1 Jan 15	720	492	236	64	1 512
Amortisation	-	83	64	14	161
Impairment	192	88	20	-	300
Disposals	-	-	-	(4)	(4)
Translation differences	1	31	-	-	32
Total accumulated amortisation 31 Dec 15	**913**	**694**	**320**	**74**	**2 001**
Amortisation	-	59	68	13	140
Impairment	-	2	1	-	3
Disposals	-	(152)	(103)	-	(255)
Translation differences	(2)	(8)	-	(2)	(12)
Total accumulated amortisation and impairment 31 Dec 16	**911**	**595**	**286**	**85**	**1 877**
					-
Carrying amount 31 Dec 15	**2 012**	**131**	**487**	**26**	**2 656**
Carrying amount 31 Dec 16	**1 998**	**67**	**666**	**15**	**2 746**
Useful life		**8-10 years**	**5 years**	**8-10 years**	
Remaining useful life		**1-7 years**	**2-5 years**	**3-9 years**	

With the exception of goodwill, which cannot be amortised, the amortisation of intangible assets is linear with the useful lifespan. The amortisation starts when the intangible asset is available for use.

Product maintenance, research and development recognised in profit and loss

	2016			2015		
MNOK	*product maintenance*	*Research and development costs*	*Total*	*product maintenance*	*Research and development costs*	*Total*
Kongsberg Maritime	167	587	754	209	582	791
Kongsberg Defence Systems	12	82	94	12	87	99
Kongsberg Protech Systems	32	12	44	31	28	59
Other	3	112	115	10	48	58
Total	**214**	**793**	**1 007**	**262**	**745**	**1 007**

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

Internally financed development projects at Kongsberg Maritime mainly contain many projects with limited total scope and, to a great extent, the development of existing technology. Many of these development projects are not considered to be eligible for capitalisation. Several of the projects also entail considerable uncertainty about whether they are technologically feasible and how the final solution will turn out. Normally, the criteria for capitalisation will not be satisfied until fairly late in the development project.

In 2016, Kongsberg Maritime capitalised costs for the development of Kongsberg Information Management Systems. The development of this system will be continued throughout 2017.

At Kongsberg Defence Systems, current capitalisations are related to the development of communications systems and to KONGSBERG's share of the development of Joint Strike Missile. In addition, in 2016 the business area continued to activate development of the technology associated with remotely-controlled control towers.

In 2016, Kongsberg Protech Systems has seen considerable activity in the further development of the concept of medium calibre turrets (MCT-30).

Estimation uncertainty
Capitalised development costs are amortised according to the estimated lifetime. Estimated lifetime may change over time. This is considered annually, and the amortisation is adjusted when considered necessary. When testing the value of capitalised development costs, the Group applies the same principles and methods as used for impairment testing. Regarding estimate uncertainty associated with this matter, see Note 14 "Impairment testing of goodwill".

14. IMPAIRMENT TESTING OF GOODWILL

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

Goodwill is allocated to the operating segments as follows:

MNOK	*31 Dec 16*	*31 Dec 15*
Kongsberg Maritime	1 740	1 695
Kongsberg Defence Systems	172	173
Other[1)]	86	144
Total goodwill in balance sheet	**1 998**	**2 012**

1) Goodwill from others is, in 2016, connected to Kongsberg Digital AS. Kongsberg Oil & Gas Technologies apply for 2015, which until 31 December 2015, was a separate business area

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

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

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

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

Profit margin (EBITDA)
The future profit margin is based on an assessment of the different cash flow-generating devices. The historical level has been used for Kongsberg Maritime and Kongsberg Defence Systems, adjusted for future expectations. Weak growth is envisaged for Kongsberg Maritime due to persistent poor market conditions in the offshore oil and gas market.

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

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

Key assumptions per cash flow-generating unit

Per cent	*Kongsberg Maritime*	*Kongsberg Defence Systems*	*Other*
Discount rate before tax	12.4	9.3	12.0
Discount rate after tax	9.8	7.8	9.8
Long-term nominal growth rate	1.5	1.5	1.5
Inflation	1.5	1.5	1.5

Sensitivity analysis
In connection with impairment tests of goodwill, sensitivity analyses are carried out for each individual cash generating unit.

For both Kongsberg Maritime and Kongsberg Defence Systems, there will not be an impairment situation before relatively large changes in the key assumptions, and these changes are considered to be outside the probable outcome.

Estimation uncertainty
There will always be uncertainty related to the estimate of value in use. The assessments are based on key assumptions as described above, and are to a large degree influenced by market data for comparable companies, interest rates and other risk conditions. These calculations are based on discounted future cash flows, in which judgement was used as regards future profit and operation.

Significant changes in the cash flows will affect the value of goodwill.

15. FINANCIAL INCOME AND FINANCIAL EXPENSES

MNOK		*2016*	*2015*
Interest income from assets at amortised cost		23	31
Derivatives at fair value through profit and loss		-	9
Foreign exchange gain		18	58
Profit from sale of shares	18	143	-
Other finance income		13	11
Financial income		**197**	**109**
Interest expense from liabilities at amortised cost		63	24
Derivatives at fair value through profit and loss		18	9
Foreign exchange loss		28	38
Discounts of non-current provisions		2	3
Other financial expenses		48	35
Financial expenses		**160**	**109**
Net finance item recognised in income statement		**37**	**-**

16. INCOME TAX

Income tax expense

MNOK	*2016*	*2015*
Tax payable Norway	-	-
Tax payable abroad	119	129
Change in deferred tax	(41)	60
Income tax expense	**78**	**189**

Reconciliation from nominal to effective tax rate

MNOK	*2016*	*2015*
Profit before tax	**729**	**944**
Share of net income from joint arrangements and associated companies	(230)	(87)
Profit before tax excluding joint arrangements and associated companies	**499**	**857**
Tax calculated at tax rate 25% (27%) of profit before tax	125	231
Effect of reducing the tax rate to 24% (25%)	(55)	(114)
Effect of tax differences and unrecognised tax benefits abroad	59	14
Impaired goodwill	-	52
Sale of shares	(49)	-
Other permanent differences	(2)	6
Income tax expense	**78**	**189**
Effective tax rate	15.6%	22.1%

Construction contracts are based on the assumption that tax wise, revenue recognition will occur when the responsibility and risk has been transferred to the customer. This has no effect on the tax expense in the income statement, but as a consequence, tax payable will fluctuate over time.

As a result of the major differences between the accounting and tax-related profits, the approved changes in the tax rate from 25 per cent to 24 per cent from 2017 will cause a reduction in this year's tax costs of MNOK 55.

Deferred tax asset and deferred tax liability

MNOK	*31 Dec 16*	*31 Dec 15*
Deferred tax assets		
Pensions	112	124
Provisions	86	87
Derivatives	306	767
Accumulated tax loss to carry forward	234	316
Deferred tax assets - gross	**738**	**1 294**
Deferred tax liability		
Fixed assets	215	216
Construction contracts in progress	1 617	1 990
Derivatives	80	71
Deferred tax liabilities - gross	**1 912**	**2 277**
Net recognised deferred tax liabilities	**(1 174)**	**(983)**
Tax rate in Norway	24%	25%

Change in deferred tax recognised in other comprehensive income

MNOK	*31 Dec 16*	*31 Dec 15*
Pensions	5	69
Cash flow hedges	273	(80)
Total	**278**	**(11)**
Access deferred tax assets on acquisition	(20)	-
Expected tax deduction abroad, not offset	(26)	-

The tax impact related to a change in tax rate from 25 per cent to 24 per cent as of 2017 will give a reduction of MNOK 7 relating to cash flow hedges and is included in comprehensive income.

Payments of dividends to the parent company's shareholders have no impact on the Group's payable or deferred tax.

17. EARNINGS PER SHARE

MNOK	*2016*	*2015*
Profit for the year attributable to the shareholders		
Profit after tax	651	755
Non-controlling interests' share of the result	(2)	8
Profit for the year/diluted profit attributable to the ordinary shareholders	**653**	**747**

Number of shares	*Note*	*2016*	*2015*
Average weighted number of shares outstanding at 1 January	22	120	120
Average weighted number of shares at 31 December		**120**	**120**

NOK	*2016*	*2015*
Profit for the year per share	5.44	6.23
Earnings per share for the year, diluted	5.44	6.23

18. AVAILABLE-FOR-SALE SHARES

Available-for-sale shares

MNOK	*31 Dec 16*	*31 Dec 15*
Quoted shares	-	202
Other shares	35	31
Available-for-sale shares	**35**	**233**

Shares available for sale are measured at fair value, and changes to the fair value, not including impairment losses, are recognised in the comprehensive income. Significant and permanent impairment losses for the shares are recognised in the profit for the year.

Shares in listed companies as at 31 December 2015 entail shares in Kitron ASA and KBC Advanced Technologies PLC. KONGSBERG sold its shares in Kitron ASA and Navico in 2016, with a recognised profit of MNOK 104 and MNOK 39 respectively, which is included in other financial income. The shares in KBC Advanced Technologies PLC were also sold with a recognised profit of MNOK 54, which is included as operating income. The comprehensive income in 2016 connected to shares available for sale, minus MNOK 104, is added value on shares in Kitron and KBC Advanced Technologies 1 January 2016, which were realised in 2016.

19. OTHER NON-CURRENT ASSETS

MNOK	*31 Dec 16*	*31 Dec 15*
Loans to employees	21	32
Sales credit, property sales	37	37
Prepaid land rental	14	16
Long-term loans to customers	139	-
Other non-current assets	18	21
Total other non-current assets	**229**	**106**

20. RECEIVABLES AND CREDIT RISK

MNOK	*31 Dec 16*	*31 Dec 15*
Gross receivables	2 670	3 205
Provision for bad debts	(234)	(167)
Net accounts receivable	**2 436**	**3 038**
Other receivables	536	586
Prepayments to suppliers	382	432
Net receivables	**3 354**	**4 056**

Credit risk

Exposure to credit risk

For an explanation of KONGSBERG's credit risk and its handling, see Note 5 – Management of capital and financial risk.
Carrying value of financial assets represents the maximum credit exposure:

MNOK	*Note*	*31 Dec 16*	*31 Dec 15*
Gross receivables		2 670	3 205
Gross other short-term receivables		918	1018
Other non-current assets	19	229	106
Cash and cash equivalents	22	1 888	1 807
Forward contracts and interest rate swaps are used as currency hedging	21A	332	284
Total exposure to credit risk		**6 037**	**6 420**

Gross receivables distributed by region

MNOK	*31 Dec 16*	*31 Dec 15*
Norway	234	337
EU	303	411
Rest of Europe	66	149
North America	1 436	1 493
South America	24	68
Asia	438	631
Other countries	169	116
Total	**2 670**	**3 205**

Gross receivables distributed by customer type

MNOK	*31 Dec 16*	*31 Dec 15*
Public institutions	434	550
Private companies	2 236	2 655
Total	**2 670**	**3 205**

Age-distributed receivables and provisions for losses on accounts receivable

	31 Dec 16		**31 Dec 15**	
MNOK	*Gross*	*Provision for bad debts*	*Gross*	*Provision for bad debts*
Not due	1 359	(1)	1 688	(5)
Due 1–30 days	415	(5)	683	(4)
Due 31-90 days	414	(14)	322	(6)
Due 91-180 days	195	(21)	271	(3)
Due more than 180 days	287	(193)	241	(149)
Total	**2 670**	**(234)**	**3 205**	**(167)**

Changes in provision for receivables

MNOK	*2016*	*2015*
Provision 1 Jan	(167)	(142)
Actual losses	6	19
Allocation	(95)	(48)
Dissolved	22	4
Provision 31 Dec	**(234)**	**(167)**

Estimation uncertainty

The provision for bad debts is determined by an assessment of the probability of loss on a receivable or a group of receivables. Judgement and assumptions that can change over time are applied for the assessments. The provision for bad debts is, to a large degree, influenced by the market situation and the financial standing of the counter party.

21. FINANCIAL INSTRUMENTS

For definitions of financial instruments, please see Note 3J "Financial instruments".

A) Derivatives

MNOK	*Note*	*31 Dec 16*	*31 Dec 15*
Current assets			
Forward exchange contracts, cash flow hedging	21C	37	7
Forward exchange contracts, fair value hedges		246	248
Interest rate swaps, fair value hedges	21D	13	19
Fair value basis swaps		29	-
Loan hedges		7	10
Total derivatives, current asset		**332**	**284**
Current liabilities			
Forward exchange contracts, cash flow hedging		181	1 146
Foreign currency options		-	13
Interest rate swaps, cash flow hedging	21D	4	9
Forward exchange contracts, fair value hedges		1 078	1 891
Fair value basis swaps		14	-
Loan hedges		-	10
Total derivatives, current liabilities		**1 277**	**3 069**

B) Currency risk and hedging of currency

For an explanation of KONGSBERG's credit risk and its handling of this risk, see Note 5 – Management of capital and financial risk. KONGSBERG's exposure to currency risks related to capitalised accounts receivable and payable in US dollars (USD) and Euro (EUR), based on the nominal amount was, at year-end:

	31 Dec 16		31 Dec 15	
Amounts in mill.	*USD*	*EUR*	*USD*	*EUR*
Accounts receivable [1)]	417	30	539	35
Accounts payable	(24)	(11)	(27)	(14)
Net balance exposure	**393**	**19**	**512**	**21**
Volume forward exchange contracts, fair value hedges [2)]	841	182	1 038	106

1) Accounts receivable shows KONGSBERG's gross exposure in USD and EUR. Accounts receivable in the statement of financial position and Note 20 "Receivables" shows net exposure where receivables are netted against other balance sheet items within the same project; see also Note 3C "Summary of significant accounting policies - Revenue recognition - Construction contracts / system deliveries".
2) In accordance with KONGSBERG's currency strategy, all contracts are hedged to the functional currency.

Forward exchange contracts as fair value hedges must protect all contractual currency flows. This means that the forward exchange contracts will hedge capitalised receivables in foreign currency, as well as invoicing remaining on the contracts. KONGSBERG is also exposed to other currencies, but these are insignificant compared with the exposure to USD and EUR.

Important foreign exchange rates used in the consolidated financial statements throughout the year:

	Average exchange rate		Spot rate as of 31 Dec	
	2016	*2015*	*2016*	*2015*
USD	8.40	8.06	8.61	8.81
EUR	9.30	8.95	9.09	9.60

Currency hedging

On 31 December, the company had the following foreign currency hedges, divided by hedge category:

2016 *Amounts in mill.*	*Value in NOK at 31 Dec 16 based on the agreed rates*	*Fair value [1] in NOK 31 Dec 16*	*Total hedged amount in USD 31 Dec 16*	*Average hedged rate in USD 31 Dec 16*	*Total hedged amount in EUR 31 Dec 16*	*Average hedged rate in EUR 31 Dec 16*
Hedge category						
Forward exchange contracts, cash flow hedges[2)3)]	5 067	(144)	571	8.34	37	9.22
Total cash flow hedges	**5 067**	**(144)**	**571**		**37**	
Forward exchange contracts, fair value hedges[3) 4)]	9 183	(832)	841	7.40	182	9.41
Loan hedges, fair value hedges[3)]	961	8	100	8.67	4	9.07
Total fair value hedges	**10 144**	**(824)**	**941**		**186**	
Total	**15 211**	**(968)**	**1 512**	-	**223**	-

2015 *Amounts in mill.*	*Value in NOK at 31 Dec 15 based on the agreed rates*	*Fair value [1] in NOK 31 Dec 15*	*Total hedged amount in USD 31 Dec 15*	*Average hedged rate in USD 31 Dec 15*	*Total hedged amount in EUR 31 Dec 15*	*Average hedged rate in EUR 31 Dec 15*
Hedge category						
Forward exchange contracts, cash flow hedges[2)3)]	8 545	(1 138)	987	7.70	105	9.18
Total cash flow hedges	**8 545**	**(1 138)**	**987**		**105**	
Forward exchange contracts, fair value hedges[3)4)]	10 471	(1 643)	1 038	7.49	106	9.04
Loan hedges, fair value hedges[3)]	1 048	(10)	104	8.74	3	9.57
Total fair value hedges	**11 519**	**(1 653)**	**1 142**		**109**	
Total	**20 064**	**(2 791)**	**2 129**		**214**	

1) Fair value is the difference between the spot rate at 31 December and the agreed rate on the forward exchange contracts.
2) Change in fair value connected to the effective cash flow hedges are recognised in other comprehensive income. The part that is not hedge-effective will be recognised in the income statement.
3) Values in the table linked to the value based on the agreed rates and fair value also include currencies other than USD and EUR. Loan hedges are currency hedges connected to loans in foreign currency.
4) The total value increase on hedged projects was MNOK 810 during 2016 (reduction of MNOK 107 in 2015). Derivatives used as project hedging have had the corresponding negative value through the year and the hedging has thus been 100 per cent efficient. Change of value is recognised in accounts receivable and construction contracts in progress (assets and liabilities).

Currency options

As of 31 December 2016 KONGSBERG has no currency options. (As of 31 December 2015 options with a fair value of MNOK -13).

Basis swaps

In 2016 KONGSBERG rised a bridging loan in EUR (with a nominal value of EUR 53 million as of 31 December 2016). See also note 21D. In order to hedge the currency exposure, basis swaps have been entered into corresponding to the loan's nominal value. These basis swaps have a fair value of MNOK -13.6 as of 31 December 2016.

In connection with the acquisition of shares in Patria Oyj at a cost price of EUR 284.9 million, basis swaps were entered into totalling EUR 130 million to ensure a net investment in foreign entities. These basis swaps have a fair value of MNOK 28.6 as of 31 December 2016. Changes in fair value on the basis of swaps is recognised in comprehensive income.

Fair value for forward rates is, in addition to the exchange rate on 31 December, influenced by the differences in interest rates in the relevant currencies. The interest rate curves that are used in the valuation are received from Reuters, which retrieves information from various market actors. Also refer to Note 4 "Fair value" and Note 21 G "Assessment of fair value".

The sensitivity analysis
A strengthening of the NOK against the USD and EUR as of 31 December 2016 of 10 per cent (also 10 per cent in 2015) would have increased the comprehensive income by the amount stated in the table.

Estimated effect on comprehensive income (after tax):

MNOK	*31 Dec 16*	*31 Dec 15*
Forward exchange contracts in USD	374	652
Forward exchange contracts in EUR	26	75
Total	**399**	**727**

Changes in currency options are not taken into account in the table. Assuming all other variables are constant, a corresponding weakening of the NOK against the USD and EUR would have had the same effect in nominal terms, but with the opposite sign.

Cash flow hedging is considered to be efficient and all the effects of a currency rate change will thus be recognised in comprehensive income. For fair value hedges, neither comprehensive income nor the annual results will be affected as long as the hedges are 100 per cent efficient.

When KONGSBERG has a hedging strategy that generally hedges all contractual currency flows and receivables in foreign currency, fluctuations in the exchange rate will have minor effect on the profitability of the contracts.

C) Cash flow hedges

List of the periods in which the cash flows related to derivatives that are cash flow hedges are expected to occur:

	31 Dec 16				**31 Dec 15**			
MNOK	*Carrying amount*	*Expected cash flow*	*2017*	*2018 and later*	*Carrying amount*	*Expected cash flow*	*2016*	*2017 and later*
Currency forward exchange contracts								
Assets	37	37	37	-	7	7	7	-
Liabilities	(181)	(182)	(182)	-	(1 146)	(1 163)	(991)	(172)
Interest rate swaps								
Assets	-	-	-	-	-	-	-	-
Liabilities	(4)	(4)	(4)	-	(9)	(9)	(3)	(6)
Total	**(148)**	**(149)**	**(149)**	**-**	**(1 148)**	**(1 165)**	**(987)**	**(175)**

List of the periods in which the cash flows related to derivatives that are cash flow hedges are expected to affect results:

	31 Dec 16				**31 Dec 15**			
MNOK	*Carrying amount*	*Expected cash flow*	*2017*	*2018 and later*	*Carrying amount*	*Expected cash flow*	*2016*	*2017 and later*
Currency forward exchange contracts								
Assets	37	37	21	16	7	7	4	3
Liabilities	(181)	(182)	(103)	(79)	(1 146)	(1 163)	(655)	(508)
Interest rate swaps								
Assets	-	-	-	-	-	-	-	-
Liabilities	(4)	(4)	(4)	-	(9)	(9)	(3)	(6)
Total	**(148)**	**(149)**	**(86)**	**(63)**	**(1 148)**	**(1 165)**	**(654)**	**(511)**

Cash flow hedges – hedging reserve

MNOK	*2016*	*2015*
Opening balance	(1 299)	(954)
Changes in fair value in the period		
Forward exchange contracts and effects of rollovers[1) 2)]	439	(1 319)
Interest rate swaps	5	3
Tax on items recognised directly in comprehensive income	(273)	80
Recognised gains/losses in the period		
Forward exchange contracts and effects of rollovers[1)]	619	891
Closing balance hedge reserve[2)]	**(509)**	**(1 299)**

1) Accrual occurs when cash flow hedges are realised new and forward exchange contracts, fair value hedges, are entered into for the projects (rollovers). The effect on results that occurs will be recognised and realised in line with the progress of the projects. The carrying amount associated with the rolled cash flow hedges amounts to MNOK 550 on 31 Dec 16 (MNOK 585 on 31 Dec 15).
2) The net effect from the cash flow hedges before tax that are recognised in comprehensive income amounts to MNOK 1,063 in 2016 (MNOK -425 in 2015). In the comprehensive income, there is a change of MNOK 1,029, and the deviation of MNOK 34 is due to a change in the fair value of interest rate swaps of MNOK 5 and basis swaps of MNOK 29.

If an expected project becomes contractual and a fair value hedge is established, the recognised hedge reserve is transferred from comprehensive income to the carrying value of the hedged project. If an expected cash flow occurs and does not result in a project hedge, the hedge reserve is recognised in the income statement at the same time as the hedged transactions.

In 2016, a total of MNOK -83 was recognised that was related to inefficient cash flow hedges in the ordinary results. The amount is also included in the record "recognised gains/losses in the period" in the table above.

D) Interest rate risk on loans

	2016				**2015**			
Amounts in MNOK	*Due date*	*Nominal interest rate*	*Nominal amount*	*Carrying amount value*	*Due date*	*Nominal interest rate*	*Nominal amount*	*Carrying amount value*
Bond loan KOG06 – floating interest[2)]	11 Sep 17	2.94%	-	-	11 Sep 17	2.85%	500	500
Bond loan KOG07 - fixed interest	11 Sep 19	4.80%	250	250	11 Sep 19	4.80%	250	250
Bond loan KOG08 - floating interest	2 Jun 21	2.39%	1 000	1 000		0.00%	-	-
Bond loan KOG09 - fixed interest	2 Jun 26	3.20%	1 000	1 000		0.00%	-	-
Bond loan KOG10 - floating interest	2 Mar 20	2.04%	550	550		0.00%	-	-
Bond loan KOG11 - fixed interest	5 Dec 23	2.90%	450	450		0.00%	-	-
Bridging loan in EUR – floating interest[3)]	24 Feb 19	0.80%	482	482		0.00%	-	-
Other long-term loans[4)]			75	75			97	97
Total long-term loans[1)]			**3 807**	**3 807**			**847**	**847**
Syndicated credit facility (undrawn borrowing limit)	7 Apr 19		1 500	-	7 Apr 19		1 500	-
Overdraft (unused)			500	-			-	-

1) The difference between the carrying value in the statement of financial position and the amount in this note is due to the positive value of the interest rate swap agreement linked to bond loan KOG07 of MNOK 13. See the table of interest tables below.
2) Bond loan KOG06, nominal value MNOK 257, matures on 11 September 2017 and has been reclassified to current liabilities from 30 September 2016.
3) The bridging loan was originally at EUR 160 million when recorded in May 2016. As of 31 December 2016, the remaining loan is EUR 53 million.
4) "Other long-term loans" are minor borrowing by some of the Group's subsidiaries in local banks.

Kongsberg Gruppen ASA has a syndicated credit facility with Danske Bank, DNB, JP Morgan Chase, Nordea and SEB. The facility is for general business purposes. The facility has a term of five years with an option to extend for one year, twice. The interest rate is NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.5 per cent to 1 per cent. The credit facilities require that net interest-bearing debt shall not exceed three times the EBITDA, but can be up to 3.5 times the figure for three consecutive quarters at the most. The covenants in the loan agreements have been met. There was no borrowings on the facility as of 31 December 2016. Please refer to note 5 for further information.

Kongsberg Gruppen ASA had six bond loans at the end of 2016. The bond loans were issued in NOK and listed on the Oslo Stock Exchange. The interest rate terms on loans with floating rates are 3-month NIBOR with a margin of + 1.8 per cent for KOG06, +1.25 per cent for KOG08 and 0.9 per cent for KOG10. Interest rate terms on the bridging loan are EURIBOR + a margin that increases over the loan's duration. The terms state that the reference interest cannot be lower than zero. As of 31 Dec 16 the margin was + 0.8 per cent.

Basis swaps from EUR to NOK have been entered into in relation to the bridging loan, providing a nominal rate of 2.19 per cent. The loans are capitalised at their amortised cost using the effective interest method.

In 2016 Kongsberg Gruppen ASA issued four new unsecured bond loans in the Norwegian market with a total loan amount of NOK 3 billion. Bond loans KOG08 and KOG09 were issued in the second quarter of 2016 and in this connection, repurchasing was also carried out on bond loan KOG06 with MNOK 234.

The bridging loan was established in May 2016 in connection with the acquisition of the shareholding in Patria Oyj; see also Note 7 "Shares in joint arrangements and associated companies". Bond loans KOG10 and KOG11 were issued in the 4th quarter. At the same time repayments of EUR 107 million were made on the bridging loan. The bridging loan stands at EUR 53 million as of 31 December 2016. Requirement to net interest-bearing debt/EBITDA is the same for this credit facility as for the credit facility of MNOK 1,500. A new cash credit of MNOK 500 was established in 2016.

Amounts in MNOK	*Due date*	*Interest rate*	*Nominal 2016*	*Fair value 31 Dec 16*	*Nominal amount 2015*	*Fair value 31 Dec 15*
Interest rate swap agreements, floating to fixed rate[1)]	2 Jan 18	2.47%	247	(4)	247	(9)
Total interest rate swap agreements, floating to fixed rate			**247**	**(4)**	**247**	**(9)**
Interest rate swap agreements, fixed to floating rate[2)]	11 Sep 19	4.80%	250	13	250	19
Total interest rate swap agreements			**497**	**9**	**497**	**9**

1) KONGSBERG has entered into interest rate swaps from floating to fixed interest rates for a nominal amount of MNOK 247. The agreement was entered into in connection with the financing of the property business area in order to reduce interest rate exposure. The change in value on the interest rate swap agreement is recognised in the statement of comprehensive income.
2) KONGSBERG has entered into two interest rate swaps from fixed to floating interest rates for a nominal amount each of MNOK 125. The agreements were entered into in connection with the bond loan KOG07, which is a fixed rate loan. The value change for the interest rate swap agreements is adjusted against the capitalised value of the loan.

Sensitivity analysis interest rate risk

Effect of the interest rate increase of 50 BP in NIBOR:

MNOK	*31 Dec 16*	*31 Dec 15*
Investments with floating interest rates	9	9
Variable interest rate loans	(11)	(3)
Interest rate swap agreements, floating to fixed rate	1	2
Cash flow sensitivity (net)	**(1)**	**8**

In addition, such a change in interest rate would increase (decrease) comprehensive income and equity by MNOK 2 (MNOK 3 in 2015) linked to the interest rate swaps from fixed to floating interest rates.

E) Liquidity risk

The table shows due dates in accordance with the contract for the financial liabilities, including interest payments. Such liabilities as government fees and taxes are not financial liabilities and are therefore not included. The same applies to prepayments by customers and accrual of the projects.

31 Dec 16 *MNOK*	*Carrying amount*	*Contractual related cash flows*	*2017*	*2018*	*2019*	*2020*	*2021 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	3 507	(4 267)	(360)	(92)	(347)	(683)	(2 784)
Bridging loan	482	(540)	(7)	(7)	(527)	-	-
Other loans and liabilities	75	(75)	-	(4)	(9)	(3)	(59)
Suppliers	1 038	(1 038)	(1 038)	-	-	-	-
Financial liabilities that are derivatives							
Currency derivatives	1 259	(1 275)	(806)	(345)	(123)	(0)	-
Interest rate swaps	4	(4)	(4)	-	-	-	-
Basis swaps	14	(14)	-	(14)	-	-	-
Loan hedging	-	-	-	-	-	-	-
Total	**6 379**	**(7 213)**	**(2 215)**	**(462)**	**(1 006)**	**(686)**	**(2 843)**

31 Dec 15 *MNOK*	*Carrying amount*	*Contractual related cash flows*	*2016*	*2017*	*2018*	*2019*	*2020 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	750	(827)	(26)	(522)	(12)	(267)	-
Other loans and liabilities	97	(97)	-	(6)	(1)	-	(90)
Suppliers	1 214	(1 214)	(1 214)	-	-	-	-
Financial liabilities that are derivatives							
Currency derivatives	3 050	(3 093)	(2 770)	(306)	(12)	(5)	-
Interest rate swaps	9	(9)	(3)	(3)	(3)	-	-
	10	(10)	(10)	-	-	-	-
Total	**5 130**	**(5 250)**	**(4 023)**	**(837)**	**(28)**	**(272)**	**(90)**

F) List of financial assets and liabilities

Financial assets and liabilities divided into different categories for accounting purposes as of 31 December 2016:

2016 *MNOK*	*Note*	*Derivatives used as hedging*	*Derivatives that do not qualify for hedging*	*Loans and receivables*	*Available-for-sale shares*	*Other financial liabilities*	***Total***	*Fair value*
Assets – non-current assets								
Investment in available-for-sale shares	18	-	-	-	35	-	**35**	35
Other non-current assets	19	-	-	229	-	-	**229**	229
Assets – current assets								
Derivatives	21A	332	-	-	-	-	**332**	332
Receivables	20	-	-	3 354	-	-	**3 354**	3 354
Cash and cash equivalents	22	-	-	1 888	-	-	**1 888**	1 888
Financial liabilities – non-current								
Interest-bearing loans	21D	-	-	-	-	3 807	**3 807**	3 891
Derivatives	21D	-	-	-	-	13	**13**	13
Other non-current liabilities		-	-	-	-	24	**24**	24
Financial liabilities – current								
Interest-bearing loans			-	257	-	-	**257**	258
Derivatives	21A	1 277	-	-	-	-	**1 277**	1 277
Accounts payable	25	-	-	-	-	1 038	**1 038**	1 038

2015 *MNOK*	*Note*	*Derivatives used as hedging*	*Derivatives that do not qualify for hedging*	*Loans and receivables*	*Available-for-sale shares*	*Other financial liabilities*	***Total***	*Fair value*
Assets – non-current assets								
Investment in available-for-sale shares	18	-	-	-	233	-	**233**	284
Other non-current assets	19	-	-	106	-	-	**106**	107
Assets – current assets								
Derivatives	21A	284	-	-	-	-	**284**	284
Receivables	20	-	-	4 056	-	-	**4 056**	4 056
Cash and cash equivalents	22	-	-	1 807	-	-	**1 807**	1 807
Financial liabilities – non-current								
Interest-bearing loans	21D	-	-	-	-	847	**847**	859
Derivatives	21D		-	-	-	19	**19**	-
Other non-current liabilities		-	-	-	-	13	**13**	13
Financial liabilities – current								
Interest-bearing loans			-	-	-	-	**-**	-
Derivatives	21A	3 069	-	-	-	-	**3 069**	3 069
Accounts payable	25	-	-	-	-	1 214	**1 214**	1 214

G) Assessment of fair value

The following table shows corporate assets and liabilities measured at fair value

		2016			2015		
MNOK	*Note*	*Level 1*	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
Assets							
Investment in available-for-sale shares	18	-		34	202	-	31
Derivative financial assets	21A		332			284	
Total assets at fair value		**-**	**332**	**34**	**202**	**284**	**31**
Liabilities							
Derivative financial liabilities	21A	-	1 277	-	-	3 069	-
Interest-bearing liabilities (intended for note purposes)		-	4 396	-	-	859	-
Total liabilities at fair value		**-**	**5 673**	**-**	**-**	**3 928**	**-**

The various levels are defined as follows:
Level 1: Fair value is measured by using quoted prices from active markets for identical financial instruments. No adjustment is made with respect to these prices.
Level 2: Fair value is measured based on data other than the list prices covered by the level 1, but which is based on observable market data either directly or indirectly. These methods have some uncertainty in the determination of fair value.
Level 3: Fair value is measured using models that substantially employ non-observable market data. This involves more uncertainty connected to the determination of fair value.

See also note 4 "Fair value" for a discussion of the fair value measurement.

H) Estimate uncertainty

KONGSBERG has a range of financial instruments that are recognized at fair value. When market prices cannot be observed directly through the traded prices, fair value is estimated by using different models that either build on internal estimates or input from banks or other market players. The assumptions for such assessments include spot prices, forward prices and interest curves.

The assessments are always based on KONGSBERG's best estimates, but it is still likely that the observable market information and assumptions will change over time. Such changes can affect the calculated values of financial instruments considerably, and thereby result in gains and losses that will affect future periods' income statements. How such changes affect the income statement depends on the type of instrument and whether it is included in a hedging relation.

22. CASH AND CASH EQUIVALENTS

Nominal amounts in MNOK	*31 Dec 16*	*31 Dec 15*
Bank deposits, operating accounts	1 888	1 798
Total	**1 888**	**1 807**

Bank guarantees have been furnished for funds related to withholding tax for employees of MNOK 262 (MNOK 286 in 2015).

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

23. SHARE CAPITAL

Share capital
As of 31 December 2016, share capital consists of 120,000,000 shares, each with a nominal value of NOK 1.25.

Share capital trends

	Date	Number of shares	Nominal NOK	Amount MNOK	Corr. factor	Share capital MNOK
Expansion type						
Stock exchange introduction	13 Dec 93	5 850 000	20	117		117
Private placement for employees	1996	6 000 000	20	3		120
Share split	1997	24 000 000	5		01:04	120
Issue	1999	30 000 000	5	30		150
Share split	2009	120 000 000	1.25		01:04	150

List of major shareholders as of 31 Dec 16

Shareholders	*Type*	*Number of shares*	*% share*
State, represented by the Ministry of Trade, Industry and Fisheries		60 001 600	50.00%
Arendals Fossekompani ASA		9 552 796	7.96%
National Insurance Fund		7 838 890	6.53%
MP Pensjon Pk		4 552 048	3.79%
Danske Invest Norske Instit. II.		2 178 902	1.82%
Odin Norge		1 861 224	1.55%
State Street Bank and Trust Co.	Nom	1 633 485	1.36%
Danske Invest Norske Aksjer Inst.		1 043 272	0.87%
HSBC Bank Plc	Nom	914 201	0.76%
BNP Paribas Securities Services	Nom	805 384	0.67%
Swedbank Robur Smabolagsfond		769 025	0.64%
BNP Paribas Securities Services	Nom	692 000	0.58%
JP Morgan Chase Bank, N.A., London	Nom	602 138	0.50%
State Street Bank and Trust Comp.	Nom	592 147	0.49%
KLP Aksjenorge Indeks		552 559	0.46%
JP Morgan Chase Bank, N.A., London	Nom	551 268	0.46%
State Street Bank and Trust Comp.	Nom	530 522	0.44%
BNP Paribas Securities Services	Nom	515 200	0.43%
DnB Nor Markets, stock trading/analyse		496 630	0.41%
Swedbank Robur Nordenfon		470 000	0.39%
Total		**96 153 291**	**80.13%**
Other		23 846 709	19.87%
Total number of shares		**120 000 000**	**100.00%**

Shareholders listed according to holding size

Number of shares	*Number of owners*	*Number of shares*	*Holding %*
1–1 000	6 840	2 004 975	1.67%
1,001-10,000	2 206	6 112 454	5.09%
10,001-100,000	174	5 084 950	4.24%
100,001–1,000,000	60	18 135 404	15.11%
1,000,001–10,000,000	7	28 660 617	23.88%
Over 10,000,000	1	60 001 600	50.00%
Total	**9 288**	**120 000 000**	**100.00%**

At 31 December 2016, 984 of the 9,288 shareholders were foreigners, and they owned a total of 10.59 per cent of the shares.

Treasury shares

As of 31 December 2016 KONGSBERG has a holding of 1,049 treasury shares. The shares have been purchased in accordance with the authority given at the annual general meeting and provides the opportunity to buy back of up to 5 per cent of the issued shares.

	Antall
Holding of treasury shares as of 31 Dec 15	15 971
Purchase of treasury shares	573 486
Treasury shares sold to employees in connection with the share programme	(571 896)
Treasury shares sold to employees in connection with the long-term incentive scheme	(16 512)
Holding of treasury shares as of 31 Dec 16	**1 049**

Dividends

	2016	*2015*
Dividends paid in NOK per share	4.25	9.25
Dividends paid in MNOK	510	1 110
Of which dividends treasury shares in MNOK	1.49	2.66

The Board has proposed a dividend for the accounting year 2016 of MNOK 450. This is equivalent to NOK 3.75 per share.

24. PROVISIONS

Non-current provisions

MNOK	*Sale and leaseback*	*Other*	*Total*
31 Dec 15	**142**	**24**	**166**
Provisions used	(5)	(1)	(6)
Allocation	29	3	32
Dissolved	(25)	-	(25)
Effect of discounting	(2)	-	(2)
31 Dec 16	**139**	**26**	**165**

Current provisions

MNOK	*Warranty provisions*	*Other*	*Total*
31 Dec 16	**550**	**261**	**811**
Provisions used	(202)	(122)	(324)
Allocation	193	210	403
Dissolved	(64)	(23)	(87)
31 Dec 16	**477**	**326**	**803**

Non-current provisions
KONGSBERG has in the period from 1999 to 2014 sold properties in the Kongsberg Technology Park. The properties have been leased back on long-term lease and expire from 2017 to 2031. The leaseback contract related to the purchase in 1999 expired in 2014. In connection with the sale and leaseback it was agreed that KONGSBERG guarantees for entry costs and for the maintenance of the buildings in the leaseback period. The current value of future warranty liability is allocated in the accounts. In addition, provision has been made for lack of rental. The remaining provision requirement will need to be assessed each quarter. The effects of discounting cost are transferred as financial expenses.

Warranty provisions
Warranty provisions are provisions for warranty costs on completed deliveries. Unused warranty provisions are dissolved upon the expiration of the warranty period. Warranty provisions are estimated based on a combination of experience figures, specific calculations and judgement. The warranty period usually extends from one to five years, but for some defence contracts the warranty period may be up to 30 years.

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

Provisions apply to conditions where there is disagreement between contractual parties, uncertainty related to product liability or products that are in an early lifecycle phase.

Estimation uncertainty
Assessments are based on a combination of experience figures, technical evaluations and judgement. Evaluations of the estimates are made each quarter. There is significant uncertainty related to these provisions with respect to amounts and times.

25. OTHER CURRENT LIABILITIES

Other current liabilities

MNOK	*31 Dec 16*	*31 Dec 15*
Accounts payable	1 038	1 214
Public charges owing	295	324
Calculated income tax payable	29	21
Accrued holiday pay	408	444
Accruals customers commodity sale [1]	1 249	921
Liabilities related to performance-based salary	26	26
Other accruals [1]	585	903
Total	**3 630**	**3 853**

1) The comparative figures have been changed by NOK 248 from the line "Other accruals" to the line "Accruals customers commodity sales". Accrual accounting items connected with projects which are recognised upon delivery are now combined together on the "Accruals customers commodity sales" line.

26. ASSETS PLEDGED AS COLLATERAL AND GUARANTEES

Assets pledged as collateral
The Group's loan agreements, both bond loan agreements and the agreement on the syndicated credit facilities, are based on the negative collateral.

Prepayment and completion guarantees
Group companies have provided guarantees for prepayments and completion in connection with projects. The guarantees are issued by Norwegian and foreign banks and insurance companies and by Kongsberg Gruppen ASA (parent company guarantees). Kongsberg Gruppen ASA is responsible for all guarantees.

MNOK	*31 Dec 16*	*31 Dec 15*
Guarantees issued by banks and insurance companies	2 572	2 796
Guarantees issued by Kongsberg Gruppen ASA (parent company)	5 093	5 395
Prepayments from and completion guarantees to customers	**7 556**	**8 191**

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

27. SALE AND LEASEBACK

KONGSBERG has in the period from 1999 to 2014 sold properties in the Kongsberg Technology Park. The properties have been leased back on long-term lease and expire from 2017 to 2031. The leaseback contract related to the purchase in 1999 expired in 2014. The leaseback contracts are classified as operating leasing agreements.

In addition to lease payments, KONGSBERG is responsible for certain expenses related to taxes and maintenance of the properties. The leases have durations ranging from three months to 15 years. The provisions related to the sales and leaseback agreements are discussed in Note 24 "Provisions".

Amounts in MNOK	*Year of disposal*	*Annual lease payments 2017*	*Lease payments 2018-2022*	*Lease payment later than 2022*	*Re-maining term of lease*	*Lease payments sublease 2017[1)]*	*Weighted average subleasing period*
Agreement 1 – A total of 40,000 sq m industrial/office space	2001	37	38	-	2 years	6	2 years
Agreement Avtale 2 – A total of 6,000 sq m industrial/office space	2002	4	-	-	0.5 years	1	0.5 years
Agreement 3 – A total of 10,000 sq m industrial/office space	2006	19	71	-	4.5 years	20	4.5 years
Agreement 4 – A total of 40,000 sq m industrial/office space	2007	62	467	140	8 years	-	8 years
Agreement 5 – A total of 57,000 sq m parking/office	2014	32	468	297	14 years	13	14 years
Total		**154**	**1 044**	**437**		**40**	

1) Lease amount to external tenants.

KONGSBERG has pre-emptive rights at market rates for agreements 2, 3 and 4. The Group has the right to the extension of the rental periods for at least five years at a time. The rental amount is fixed, with 2.25 per cent annual adjustment for rental agreements 2 and 3. Agreements 3, 4 and 5 are adjusted by 100 per cent of the change in the consumer price index, which is assumed to be equal to 2 per cent annually. The rent is adjusted annually according to the consumer price index.

Agreement 5 consists of the leasing of three buildings, of which two are parking garages, and the rental amounts are adjusted annually according to the consumer price index. The Group has the right to the extension of the rental periods for at least five years at a time at the existing conditions. Sub-letting agreements have been signed for the rental period to both external and internal corporate tenants.

See also Note 24 "Provisions".

28. STATEMENT ON REMUNERATION OF THE GROUP CEO AND EXECUTIVE MANAGEMENT

Statement on the setting of salaries and other remuneration of the Executive Management

The Board proposes that the guidelines described below are applied for 2017 and until the Annual General Meeting in 2018.

Main principles for the company's executive salary policy

The principles and systems for remuneration of executive management are determined by the Board. The Board performs an annual evaluation of the CEO's salary and conditions, as well as the Group's performance-based pay scheme for management. The Board's compensation committee prepares the cases for the Board. The CEO sets remuneration for other members of executive management after consultation with the chairman of the Board.

Management salaries at Kongsberg Gruppen ASA and Group companies ("KONGSBERG") are determined by the following principles:

- Executive management's salaries should be competitive, but not salary leaders, and within this framework support general moderation in executive management salary developments – the company should attract and retain talented management.
- Executive management salaries should be motivating – the salary should be such that it motivates extra effort for the continual improvement of the business and the company's results.
- The salary system should be understandable, meaningful and acceptable both internally at KONGSBERG and externally.
- The salary system should be flexible, so that changes can be made when necessary.
- The salary system should promote cooperation.

Remuneration to Group executive management should reflect their responsibility for administration, results and sustainable development of KONGSBERG, and take into account the size of the organisation and its complexity. The schemes should otherwise be transparent and in line with principles that promote good corporate governance.

Other companies in the Group must follow the main executive management salary policy principles. The company's objective is to coordinate salary policy within the Group as well as variable benefit schemes.

Elements of executive management salaries — fixed salaries and variable benefits

The starting point for determination of salary is the total level of fixed salary and variable benefits. Fixed salary consists of the basic salary as well as fixed benefits in kind and pension agreements. Variable benefits consist of the performance-based salary and share programmes (LTI). Regular measurement is made against relevant markets to ensure that the total compensation is competitive, but not leading.

Basic salary

The basic salary should normally be the main element of the executive managements' payroll. It is assessed once per year.

Fixed benefits in kind

Leading employees will normally be assigned benefits in kind that are common for comparable positions, such as free communication, newspapers, and car arrangements. There are no particular restrictions on the kind of benefits in kind that can be agreed.

Pension schemes

Executive management should normally have pension schemes that ensure a pension payout that is in line with salaries. This is mainly covered by membership of KONGSBERG's collective main pension scheme for salaries up to 12G.

The Group's collective main pension scheme is a defined contribution scheme. The contributions are 0 per cent of salary between 0G and 1G, 5 per cent of salary from 1G to 7.1G and 11 per cent of salary from 7.1G to 12G. The funds can be distributed optionally between three savings profiles, respectively with 30, 50 and 80 per cent shares. The Group introduced a defined contribution pension scheme on 1 January 2008. Employees who were 52 years of age or older at the time of the conversion remained in a locked benefit scheme. In connection with changes in the law on defined contribution pension schemes and the national insurance scheme, KONGSBERG's collective defined contribution pension scheme was adapted to a new breakpoint at 7.1G (formerly 6G), applicable from 1 January 2017. The defined contribution rates will be reassessed in 2017 in light of market developments for defined contribution pensions.

In line with guidelines from the Ministry of Trade, Industry and Fisheries (NFD), in 2015 the Group ended the previous arrangements regarding pensions for salaries above 12G, although still taking into account the stipulation that "agreements entered into before the effective date of these guidelines can still be maintained". For senior executives, in the years from 2008 to 2015, an 18 per cent pension contribution at a fixed salary over 12G was given.

KONGSBERG will not enter into early retirement agreements for senior executives; however, senior executives who had such arrangements prior to 1 October 2015 will have them continued.

The company has previously entered into early retirement agreements for some of its executives. The agreements have always been entered into in accordance with the current ownership reports from the state. There are currently various different schemes, depending on when they were signed. Some agreements include the opportunity for retirement from the age of 65, but with the reciprocal right for KONGSBERG and employees in the corporate executive management to request early retirement from the age of 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 contribution years. If the employee retires between the ages of 63 and 65, however, this will lead to reduced pension earnings in the defined contribution pension scheme, that will apply from the age of 67 years. These agreements were terminated for new senior executives in 2013 and now apply to four members of the corporate executive management, including the Chief Executive Officer. One of the corporate executive management members has an older agreement, active from the age of 60. Assuming at least a 10-year earning period, the benefit is 90 per cent of salary from the age of 60, reducing in 10 per cent steps per year to 60 per cent of salary from the ages of 63 to 67. Similarly, a group executive vice president has an agreement to retire at the age of 62. Assuming at least a 15-years earning period, the benefit is 65 per cent of salary up to the age of 67. These older schemes were discontinued in 2006 and 2008, respectively. One of the corporate executive management members has, for the part of their salary that exceeds 12G, an extra contribution of 12 per cent of their salary. This scheme was discontinued for new senior executives in 2015.

The corporate executive management has two members who, in the course of 2016, have secured new positions at the same organisational level. For both of them, their arrangements in terms of earned pension benefits as well as the company's collective service pension, are continued. In the assessment, the Board has considered the mobility and that these already were members of the corporate executive management before 2015 and had entered into such agreements. The assessment of the Board is thus that these individuals were not subject to the new NFD guidelines.

One member of the corporate executive management took office in 2016, from an external position. Similarly, another member of the corporate executive management took office in January 2017 and was previously employed by the Group, but not in the corporate executive management. For both parties, a maximum pensionable income at 12G applies, and they do not have an agreement on early retirement. Both have received a slightly higher base salary as compensation.

The company has adapted to new rules within the Working Environment Act regarding age limits by implementing an internal age limit of 70 years, which is effect from 1 January 2017. The implementation of a new age limit combined with flexible rule regarding pensions from the age of 62, means that the company no longer refers to the term "of pension age" in Norway.

Long-term incentive (LTI)

From 2012, the Board introduced an LTI scheme for the Chief Executive Officer and other corporate executive management. The rationale for this scheme is to be competitive with comparable companies. In 2015 the Ministry of Trade, Industry and Fisheries (NFD) changed LTI programmes from being part of a fixed salary to being a variable contribution. In this regard, NFD expressed an expectation that the companies also introduced criteria for achievement. Therefore, in 2016 the LTI programme for the corporate executive management was raised by 5 percentage points, so that the maximum limit is 30 per cent of the base salary for the Chief Executive Officer, 25 per cent for the business managers and 20 per cent for staff leaders. Furthermore, new criteria were introduced for obtaining LTI, in that an EBIT greater than 0 gives 1/3 of the maximum allocation, ROACE equal to WACC (8 per cent), provides an additional 1/3 of the maximum allocation and ROACE between 8 per cent and 12 per cent provides a pro rata contribution to the last 1/3 of the total allocation. The associated company Patria Oyj is included with earnings before taxes and amortisation. The participants in the scheme will be committed to invest the net amount after tax in KONGSBERG shares that are purchased in the market and are owned with a binding time of three years. Participants who leave the company of their own volition will, for shares that do not meet the three-year requirement, have to pay back an amount equal to the share value after tax at the time of resignation. The scheme does not earn pension points. The scheme will be continued in 2017.

Performance-based salary
KONGSBERG's senior management and most important decision makers must have their own economic interests directly related to the development and improvement of KONGSBERG. To this end, in 2006. the Board adopted a performance-based salary scheme that includes approximately. 90 managers. The scheme was revised in 2016 and will be continued in 2017. The objective of the scheme is for managers who perform well over time to achieve an average performance-based salary of 20-30 per cent of basic salary.

The performance-based salary scheme is based on the following three components:

1. Change in EBITA (progress component):
   The progress component is calculated based on the change in the current year's EBITA, adjusted for 10 per cent calculated interest rate on the change in employed capital. The measurement is weighted on the individual's area of responsibility and general levels. The progress component is credited to a performance-based salary bank for the individual participant. The progress component will be positive when there is progress in adjusted EBITA, while it can be negative if there is regress in the adjusted EBITA, and can be debited against previous accumulation of the performance-based salary bank.
2. Achieved EBITA margin (margin component):
   The margin component is achieved through an EBITA margin greater than 10 per cent or through maintaining or improving a margin that is above 5 per cent. The margin component can, at most, make up 20 per cent.
3. Personal objectives (individual component):
   The individual component is achieved through fulfilment of personal objectives related to important KPIs for the individual manager, which may be of both financial and non-financial nature. The individual component can, at most, make up 15 per cent.

The margin and progress components can, at most, make up 35 per cent (45 per cent for senior employees before 13 February 2015). The margin component will reduce the progress component when the sum of these two is higher than the maximum amount. The combined contribution from the three components can, at most, make up 50 per cent (60 per cent for senior employees before 13 February 2015).

Performance-based salaries for individuals consist of 40 per cent of the balance in the performance-based salary bank plus the margin component and the current year's individual component. Performance-based salaries must not exceed 50 per cent of the basic salary.

The balance in the performance-based salary bank will not be paid out if the individual leaves before pensionable age. The performance-based salary bank will level out over time, act as a long-term incentive and ensure that there will be both positives and negatives for individuals.

Pension points cannot be earned on the performance-based salary scheme. The performance-based salary scheme is assessed annually by the Compensation Committee and the Board to ensure that it works as intended and ensure that necessary adjustments are made.

Upon completion of special major projects, demanding turnaround operations and acquisitions that require a short-term decline in profits as well as larger strategic investments, individual agreements can be entered into with the Chief Executive Officer. In such cases, the ordinary arrangement for performance-related pay would not be applicable and would be replaced by a separate agreement capped at 35 per cent.

Remuneration connected to shares or share price development
Senior executives have the opportunity to participate fully in KONGSBERG's discounted share saving scheme on the same terms as all Group employees. KONGSBERG has no scheme for allocation of share options or other instruments connected to the company's shares. There are no plans to introduce such schemes.

Severance arrangements
In order to safeguard KONGSBERG's requirement for ensuring at any time that the composition of its managers is in accordance with its business needs, agreements for severance arrangements can be, and have been entered into. Severance arrangements are designed to be acceptable both internally and externally, and agreements signed from 2011 are not entitled to severance payments whose value exceeds the equivalent of salary and benefits for more than six months. This scheme will continue in 2017. Before 2011, the scheme allowed for up to 12 months of severance pay. Such agreements have been entered into for directors in corporate executive management within the framework of the Working Environment Act.

Remuneration for the new Chief Executive Officer
The current Chief Executive Officer took over the position on 6 June 2016. The Chief Executive Officer's remuneration consists of a fixed salary of MNOK 4.9, a performance-based component of the salary of a maximum of 50 per cent of the fixed salary and an LTI of up to 30 per cent of the fixed salary. In a previous position, the Chief Executive Officer had an agreement on pension-earned benefits of 18 per cent for salary exceeding 12G and early retirement at 65 per cent of the fixed salary from the age of 63-65 years until the standard retirement age of 67. The schemes have been continued with a maximum pensionable income / basis for early retirement equal to pay from the previous position, at NOK 2,424,200. The pension base is adjusted annually with the same percentage increase as the last increase in benefits paid out by the national insurance service (pt G-0.75 per cent). In its assessment of this, the Board has emphasised a reasonable level of fixed salary that the new Chief Executive Officer was member of corporate executive management before 2015 and that the new 2015 guidelines from NFD should not be applied retroactively. Even though this is a somewhat unclear subject area, the Board considers the new agreement in line with the guidelines.

Report for the 2016 financial year
The executive management salary policy has for the 2016 financial year, been conducted in accordance with the guidelines that were adopted by KONGSBERG's annual general meeting in 2016.

For the Chief Executive Officer and the corporate executive management, there was no regulation of the base salary in connection with the ordinary wage settlement.

The consolidated financial statements for 2016 have calculated performance-based salaries for leading employees at MNOK 19, excluding social security tax, corresponding to 14 per cent of the total payroll for participants in the scheme (MNOK 10 in 2015, corresponding to 7 per cent). No agreements regarding remuneration were entered into or changed that would have any significant effects for KONGSBERG or its shareholders in the previous accounting year.

29. REMUNERATION FOR EXECUTIVE MANAGEMENT AND THE BOARD

Remuneration specified for members of the Corporate Executive Management for 2016 and 2015[1)]

Amounts in NOK thousand	*Year*	*Payment of salary incl. holiday pay*	*Other benefits recognised in the financial year [2)]*	*Retained long-term incentive scheme (LTI)[3)]*	*Retained perfor-mance-based part of salary in the financial year[4)]*	*The year's pension accruals*	*Payment of long-term incentive scheme (LTI)[5)]*	*Out-standing loan amount*	*Shares acquired in financial year related to LTI-arrange-ment*	*Total number of shares including LTI as of 31 Dec*
Geir Håøy, Chief Executive Officer Kongsberg Gruppen ASA from 6 Jun 16, President of Kongsberg Maritime until 5 Jun 16	2016	3 732	282	471	398	555	759	-	2 010	9 240
	2015	2 382	229	449	86	596	485	-	1 826	6 945
Walter Qvam, Chief Executive Officer until early retirement 5 Jun 16	2016	2 771	149	989	213	1 080	-	-	4 201	21 933
	2015	4 050	276	961	-	2 646	1 013	-	3 846	17 732
Hans-Jørgen Wibstad, Chief Financial Officer	2016	2 477	256	355	218	577	-	-	1 504	7 242
	2015	2 437	256	346	-	598	363	-	1 380	5 453
Even Aas, Group Executive Vice President, Public Affairs	2016	1 609	277	227	187	67	213	-	967	15 776
	2015	1 561	269	220	-	208	233	-	882	14 524
Wenche Andersen, Group Executive Vice President, Corporate Functions from 18 May 16	2016	1 374	200	-	586	39	175	-	-	1 035
Harald Aarø, Group Executive Vice President, Business Development	2016	1810	223	66	292	357	260	-	295	1 105
	2015	746	59	-	-	165	71	-	-	525
Hege Skryseth, Preseident Kongsberg Digital from 1 Jul 16, Group Executive Vice President, Group Functions until 30 Jun 16	2016	2 262	173	208	242	568	375	469	1 366	3 314
	2015	2 191	182	98	-	668	330	533	1 138	1 663
Egil Haugsdal, President, Kongsberg Maritime from 6 Ju 16, President Kongsberg Oil & Gas Technologies until 5 Jun 16	2016	2 476	390	350	215	856	408	-	1 485	16 846
	2015	2 402	391	377	-	741	358	515	1 362	15 076
Harald Årnestad, President, Kongsberg Defence Systems, until departure 28 Aug 16	2016	1 878	247	460	876	660	270	-	1 964	
	2015	2 339	338	445	663	834	474	230	1 784	9 838
Espen Henriksen, President, Kongsberg Protech Systems	2016	2 145	287	413	179	464	361	-	1 750	6 850
	2015	2 113	301	272	-	466	422	-	1 606	4 815
Eirik Lie, Acting President, Kongsberg Defence Systems from 30 Aug 16, permanent position from 4 Jan 17	2016	668	63	-	585	146	-	-	-	545

1) Remuneration and other benefits to members of the corporate executive management are based on their time served as part of this management.
2) Benefits other than cash refers to expensed discounts on shares in connection with the share programme for all employees, communication, car arrangements and compensation for the taxable share of pensions and insurance, as well as other taxable benefits.
3) Accrued LTI including tax compensation is, for accounting purposes, accrued on a linear basis over three years since the shares can be managed freely only after three years. A statement on the LTI scheme is provided in Note 28.
4) Accrued performance-based salary in the financial year amounts to the individual component, margin component and 40 per cent of the earned value in the bonus bank. To be paid out when the accounts for the relevant year have been approved by the Board. A statement on performance-based pay is provided in Note 28.
5) LTI with tax compensation for disbursement the following year where the net amount will be invested in KONGSBERG shares. A statement on the LTI scheme is provided in Note 28.

Shares owned by, and compensation to the members of the Board

The Board of Directors *Amount in NOK*	*Year*	*Number of shares*		*Fixed Board compensa-tion*	*Comp-ensation for committee meetings*	*Total Board compensa-tion*	*Number of Board meetings*[1)]
Finn Jebsen, Chair	2016	20 000	(through the company Fateburet AS)	440 667	50 500	491 167	15
	2015	20 000	(through the company Fateburet AS)	427 667	50 500	478 167	10
Irene Waage Basili, Director, Deputy Chairman	2016	-		247 000	-	247 000	13
	2015	-		225 167	-	225 167	8
Morten Henriksen, Director	2016	-		222 000	55 600	277 600	15
	2015	-		215 167	54 500	269 667	10
Anne-Grete Strøm-Erichsen Director	2016			222 000	43 400	265 400	15
	2015	-		145 333	35 600	180 933	6
Jarle Roth, Director	2016			222 000	48 000	270 000	15
	2015	-		145 333	28 800	174 133	7
Roar Marthiniussen, Director	2016	5 814		222 000	44 500	266 500	15
	2015	5 529		215 167	44 500	259 667	10
Helge Lintvedt, Director	2016	-		222 000	48 000	270 000	15
	2015	-		215 167	48 000	263 167	10
Rune Sundt Larsen, Director	2016			222 000	-	222 000	15
	2015	-		145 333	-	145 333	6
Total remuneration to the Board	2016			**2 019 667**	**290 000**	**2 309 667**	
Total compensation to the Board	2015			**1 734 334**	**261 900**	**1 996 234**	

1) 15 board meetings were held in 2016 (10 board meetings in 2015)

30. AUDITORS' FEES

	2016				2015			
NOK thousand	*Parent company*	*Subsidiaries in Norway*	*Subsidiaries abroad*	*Total 2016*	*Parent company*	*Subsidiaries in Norway*	*Subsidiaries abroad*	*Total 2015*
Group auditor EY								
Statutory audit	922	5 377	2 282	8 581	886	5 659	2 730	9 275
Other assurance services	-	92	-	92	-	318	-	318
Tax consultancy	123	666	1 247	2 036	604	1 251	1 409	3 264
Other services outside the audit	1 193	328	490	2 011	1 174	2 512	138	3 824
Total fees, EY	**2 238**	**6 463**	**4 019**	**12 720**	**2 664**	**9 740**	**4 277**	**16 681**
Other auditors								
Estimated audit fees			1 478	1 478	-	24	1 920	1 944

31. LIST OF GROUP COMPANIES

The following companies have been consolidated:

Name of company	*Country of origin*	*Ownership stake 31 Dec 16*	*Ownership stake 31 Dec 15*
Kongsberg Gruppen ASA	Norway	Parent	Parent
Kongsberg Defence & Aerospace AS	Norway	100	100
Kongsberg Spacetec AS	Norway	100	100
Kongsberg Norspace AS	Norway	100	100
Kongsberg Oil & Gas Technologies AS	Norway	100	100
Kongsberg Digital AS	Norway	100	
Kongsberg Eiendom Holding AS	Norway	100	100
Kongsberg Teknologipark AS	Norway	100	100
Kongsberg Næringseiendom AS	Norway	100	100
Kongsberg Næringspark-utvikling AS	Norway	100	100
Kongsberg Næringsbygg 2 AS	Norway	100	100
Kongsberg Næringsbygg 3 AS	Norway	100	100
Kongsberg Næringsbygg 5 AS	Norway	100	100
Kongsberg Næringsbygg 6 AS	Norway	100	100
Kongsberg Real Estate AS (Kongsberg Næringsbygg 10 AS)	Norway	100	100
Kongsberg Næringsbygg 11 AS	Norway	100	100
Kongsberg Next AS	Norway	100	100
Kongsberg Renewable Technology AS	Norway	Merged	100
Kongsberg Seatex AS	Norway	100	100
Vehicle Tracking and Information Systems AS	Norway	100	100
Nerion AS	Norway	100	100
Kongsberg Maritime AS	Norway	100	100
Kongsberg Norcontrol IT AS	Norway	100	100
Kongsberg Maritime Engineering AS	Norway	100	100
Kongsberg Evotec AS	Norway	100	100
Kongsberg Oil & Gas Technologies AB	Sweden	100	100
Kongsberg Maritime S.R.L	Italy	100	100
Simrad S.R.L	Italy	100	100
Kongsberg Maritime Holland BV	The Netherlands	100	100
Kongsberg Maritime Poland Sp.z o.o.	Poland	100	100
Kongsberg Defence Sp.z o.o.	Poland	100	100
Simrad Spain S.L.	Spain	100	100
Kongsberg Defence Oy	Finland	100	100
Kongsberg Maritime GmbH	Germany	100	100
Kongsberg Maritime Embient GmbH	Germany	100	100
Kongsberg Maritime Contros GmbH	Germany	100	100
Kongsberg Reinsurance Ltd.	Ireland	100	100
Kongsberg Norcontrol IT Ltd.	Great Britain	100	100
Kongsberg Maritime Holding Ltd.	Great Britain	100	100

Name of company	*Country of origin*	*Ownership stake 31 Dec 16*	*Ownership stake 31 Dec 15*
Kongsberg Maritime Ltd.	Great Britain	100	100
Simrad Leasing Ltd.	Great Britain	100	100
Kongsberg Oil & Gas Technologies Ltd	Great Britain	100	100
Kongsberg GeoAcoustics Ltd.	Great Britain	100	100
Kongsberg Hungaria Kft.	Hungary	100	100
Kongsberg Maritime Hellas SA	Greece	100	100
Kongsberg Digital (Maritime) Tech LLC	Russia	100	100
Kongsberg Geospatial Ltd.	Canada	100	100
Kongsberg Maritime Simulation Ltd.	Canada	100	100
Kongsberg Maritime Ltd.	Canada	100	100
Kongsberg Mesotech Ltd.	Canada	100	100
Kongsberg Protech Systems Canada Corporation	Canada	100	100
Kongsberg Digital (Maritime) Simulation Inc.	USA	100	100
Simrad North America Inc.	USA	100	100
Kongsberg Maritime Inc.	USA	100	100
Kongsberg Underwater Technology Inc.	USA	100	100
Kongsberg Protech Systems USA Corporation	USA	100	100
Kongsberg Digital Inc (Kongsberg Gas Technologies Inc.)	USA	100	100
Kongsberg Defense Systems Inc.	USA	100	100
Seaflex Riser Technology Inc.	USA	100	100
GlobalSim Inc.	USA		100
Hydroid Inc.	USA	100	100
Kongsberg Geospatial Corporation	USA	100	100
Kongsberg Integrated Tactical Systems Inc.	USA	100	100
Kongsberg Digital (Maritime) do Brasil S.A.	Brazil	100	100
Kongsberg Maritime Training do Brasil S.A.	Brazil	100	100
Kongsberg Oil & Gas Technologies do Brazil S.A.	Brazil	100	100
Kongsberg Maritime Mexico S.A. DE C.V.	Mexico	100	100
Kongsberg Defence Chile SpA	Chile	100	100
Kongsberg Maritime Panama Corp.	Panama	100	100
Kongsberg Asia Pacific Ltd.	Hong Kong	100	100
Kongsberg Maritime Hoi Tung Holding Ltd.	China	90	90
Kongsberg Maritime China Shanghai Ltd.	China	100	100

Name of company	*Country of origin*	*Ownership stake 31 Dec 16*	*Ownership stake 31 Dec 15*
Kongsberg Maritime China Jiangsu Ltd.	China	97	97
Kongsberg Maritime China Ltd.	China	100	
Kongsberg Maritime China Waigaoqiao Ltd	China	100	
Kongsberg Maritime Korea Ltd.	South Korea	96.9	96.9
Kongsberg Norcontrol IT Pte. Ltd.	Singapore	100	100
Kongsberg Maritime Pte. Ltd.	Singapore	100	100
GeoAcoustics Asia Pacific Pte Ltd.	Singapore	100	100
Kongsberg Maritime India Pvt. Ltd.	India	91	91
Kongsberg Digital (Oil & Gas Technologies) PVT Ltd.	India	100	100
Kongsberg Digital Software & Services Pvt Ltd	India	100	100
Kongsberg Norcontrol Surveillance Pvt. Ltd.	India	100	100
Kongsberg Defence Ltd. Co.	Saudi Arabia	100	100
Kongsberg Maritime Malaysia Sdn. Bhd.	Malaysia	100	100
Kongsberg Maritime Middle East DMCCO	UAE	70	70
Kongsberg Protech Systems Australia Pty Ltd.	Australia	100	100
Kongsberg Oil & Gas Technologies Pty. Ltd.	Australia	100	100
Kongsberg Maritime Australia Pty Ltd.	Australia	100	100
Kongsberg Maritime South Africa Ltd.	South Africa	100	

32. TRANSACTIONS WITH RELATED PARTIES

The Norwegian State as the largest owner
The Norwegian State as represented by the Ministry of Trade, Industry and Fisheries is KONGSBERG's largest owner (50.001 per cent of the shares in Kongsberg Gruppen ASA). The State represented by the Ministry of Defence is an important customer for the Group. Sales to the Armed Forces are regulated by the EEA agreement and the Procurement Regulations for the Armed Forces, which guarantee equal treatment for all vendors. At 31 December 2016 KONGSBERG had an outstanding balance from state-owned customers of MNOK 131, while other liability items in respect of state suppliers amounted to MNOK 1 on 31 December 2016.

In 2016, KONGSBERG issued invoices to state customers for a total of MNOK 1,056. Goods and services purchased from state suppliers in 2016 amounted to MNOK 19.

Please refer also to the Board's report on corporate governance Chapter 4 "Equal treatment of shareholders and related party transactions", where the State as a customer and shareholder is described in more detail.

Other
Walter Qvam, the Chief Executive Officer until 1 June 2016, is a Board member of Petroleum Geo-Services ASA (PGS). In 2016, KONGSBERG had trading with Petroleum Geo-Services for MNOK 22.5. Receivables towards PGS are MNOK 9.7 at 31 December 2016.

33. DEFINITIONS

KONGSBERG uses terms in the consolidated financial statements that are not anchored in the IFRS accounting standards. Our definitions and explanations of these terms follow below.

EBITDA/EBITA/EBIT
EBITDA / EBITA / EBIT are considered by KONGSBERG to be normal accounting terms, but they are not included in the IFRS accounting standards. EBITDA is an abbreviation of "Earnings Before Interest, Taxes, Depreciation and Amortisation". KONGSBERG uses EBITDA in the income statement as a summation line for other accounting lines. These accounting lines are defined in our accounting principles. The equivalent applies to EBITA and EBIT.

Net interest-bearing debt
Net interest-bearing debt is the net amount of the accounting lines "Cash and cash equivalents", "Long-term interest-bearing loans" and "Short-term interest-bearing loans".

Restructuring costs
KONGSBERG defines restructuring costs as salary and social security tax when the employment relationship is terminated (including severance pay and gift pension) in connection with workforce reductions, as well as rent and related costs or one-time payments when leases are terminated before the lease agreement expires for spaces that are vacated.

Return on Average Capital Employed (ROACE)
ROACE is defined as 12 months rollover EBIT divided by 12 month average of the entered equity + interest-bearing debt.

34. CONTINGENT LIABILITIES

The charge in corruption case Romania has been dismissed
In February 2014, charges were brought against Kongsberg Gruppen ASA, Kongsberg Defence & Aerospace AS and an employee of Kongsberg Defence & Aerospace AS with allegations of serious corruption related to deliveries of communication equipment to Romania from 2003 to 2008. The National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway (Økokrim) announced on 16 August 2016 that the charges against Kongsberg Gruppen ASA and Kongsberg Defence & Aerospace AS have been dropped. As the charges have been dropped, Kongsberg Gruppen ASA and Kongsberg Defence & Aerospace AS are no longer under investigation or under suspicion of corruption. Økokrim has decided to prosecute a former employee of KONGSBERG with charges of fraud against the company.

35. EVENTS AFTER BALANCE DATE

After the balance sheet date there have been no events significant for the consolidated financial statements and notes as of 31 December 2016.

INCOME STATEMENT AND BALANCE SHEET

Kongsberg Gruppen ASA

INCOME STATEMENT 1 JANUARY–31 DECEMBER

MNOK	*Note*	*2016*	*2015*
Operating revenues	9	242	232
Profit from sale of shares	12	64	-
Total revenues		**306**	**232**
Payroll expenses	4, 5	(131)	(85)
Depreciation		(1)	(2)
Other operating expenses	4	(142)	(146)
Total operating expenses		**(274)**	**(233)**
Operating profit		**32**	**(1)**
Profit from sale of shares	12	104	-
Interest from group companies		109	80
Net gain on currency exchange		1	11
Interest to group companies		(19)	(71)
Other interest expenses		(68)	(20)
Other financial income		9	45
Other finance expenses		(19)	(3)
Group contribution		400	250
Net finance items		**517**	**292**
Ordinary profit before tax (EBIT)		**549**	**291**
Income tax expense	6	(2)	(14)
Profit for the year		**547**	**277**
Allocations and equity transfers			
Proposed dividend		(450)	(510)

BALANCE SHEET AT 31 DECEMBER

MNOK	*Note*	*2016*	*2015*
ASSETS			
Non-current assets			
Deferred tax assets	6	99	100
Fixed assets		4	4
Shares in subsidiaries	3	2 970	2 245
Other shares		-	121
Long-term receivables from subsidiaries	9	3 738	2 361
Other long-term receivables		40	43
Total non-current assets		**6 851**	**4 874**
Current assets			
Receivables from subsidiaries	9	555	381
Other short-term receivables		45	25
Total current assets		**600**	**406**
Total assets		7 451	5 280
EQUITY AND LIABILITIES			
Equity			
Share capital		150	150
Total paid-in capital		**150**	**150**
Other equity		1 102	1 002
Total retained earnings		**1 102**	**1 002**
Total equity	2	**1 252**	**1 152**
Non-current liabilities			
Pension liabilities	5	239	233
Long-term interest-bearing loans	7	3 732	750
Other non-current liabilities		8	13
Total non-current liabilities		**3 979**	**996**
Current liabilities			
Dividend		450	510
Debt to credit institutions	7,11	1 125	279
Current liabilities to subsidiaries	9	552	2 261
Other current liabilities		93	82
Total current liabilities		**2 220**	**3 132**
Total equity and liabilities		7 451	5 280

CASH FLOW STATEMENT

Kongsberg Gruppen ASA

MNOK	*Note*	*2016*	*2015*
Profit before tax		549	291
Profit from sale of shares	12	(158)	-
Depreciation		1	2
Reversal of impairment of financial assets		-	(22)
Changes in accruals, etc.		240	(177)
Net cash flows from operating activities		**632**	**94**
Cash flow from investing activities			
Sales of fixed assets		-	1
Purchase of fixed assets		(1)	-
Sale of shares		278	-
Investment in shares		(725)	(30)
Net cash flow used in investing activities		**(448)**	**(29)**
Cash flow from financing activities			
Repayment of previously impaired loans		2	2
Dividends received		7	2
Proceeds from interest-bearing loans		2 977	-
Paid dividend		(509)	(1 107)
Net disbursements for purchase/disposal of treasury shares		(3)	(5)
Changes in intercompany balances		(3 242)	(1 508)
Net cash flow used in financing activities		**(768)**	**(2 616)**
Net increase (reduction) in cash and cash equivalents		**(584)**	**(2 551)**
Cash and cash equivalents at the beginning of the period		**(279)**	**2 272**
Cash and cash equivalents at the end of the period		**(863)**	**(279)**

NOTES

Kongsberg Gruppen ASA

1. ACCOUNTING POLICIES

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

Subsidiaries and associated companies

Subsidiaries and associates are measured at cost in the statutory accounts. The investment is evaluated at acquisition cost less any impairment losses. Such assets are written down to fair value when a decrease in value cannot be considered to be temporary and is required pursuant to generally accepted accounting principles. Impairments are reversed when the basis for the impairment no longer applies.

Classification and valuation of balance sheet items

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

Recognition of income

Revenues are recognised in the period when the services are rendered.

Hedging

Kongsberg Gruppen ASA enters into hedging contracts on behalf of subsidiaries and enters into "back to back-" agreements with external banks. See also Note 10 "Currency hedging" and Note 3J "Financial instruments" of the consolidated financial statement.

Receivables

Accounts receivables and other receivables are capitalised at nominal values less provisions for expected loss. Provisions for losses are made on the basis of individual assessments of each receivable.

Foreign currency

Monetary items in a foreign currency are assessed using the exchange rate applicable at year-end. Gains and losses related to items in a foreign currency and that are part of the goods circulation are included in the operating profit/loss. Other gains and losses related to items in foreign currency are classified as financial income or costs.

Short-term investments

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

Pensions

The defined contribution plan

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

The defined benefit plan

Pension costs and pension obligations are calculated according to linear accruals, based on the expected final salary. The calculation is based on a number of assumptions including discount rates, future salary adjustments, pensions and benefits from the National Insurance Scheme, and future interest income on pension fund assets, as well as actuarial assumptions on mortality and voluntary retirement. Pension fund assets are measured at their fair value, less net pension liabilities at the date of the balance sheet. See also Note 5 "Pensions".

Income tax

Income tax expense in the financial statements includes tax payable and the change in deferred tax for the period. Deferred tax/tax assets are calculated at 24 per cent on all temporary differences between the book value and tax value of assets and liabilities, and loss carried forward at the end of the reporting period. Taxable and deductible temporary differences that reverse or may reverse in the same period are offset. Deferred tax assets are recognised when it is probable that the company will have adequate profit for tax purposes in subsequent periods to utilise the tax asset.

Cash flow statement

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

2. EQUITY RECONCILIATION

MNOK	*Shares capital*	*Other equity*	*Total equity*
Equity at 31 Dec 14	**150**	**1 215**	**1 365**
Profit for the year	-	277	277
Trading in treasury shares	-	7	7
Dividend for 2015	-	(510)	(510)
Actuarial gain/loss on pension expense	-	13	13
Equity at 31 Dec 15	**150**	**1 002**	**1 152**
Profit for the year	-	547	547
Trading in treasury shares	-	5	5
Dividend for 2016	-	(450)	(450)
Actuarial gain/loss on pension expense	-	(2)	(2)
Equity at 31 Dec 16	**150**	**1 102**	**1 252**

Other information about the company's share capital is provided in Note 23 "Share capital and premiums" of the consolidated financial statements. The total number of treasury shares at 31 December 2016 is 1,049.

3. SHARES IN SUBSIDIARIES

MNOK	*Acquisition time*	*Business office*	*Owner/vote share %*	*Carrying amount 31 Dec.*
Kongsberg Defence & Aerospace AS	1997	Kongsberg	100	1 206
Kongsberg Basetec AS	1992	Kongsberg	100	106
Kongsberg Maritime AS[1)]	1992	Kongsberg	95.9	1 102
Kongsberg Eiendom Holding AS	2015	Kongsberg	100	497
Kongsberg Next AS	2014	Kongsberg	100	30
Kongsberg Maritime China Ltd	2016	Shanghai	100	25
Kongsberg Holding AS	1987	Kongsberg	100	-
Kongsberg Forsvar AS	1995	Kongsberg	100	-
Norsk Forsvarsteknologi AS	1987	Kongsberg	100	-
Nerion AS	2002	Trondheim	100	-
Kongsberg Hungaria Kft[2)]	2003	Budapest	10	-
Kongsberg Reinsurance Ltd.	2001	Dublin	100	4
Total				**2 970**

1) The remaining shares in Kongsberg Maritime AS are owned by Kongsberg Basetec AS

2) The remaining shares in Kongsberg Hungaria Engineering Service Development and Trading LLC are owned by Kongsberg Defence & Aerospace AS with 90 per cent.

4. PAYROLL EXPENSES AND AUDITOR'S FEES

With regard to salary and remuneration to the corporate executive management and Board members, reference is made to Note 29 "Remuneration for corporate executive management and the Board" in the consolidated financial statements.

Auditor's fees

TNOK	*2016*	*2015*
Corporate auditor Ernst & Young:		
Statutory audit	922	886
Tax consultancy	123	604
Other services outside the audit	1 193	1 174
Total fees, Ernst & Young	**2 238**	**2 664**

Payroll expenses

MNOK	*2016*	*2015*
Salaries	75	85
Social security expenses	14	14
Pension	16	21
Other benefits	26	(35)
Total payroll expenses	**131**	**85**
Total man-labour years	62	60

5. PENSIONS

KONGSBERG has a service pension plan that consists of a defined contribution plan and a defined benefit plan and complies with laws and regulations. The service pension plans include all employees of the Group in Norway.

The defined contribution pension scheme (ITP)
The Group introduced a defined contribution pension scheme as of 1 January 2008 for all employees under 52 years of age. The contribution rates are 0 per cent of salary up to 1G, 5 per cent of salary between 1G and 6G, and 8 per cent of salary from 6G up to 12G. The employees can influence the way the funds are managed by choosing between three investment options; with either 30, 50 or 80 per cent of their shares in the portfolio. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The Group's deposits in this plan are 18 per cent of the portion of the base salary that exceeds 12G, up to a ceiling of 15G. Special terms and conditions apply for executives. This is described in Note 28 "Statement on the remuneration of the Group CEO and Executive Management". The unfunded scheme has been closed for new members since 2015. The supplementary plan has the same investment choices as the main plan. The contributions are expensed as incurred. The contribution rates as of 1 January 2017 have been changed; see Note 28 to the consolidated financial statements.

The defined benefit plan (YTP)
In connection with the transition to the defined contribution plan on 1 January 2008, employees aged 52 or more remained in the defined benefit plan. The pension plan is insured through DNB Life Insurance. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. Pension costs are distributed over the employee's accrual period. Given a calculated state pension based on the Norwegian National Insurance Scheme's rules before 1 January 2011 and full earnings, the scheme provides approximately 65 per cent of the final salary including National Insurance benefits until the age of 77, after which the service pension section is reduced by 50 per cent for the remaining lifetime. The Group also has a collective, unfunded defined benefit plan for salaries between 12G and 15G. The collective, unfunded benefits plan corresponds to about 60 per cent of the share of salary that exceeds 12G until the age of 77, and then the benefit is reduced by 50 per cent for the remaining lifetime. Special terms and conditions apply for executives. This is described in Note 28 "Statement on the remuneration of the Group CEO and Executive Management". These supplementary plans were discontinued in connection with the transition to defined contribution pension schemes.

Risk coverage
Disability pension from the Group was changed on 1 January 2016 and will provide an addition to the estimated disability benefits from national insurance. National insurance will cover 66 per cent of the pension basis up to 6G, while the Group plan covers 66 per cent of the pension basis between 6G and 12G. The Group plan also provides an additional 3 per cent of the pension basis from 0G to 12G, a pay increase of 25 per cent of G and any child supplement of 4 per cent per child (maximum 3 children). From 1 January 2016, KONGSBERG has decided to terminate the paid-up policy accrual for disability pensions as part of the adaptation to the new regulations. The employees have been issued individual paid-up policies for the already earned paid-up policy rights. The new scheme is a one-year risk cover and the premiums will be expensed as they accrue. Starting on 1 Januray 2013, the risk pensions are unfunded for the share of salary that exceeds 12G. In practice this implies that KONGSBERG is self-insurer for the risk pension for future periods. The unfunded scheme has been closed for new members since 2015.

Early retirement

In 2009, the Group introduced new rules for early retirement for newly hired members of executive management and others in certain key positions. The rules entail early retirement from the age of 65 at the latest, but with reciprocal rights for the Group and the employees to request retirement from the age of 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 contribution years. If the employee resigns between 63 and 65, this will reduce pension earnings for other plans.

The Group decided not to continue the scheme with early retirement agreements for executives employed after 1 July 2013. This also applied to employees in certain key positions who previously were offered agreements on early retirement. These individuals instead receive an additional contribution of 12 per cent of the basic salary in excess of 12G, to the unfunded pension scheme as long as they hold the post, but only until the age of 65 at the latest. After an overall assessment of the State's ownership report, the Group decided on 1 October 2015 not offer any early retirement options.

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

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

	31 Dec 16	31 Dec 15
Discount rate	2.50%	2.60%
Asset return	2.50%	2.60%
Wage adjustment	1.50%	1.75%
Pension base level (G) adjustment	2.00%	2.25%
Pension adjustment	1.00%	1.50%
Mortality	K 2013	K 2013
Disability	IR 73	IR 73
Voluntary turnover	4.50%	4.50%

The year's pension costs were calculated as follows:

MNOK	*2016*	*2015*
Present value of the year's earned pensions	7	10
Interest cost on accrued pension liabilities	2	3
Estimated return on pension plan assets	(1)	(1)
Accrued social security expenses	1	2
Settlement of pension scheme [1]		(4)
Total net pension cost for the year	**9**	**10**
Defined contribution plan costs	**12**	**11**

1) From 1 January 2016, KONGSBERG has decided to terminate the paid-up policy accrual for disability pensions as part of the adaptation to the new regulations. The one-off effect from discontinuation of the paid-up policy accrual is included as part of the settlement of the pension scheme in 2015.

The net pension liability appears as follows:

MNOK	*2016*	*2015*
Total gross pension liabilities	(243)	(240)
Gross value of gross pension assets	34	36
Net pension liabilities	**(209)**	**(204)**
Social security tax	(30)	(29)
Net pension liabilities in balance sheet 31 Dec.	**(239)**	**(233)**

6. INCOME TAX

Income tax expense

MNOK	*2016*	*2015*
Taxes payable	-	-
Change in deferred tax	(2)	14
Tax income/expense	**(2)**	**14**

MNOK	*2016*	*2015*
Profit before tax	**549**	**291**
Tax calculated – 25 per cent (27 per cent) of profit before tax	137	79
Group contribution without tax effect	(100)	(68)
Other permanent differences	(39)	(5)
Effect of reduced tax rate by 1 per cent (2 per cent)	4	8
Tax income/expense	**2**	**14**

Deferred tax and deferred tax asset

MNOK	*2016*	*2015*
Pension	57	58
Unused tax losses	42	38
Other	-	4
Recognised deferred tax asset	**99**	**100**
Tax rate in Norway	24%	25%

Change in deferred tax recognised directly in equity as follows:

MNOK	*31 Dec 16*	*31 Dec 15*
Pensions	1	(4)
Total	**1**	**(4)**

7. LONG-TERM INTEREST-BEARING LOANS AND CREDIT FACILITIES

At 31 December 2016, Kongsberg Gruppen ASA had the following loans and credit facilities:

Amounts in MNOK	*Due date*	*Nominal interest rate*	*Years to maturity*	*Nominal amount*	*Carrying amount*
Bond loan KOG07 - fixed interest	11 Sep 19	4.80%	2.7	250	250
Bond loan KOG08 - floating interest	2 Jun 21	2.39%	4.5	1 000	1 000
Bond loan KOG09 - fixed interest	2 Jun 26	3.20%	9.5	1 000	1 000
Bond loan KOG10 - floating interest	2 Mar 20	2.04%	3.3	550	550
Bond loan KOG11 - fixed interest	5 Dec 23	2.90%	7	450	450
Bridging loan in EUR – floating interest	24 Feb 19	0.80%	2	482	482
Total long-term loans				**3 732**	**3 732**
Bond loan KOG06 - floating interest	11 Sep 17	2.94%	0,7	257	257
Other interest-bearing loans	1 Mar 17			5	
Total current liabilities				**262**	
Total interest-bearing loans				**3 994**	**3 989**
Credit facility (undrawn borrowing limit)	7 Apr 19			1 500	
Overdraft (unused)				500	

Kongsberg Gruppen ASA has a syndicated credit facility with Danske Bank, DNB, JP Morgan Chase, Nordea and SEB. The facility is for general business purposes. The facility has a term of five years with an option to extend for one year, twice. The interest rate is NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.5 per cent to 1 per cent. The credit facilities require that net interest-bearing debt shall not exceed three times the EBITDA, but can be up to 3.5 times the figure for three consecutive quarters at the most. The covenants in the loan agreements have been met. There was no borrowings on the facility as of 31 December 2016.

Kongsberg Gruppen ASA had six bond loans at the end of 2016. The bond loans were issued in NOK and listed on the Oslo Stock Exchange. The interest rate terms on loans with floating rates are 3-month NIBOR with a margin of + 1.8 per cent for KOG06, +1.25 per cent for KOG08 and 0.9 per cent for KOG10. Interest rate terms on the bridging loan are EURIBOR + a margin that increases over the loan's duration. In the terms it is stated that the reference interest cannot be lower than zero. As of 31 December 2016, the margin was + 0.8 per cent. Basis swaps from EUR to NOK have been entered into in relation to the bridging loan, providing a nominal rate of 2.19 per cent. The loans are capitalised at their amortised cost using the effective interest method.

In 2016 Kongsberg Gruppen ASA issued four new unsecured bond loans in the Norwegian market with a total loan amount of NOK 3 billion. Bond loans KOG08 and KOG09 were issued in the second quarter of 2016 and in this connection, repurchasing was also carried out on bond loan KOG06 with MNOK 234.

The bridging loan was established in May 2016 in connection with the acquisition of the shareholding in Patria Oyj; see also Note 7

"Shares in joint arrangements and associated companies". In the 4th quarter bond loans KOG10 and KOG11 were issued. At the same time, repayments of EUR 107 million were made on the bridging loan. The bridging loan stands at EUR 53 million as of 31 December 2016. A new cash credit of MNOK 500 was established in 2016.

All loans in the Group are centralised to Kongsberg Gruppen ASA and handled by the Group's treasury unit.

8. GUARANTEES

Kongsberg Gruppen ASA has, in the period from 1999 to 2014, sold properties in the Kongsberg Teknologipark Park. The properties have been leased back on long-term lease and expire from 2017 to 2031. The leaseback contracts have been entered into by Kongsberg Næringsparkutvikling AS, which is a wholly-owned subsidiary of Kongsberg Eiendom Holding AS, which in its turn is owned 100 per cent by Kongsberg Gruppen ASA. The leaseback contracts are classified as operating leasing agreements.

In addition to lease payments, Kongsberg Gruppen ASA is responsible for certain expenses related to taxes and maintenance of the properties. With the exception of the properties sold in 2007 and 2014, the properties are mainly leased to external tenants. The leases have durations ranging from three months to 15 years. The obligations related to this responsibility were in 2015 transferred to Kongsberg Næringsparkutvikling AS, but Kongsberg Gruppen ASA guarantees that the obligations are observed. Further information on provisions related to these leases is given in Note 24 "Provisions" of the consolidated financial statements.

The parent company has guaranteed a lease amount related to sale and leaseback agreements of MNOK 1,635.

Prepayment and completion guarantees

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

MNOK	*2016*	*2015*
Guarantees issued by banks and insurance companies	2 572	2 796
Guarantees issued by Kongsberg Gruppen ASA	5 093	5 395
Prepayments from and completion guarantees to customers	**7 665**	**8 191**

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

9. RELATED PARTIES

Operating revenues

MNOK	2016	2015
Kongsberg Maritime AS	130	126
Kongsberg Defence & Aerospace AS	97	90
Kongsberg Digital AS	7	-
Kongsberg Oil & Gas Technologies AS	4	12
Other companies	4	4
Total operating income-related parties	**242**	**232**

Operating income from closely related parties mainly consists of joint Group expenses and insurance, as well as margins on guarantee and currency businesses.

Long-term receivables from related parties

MNOK	2016	2015
Kongsberg Defence & Aerospace AS	1 629	-
Kongsberg Maritime AS	196	-
Kongsberg Digital AS	100	-
Kongsberg Næringseiendom AS	100	100
Kongsberg Næringsbygg 2 AS	79	79
Kongsberg Næringsbygg 3 AS	103	103
Kongsberg Norcontrol IT AS	233	193
Kongsberg Næringsbygg 5 AS	71	48
Kongsberg Næringsbygg 6 AS	12	12
Kongsberg Maritime Engineering AS	120	126
Kongsberg Oil & Gas Technologies AS	-	463
Kongsberg Evotec AS	-	6
Kongsberg Renewables Technology AS	-	10
Kongsberg Geospatial Ltd.	11	20
Kongsberg Protech Systems USA Corporation Inc.	42	45
Hydroid Inc	520	569
Kongsberg Maritime Holding Ltd	46	56
Kongsberg Protech Systems Canada Corporation Inc	-	51
Kongsberg Maritime Hoi Tung Holding Ltd	104	103
Kongsberg Maritime Middle East DMCCO	-	-
Kongsberg Integrated Tactical Systems Inc (KITS)	174	178
Kongsberg Maritime Hellas AS	-	1
Kongsberg Maritime Mexico S.A.DE CV	4	7
Kongsberg Maritime do Brasil SA	7	12
Kongsberg Maritime Training do Brasil SA	16	16
Kongsberg Maritime Malaysia Sdn. Bhd	17	18
Kongsberg Oil & Gas Technologies Ltd	-	12
Kongsberg Oil & Gas Technologies Pty Ltd	21	23
Kongsberg Norspace AS	64	64
Kongsberg Maritime Embient GmbH	25	26
Kongsberg Maritime Contros GmbH	15	10
Kongsberg Maritime Australia Pty Ltd	6	3
Kongsberg Maritime India Pvt. Ltd.	18	-
Other companies	5	7
Total	**3 738**	**2 361**

Short-term liabilities to related parties

MNOK	2016	2015
Kongsberg Defence & Aerospace AS	307	1 857
Kongsberg Maritime AS	1	10
Kongsberg Digital AS	1	-
Kongsberg Oil & Gas Technologies AS	2	-
Kongsberg Seatex AS	4	210
Kongsberg Spacetec AS	36	19
Portside AS	-	6
Kongsberg Next AS	15	10
Kongsberg Evotec AS	15	-
Kongsberg Holding AS	5	-
Kongsberg Reinsurance Ltd	85	50
Kongsberg Maritime Inc	13	39
Kongsberg Maritime Holding Ltd	26	-
KM Aberdeen	21	-
Kongsberg Underwater Technology Inc	17	18
Kongsberg Maritime Simulation Inc.	-	13
Global Sim Inc	-	26
Other companies	4	3
Total	**552**	**2 261**

Short-term receivables from related parties

MNOK	2016	2015
Kongsberg Maritime AS	233	41
Kongsberg Defence & Aerospace AS	265	263
Kongsberg Digital AS	4	-
Kongsberg Oil & Gas Technologies AS	-	19
Kongsberg Maritime Holding Ltd	-	7
Kongsberg Basetec AS	40	40
Other	13	11
Total	**555**	**381**

10. CURRENCY HEDGING

On 31 December, the company had the following foreign exchange currency hedges, divided by hedge categories:

2016 *Amounts in mill.*	*Value in NOK based on the agreed rates 31 Dec 16*	*Fair value in NOK 31 Dec 16*	*Total hedged amount in USD 2016*	*Average hedged rate in USD 31 Dec 16*	*Total hedged amount in EUR 31 Dec 16*	*Average hedged rate in EUR 31 Dec 16*
Cash flow hedges						
Forward exchange contracts	5 070	(144)	571	8.34	37	9.22
Total cash flow hedges	**5 070**	**(144)**	**571**		**37**	
Fair value hedges						
Forward exchange contracts	9 182	(833)	841	7.40	182	9.41
Loan hedges	961	8	100	8.67	4	9.07
Total currency hedges	**15 213**	**(969)**	**1 512**		**223**	

2015 *Amounts in mill.*	*Value in NOK based on the agreed rates 31 Dec 15*	*Fair value in NOK 31 Dec 15*	*Total hedged amount in USD 2015*	*Average hedged rate in USD 31 Dec 15*	*Total hedged amount in EUR 31 Dec 15*	*Average hedged rate in EUR 31 Dec 15*
Cash flow hedges						
Forward exchange contracts	8 545	(279)	987	7.70	105	9.23
Total cash flow hedges	**8 545**	**(279)**	**987**		**105**	
Fair value hedges						
Forward exchange contracts	10 471	(1 643)	1 038	7.49	106	9.04
Loan hedges	1 048	(10)	104	8.74	3	9.57
Total currency hedges	**20 064**	**(2 791)**	**2 129**		**214**	

Foreign exchange options
As of 31 December 2016 Kongsberg Gruppen ASA has no currency options. At the end of 2015 the Group had currency options with a fair value of MNOK -13.

Basis swaps
In 2016 Kongsberg Gruppen ASA entered into basis swaps to secure loans in euro; see Note 7 "Interest-bearing loans and credit". The volume of the swaps was equivalent to the loan's nominal value. The basis swaps have a fair value of MNOK -13.6 as of 31 December 2016, which is recognised under other financial expenses. Basis swaps have also been entered totalling EUR 130 million, connected to investments in associated companies in one of the subsidiaries. These basis swaps have a fair value of MNOK 28.6 as of 31 December 2016. Changes in value have not been included in Kongsberg Gruppen ASA's accounts in accordance with Norwegian GAAP.

Currency hedges related parties

Subsidiary

	2016				2015			
Amounts in mill.	*Value in NOK based on the agreed rates 31 Dec 16*	*Fair value in NOK 31 Dec 16*	*Total hedged amount in USD 2016*	*Total hedged amount in EUR 31 Dec 16*	*Value in NOK based on the agreed rates 31 Dec 15*	*Fair value in NOK 31 Dec 15*	*Total hedged amount in USD 2015*	*Total hedged amount in EUR 31 Dec 15*
Forward exchange contracts, cash flow hedging								
Kongsberg Maritime AS	439	(19)	44	9	2 970	(602)	351	51
Kongsberg Oil & Gas Technologies AS	-	-	-	-	61	(28)	10	-
Kongsberg Digital AS	86	(2)	7	3	-	-	-	-
Kongsberg Defence & Aerospace AS	4 285	(118)	489	25	5 214	(500)	591	54
Kongsberg Norcontrol IT AS	260	(5)	31	-	300	(8)	35	-
Total cash flow hedges	**5 070**	**(144)**	**571**	**37**	**8 545**	**(1 138)**	**987**	**105**
Forward exchange contracts, fair value hedges								
Kongsberg Maritime AS	1 996	(34)	193	37	3 049	(342)	308	51
Kongsberg Maritime Engineering AS	428	6	17	30	314	-	19	10
Kongsberg Oil & Gas Technologies AS	-	-	-	-	64	(9)	6	2
Kongsberg Digital AS	292	(9)	15	10				
Kongsberg Defence & Aerospace AS	5 545	(790)	596	30	6 041	(1 264)	694	(11)
Kongsberg Spacetec AS	118	-	12	2	69	(3)	4	4
Kongsberg Norcontrol IT AS	380	4	5	33	332	(12)	4	31
Other companies	423	(9)	3	41	602	(13)	3	19
Total fair value hedges	**9 182**	**(832)**	**841**	**183**	**10 471**	**(1 643)**	**1 038**	**106**
Total currency hedges	**14 252**	**(976)**	**1 412**	**220**	**19 016**	**(2 781)**	**2 025**	**211**

Associated companies

	2016				2015			
Amounts in mill.	*Value in NOK based on the agreed rates 31 Dec 16*	*Fair value in NOK 31 Dec 16*	*Total hedged amount in USD 2016*	*Total hedged amount in EUR 31 Dec 16*	*Value in NOK based on the agreed rates 31 Dec 15*	*Fair value in NOK 31 Dec 15*	*Total hedged amount in USD 2015*	*Total hedged amount in EUR 31 Dec 15*
Forward exchange contracts, fair value hedges								
Kongsberg Satellite Services	1 229	(9)	82	54	1 474	(156)	109	65

11. CASH AND CASH EQUIVALENTS

Nominal amounts in MNOK	*31 Dec 16*	*31 Dec 15*
Deductions from operating bank accounts	(863)	(279)
Total	**(863)**	**(279)**

Bank guarantees amounting to MNOK 10 (MNOK 10 in 2015) have been furnished for funds related to withholding tax for employees.

The Group's liquidity management is centralised in Kongsberg Gruppen ASA and handled by the Group's treasury unit.

12. PROFIT FROM SALE OF SHARES

In 2016, KONGSBERG sold its shares in Kitron ASA and KBC Advanced Technologies with an accounting profit of MNOK 104 and 54 respectively. The profit from Kitron is classified as financial income, whereas the profit from KBC is included in the operating profit. The profit from the sale of shares in operating income also includes an adjustment of previous years' profit for the sale of shares with MNOK 10.

STATEMENT FROM THE BOARD

Kongsberg Gruppen ASA

We hereby confirm, to the best of our conviction, that the financial statements for 1 January to 31 December 2016 have been drawn up in compliance with recognised accounting standards, and that the information disclosed therein gives a true picture of the enterprise's and the Group's assets, liabilities, financial position and performance as a whole, and that the information disclosed in the Directors' report gives a true picture of the progress, profits and position of the enterprise and the Group, as well as a description of the most central risk and uncertainty factors facing them.

Kongsberg, 8 March 2017

Finn Jebsen, *Chairman*

Irene Waage Basili, *Deputy chairman*

Morten Henriksen, *Director*

Jarle Roth, *Director*

Anne-Grete Strøm-Erichsen, *Director*

Rune Sundt Larsen, *Director*

Helge Lintvedt, *Director*

Roar Marthiniussen, *Director*

Geir Håøy, *Chief executive officer*

AUDITOR'S REPORT

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Statsautoriserte revisorer
Ernst & Young AS

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Kongsberg Gruppen ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kongsberg Gruppen ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2016, the income statement and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

The consolidated financial statements comprise the statement of financial position as at 31 December 2016, the income statement, statements of other comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

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Recognition of construction contracts

A large part of the Group's revenues and expenses are derived from construction contracts recognised in accordance with the percentage of completion method. Under this method, the construction contracts' profitability and degree of completion is determined based on estimates. There is uncertainty related to the expected total revenues and expense used as a basis for these estimates. The recognition of construction contracts is a key audit matter, due the extent and complexity of ongoing projects in the Group with duration over several years, and where management exercises judgement to estimate the percentage of completion.

We evaluated the application of accounting principles, methodology for calculating the projects' percentage of completion, routines for monitoring projects and tested controls over project assessments and recognition. We discussed estimated total project expenses or hours with project management, evaluated these estimates against comparable projects, and analysed the development in margins for selected projects and the total project portfolio. For selected contracts, we tested estimated revenues against agreements, incurred expenses against invoices and hours against timesheets, and assessed the total estimated project expenses. In addition, we have analysed actual margins on selected projects against estimated total margins at completion during the project period in order to evaluate management's accuracy in judgments and estimates.

We refer to note 2 for details on estimation uncertainty and note 8 on construction contracts in the consolidated financial statements.

Currency hedging of future cash flows in foreign currency

A large part of Kongsberg Gruppen's revenues is in foreign currencies. The Group hedges highly probable and contractual future cash flows by entering into forward contracts. Currency hedging and hedge accounting has been a key audit matter due to the complex accounting rules for hedge accounting, detailed documentation requirements and the amounts involved.

We assessed the application of accounting principles and the Group's routines for hedge accounting, and we tested the Group's controls over hedge accounting and hedging derivatives. We considered the Company's process to follow-up forward contracts against expected cash flows. We tested the existence and completeness of unrealised currency forward contracts and the Company's documentation of the hedge effectiveness. We recomputed the value of the forward contracts based on the foreign currency rates as of 31 December and assessed the presentation and classification of currency hedges in the financial statements, including note disclosures.

We refer to note 3 for details on accounting principles and note 21 on financial instruments in the consolidated financial statements.

Other information

Other information consists of the information included in the Company's annual report and sustainability report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other

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matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statements on corporate governance and corporate social responsibility

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

Opinion on registration and documentation

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

Oslo, 8 March 2017
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

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

03

CORPORATE GOVERNANCE

THE BOARD'S REPORT ON CORPORATE GOVERNANCE

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

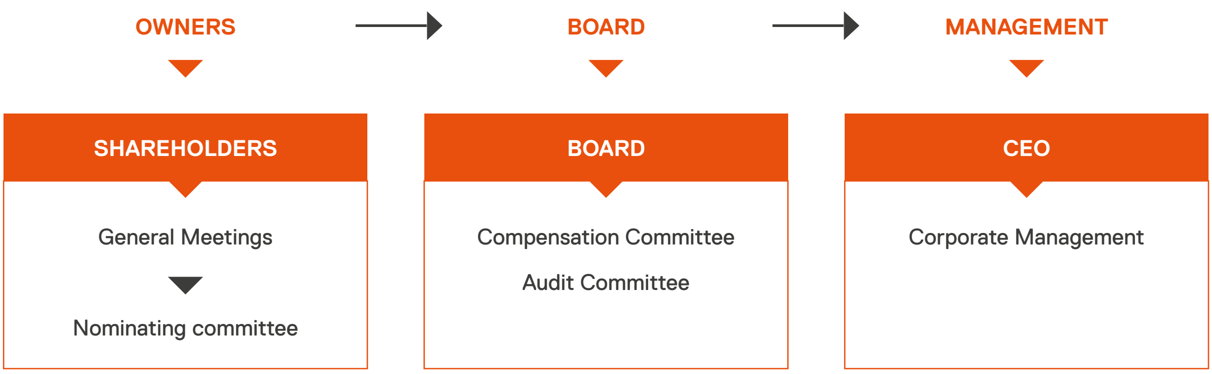
Good corporate governance and corporate management shall reduce business-related risk, while the company's resources shall be utilised in an effective and sustainable manner. The Group will achieve its goals through further development of first-class competency centres, deliveries of market-leading systems,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

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

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

Treatment of the topic in 2016
The topic of corporate governance is subject to annual evaluation and discussion by the Group Board. Amongst other things, the Group's management documents are reviewed and revised annually.

KONGSBERG's MODEL FOR CORPORATE GOVERNANCE.



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

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

Strategy and operational management.

POLICY

KONGSBERG

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

In compliance with Section 5-4 of the Public Limited Liability Companies Act, this report will be dealt with at KONGSBERG's Annual General Meeting on 26/04/2017. The Group's compliance with and any deviations from the Code of Practice will be commented on and made available to the Group's stakeholders.

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

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

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

The Group's corporate social responsibility work is considered an integral part of the principles of good corporate governance. This is in accordance with the government's view, as expressed in the 'Ownership Report'.

ARTICLES OF ASSOCIATION

Kongsberg Gruppen ASA

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

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

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

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

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

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

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

§ 8 The Annual General Meeting shall:

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

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

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

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

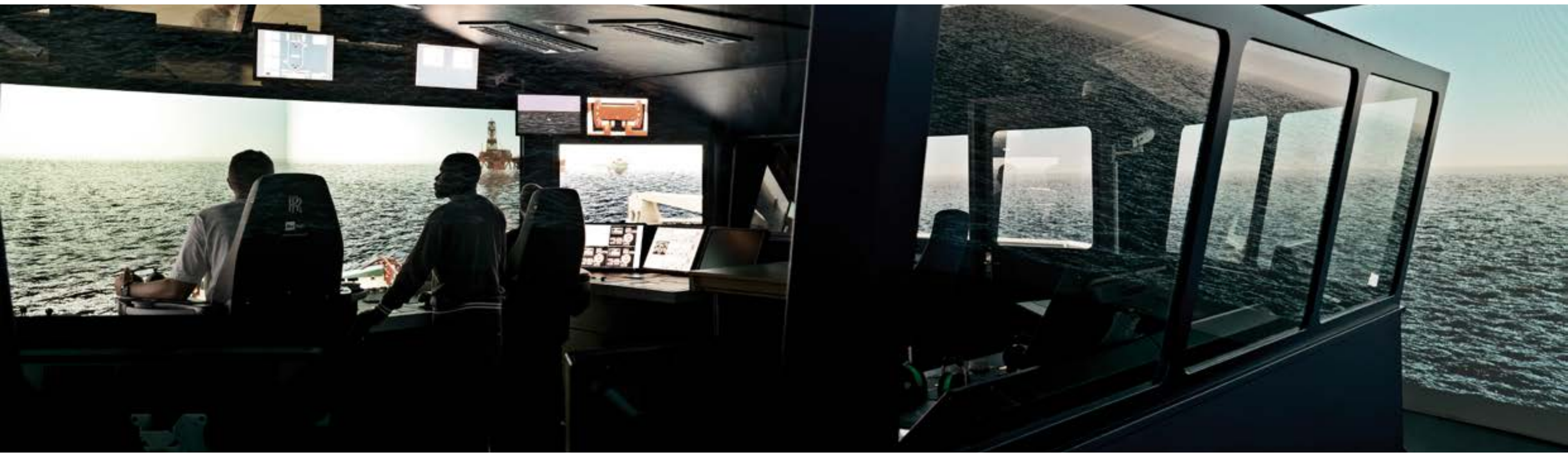
THE BOARD'S REPORT RELATING TO "THE NORWEGIAN CODE OF PRACTICE FOR CORPORATE GOVERNANCE"

The Kongsberg Gruppen ASA Board actively supports the principles for good corporate governance and emphasising the importance of KONGSBERG's compliance with the Norwegian Code of Practice for Corporate Governance and to explaining any deviations. For the complete overview of the Code with comments, see the Oslo Stock Exchange website at www.oslobors.no or the NUES (the Norwegian Corporate Governance Committee) at www.nues.no.

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

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

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



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

Item 6 – General Meeting
There are two deviations on this point:
i) The entire Board has not usually attended the General Meeting. Thus far, the items on the agenda of the General Meeting have not required this. The Chair of the Board is always present to respond to questions. Other Board members participate on an ad hoc basis. From the Group's perspective, this is considered to be sufficient.
ii) Article 8 of the Articles of Association specifies that the General Meetings are to be chaired by the Chair of the Board. If the Chair is absent, the General Meeting is chaired by the Board's Deputy Chair. In the absence of both, the Chair shall be elected by the General Meeting. This is a deviation in regard to the recommendation for an independent Chair. The scheme has been approved by the company's shareholders through a unanimous resolution in the General Meeting, and has so far worked satisfactorily.

1. REPORT ON CORPORATE GOVERNANCE

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

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

The topic of corporate governance is subject to annual evaluation and discussion by the Board. The following report was carried at the Board meeting on 07 February 2017.

Value platform
The Group's vision is "World Class – through people, technology and dedication". The values that support this vision are: Determined, Innovative, Collaborative and Reliable. These values are important for developing a strong, healthy corporate culture and also form a platform for good corporate governance. Further information about the Group's values can be found on the Group's website and in the Group's Annual and Sustainability Report for 2016.

Ethics and corporate social responsibility
The Group's current Code of Ethics and Business Conduct was approved by the Board in February 2016. They are based largely on international initiatives and guidelines related to social responsibility which the Group has endorsed, including the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the ILO Conventions. The guidelines include the topics of human rights, workers' rights, climate and environment, corruption, our relations with customers, supplier and market representatives, legal competence and confidentiality. They apply to the Group's directors, managers, employees, all contracted personnel, consultants, agents and lobbyists and others who act on behalf of KONGSBERG. See the detailed description in the Annual and Sustainability Report for 2016.

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

2. OPERATIONS

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

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

3. SHARE CAPITAL AND DIVIDENDS

Equity
At 31 December 2016, the Group's equity came to MNOK 6,725 (MNOK 6,127), which is equivalent to 31.7 (32.0) per cent of the total assets. The Board considers this satisfactory. At any given time, the company's need for financial strength is considered in the light of its objectives, strategy and risk profile.

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

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

For the 2015 financial year, a dividend of NOK 4.25 per share was paid.

The Board proposes to the General Meeting a dividend for the accounting year 2016 of NOK 3.75 per share. The dividend represents 68.9 per cent of the ordinary annual result.

Board authorisations

Capital increase

The Board has not been authorised to issue shares.

Purchase of treasury shares

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

At the Annual General Meeting on 9 May 2016, the Board was given authorisation to acquire treasury shares up to a maximum nominal value of MNOK 7.5, which is equivalent to 5 per cent of the share capital. The authorisation can be used several times and applies up until the next Annual General Meeting, but not later than 30 June 2017. The Board's acquisition of treasury shares pursuant to this authorisation can be exercised only between a minimum price of NOK 25 and a maximum of NOK 300 per share. As at 31 December 2016, the Group owned a total of 1,049 (15,971) treasury shares.

The shares were purchased for the share purchase scheme for all employees, and in connection with the company's long-term incentive programme (LTI) for members of the Group's management. The shares can also be sold on the market. The shares included in the Group's share purchasing programme are offered to all employees at a discount (20 per cent), and they are subject to a one-year lock-in period from the date of acquisition. The LTI scheme is discussed in the annual accounts Note 28 and Point 12 of this report.

4. EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS BETWEEN RELATED PARTIES

Class of shares

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

Trading in treasury shares

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

Transactions with related parties

The Board is not aware of any transactions in 2016 between the company and shareholders, directors, executive personnel or parties closely related to such individuals that could be described as major transactions. If such a situation were to arise, the Board would ensure that an independent valuation was made by a third party. For further information, see Note 29 and Note 32 of the annual financial statements for 2016.

Guidelines for directors and executives

The Corporate Code of Ethics discusses this topic under conflicts of interest under item 1.6. Similarly, this applies to Item 9 of the Board's instructions – "Independence and disqualification". Here, it is emphasised that the Board shall act independently of special interests. Independence in this context is defined as follows:

- Board members shall normally not receive any remuneration from the company other than their directors' fee and remuneration for work on Board committees. Any departure from this general rule requires the approval of the entire Board and shall be recorded in the minutes.When material transactions take place between the company and a director or the CEO, an independent valuation shall be obtained from a third party.
- Board members shall inform the Board of any relationships with KONGSBERG's significant business associates or interests in its transactions.
- The director's fee shall not be linked to the financial performance of the Group and options shall not be allocated to Board members.
- Cross-relationships between directors, the CEO and other executives shall be avoided.
- Board members shall not have or represent significant business relations with the Group.

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

The Norwegian Government as customer and shareholder

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

The Group has quarterly meetings with the Norwegian state, as represented by the Ministry of Trade, Industry and Fisheries. The topics discussed at these meetings are first and foremost the Group's financial development, and there are briefings on strategic questions related to KONGSBERG. The Government's expectations regarding investment performance and yield are also communicated. These "one-on-one" meetings with the Government are comparable to what is customary between a private company and its principal shareholders. The meetings comply with the provisions specified in company and securities legislation, not least with a view to equal treatment of the shareholders. A meeting on corporate social responsibility is held once a year.

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

5. FREELY NEGOTIABLE

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

6. GENERAL MEETINGS

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

Notification

The Annual General Meeting is ordinarily held by 1 June each year. In 2017, the date is set for 26 April 2017.

- Notification is usually distributed 21 days in advance of the General Meeting at the latest. The relevant documents, including the Nominating Committee's well-founded roster of nominees when new candidates are up for election or existing members are up for re-election, are available on the Group's website at www.kongsberg.com.
- It is important that the documents contain all the information required for the shareholders to take a position on all items on the agenda. The company's Articles of Association stipulate that the deadline for registration can expire no earlier than five days prior to the date of the General Meeting. Efforts are made to set the deadline as close to the meeting date as possible.

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

Registration and proxies

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

In 2016, the General Meeting was held on 9 May and 77.7 per cent (77.6) of the aggregate share capital was represented. A total of 85 (99) shareholders were present or represented by proxies.

Agenda and execution

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

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

7. NOMINATING COMMITTEE

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

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

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

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

Composition

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

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

- Jon Hindar, self-employed, Oslo

Bergesen was elected Chair of the Committee.

None of the Committee's members represents KONGSBERG's management or Board. The majority of the members are considered to be independent of the daily management and Board. Morten S. Bergesen is the managing director of Havfonn AS which, as at 31 December 2016 owned a 26.02 per cent share in Arendals Fossekompani ASA which, as at 31 December 2016 had a 7.96 per cent share in KONGSBERG. Morten S. Bergesen is also a Deputy Chair of the Board of Arendals Fossekompani ASA, where KONGSBERG's directors Jarle Roth and Morten Henriksen have leading positions. The Nominating Committee is considered to have a composition that reflects the common interests of the community of shareholders.

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

8. COMPOSITION AND INDEPENDENCE OF THE BOARD

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

Composition of the Board

The Board consists of eight members and currently has the following composition: Finn Jebsen (Chair), Irene Waage Basili (Deputy Chair), Morten Henriksen, Jarle Roth and Anne-Grete Strøm-Erichsen. Rune Sundt Larsen, Helge Lintvedt and Roar Marthiniussen are directors who have been elected by and from among the employees. Detailed information on the individual directors can be found on the Group's website.

Participation in Board meetings and Committees in 2016:

Participation in meetings	*Board*	*Audit Committee*	*Remuneration committee*
Finn Jebsen	15		6
Irene Waage Basili	13		
Morten Henriksen	15	7	
Jarle Roth	15	6	
Anne-Grete Strøm-Erichsen	15		6
Rune Sundt Larsen	15		
Helge Lintvedt	15	7	
Roar Marthiniussen	15		6

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

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

The directors are elected for two-year terms and elect their own Chair. Finn Jebsen was elected Chair of the Board.

The Board's independence

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

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

Election of the Board

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

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

The directors' shareholdings

As at 31 December 2016, the shareholder-elected directors held the following portfolios of shares in the Group:
Finn Jebsen, Chair of the Board, owns 20,000 (20,000) shares through his wholly-owned company Fateburet AS.
The employee-elected board members hold the following portfolios of shares in KONGSBERG as at 31 December 2016:
Roar Marthiniussen owns 5,814 (5,529) shares.

9. THE BOARD'S WORK

The Board's responsibilities

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

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

Board instructions

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

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

Instructions for the CEO

There is a clear segregation of duties between the Board and executive management. The Chair is responsible for ensuring that the Board's work is conducted in an efficient, correct manner and in compliance with the Board's responsibilities. The CEO is responsible for the Group's operational management. The Board has prepared a separate instruction for the CEO. Instruction will be reviewed by the Board every other year and will be revised as required. The current instructions were presented to the Board in February 2017.

Financial reporting

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

Notice of meetings and discussion of items

The Board schedules regular Board meetings each year. Ordinarily, eight meetings are held each year. Additional meetings are held on an ad hoc basis. In 2016, 15 (10) meetings were held of which seven were extraordinary, three of which were reviewed by the Board without a meeting. The Board meetings had 98 (94) per cent attendance in 2016.

All directors receive regular information about the Group's operational and financial progress well in advance of the scheduled Board meetings. The Company's business plan, strategy and risk are regularly reviewed and evaluated by the Board. The directors are free to consult the Group's senior executives as needed. The Board draws up and adopts an annual plan, including set topics for the Board meetings. Ordinarily, the CEO proposes the agenda for each individual Board meeting. The final agenda is decided in consultation between the CEO and the Chair of the Board.

Besides the directors, Board meetings are attended by the CEO, CFO, other EVPs as needed, and the General Counsel (secretary of the Board). Other participants are called in on an ad hoc basis.

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

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

Duty of confidentiality – communication between the Board and the shareholders

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

Expertise

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

Disqualification

The Board is bound by the rules regarding disqualification as they appear in Section 6–27 of the Public Limited Companies Act and in the instructions to the Board. In 2016, two board members abstained from participating in consideration of a case in one meeting due to disqualification.

Use of board committees

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

The Board's Audit Committee

The Audit Committee shall support the Board in its responsibilities related to financial reporting, audits, internal control and overall risk management. The Audit Committee is also a preparatory body in terms of non-financial compliance. The Committee consists of two shareholder-elected directors and one employee-elected director. The Group's CFO and its elected accountant normally participate in the meetings. The CEO and the other directors are entitled to attend if they so desire. Seven (six) meetings were held in 2016, of which one was extraordinary.

Members: Morten Henriksen (Chair), Jarle Roth and Helge Lintvedt. The instructions for the Audit Committee are published on the Group's website.

The Board's Compensation Committee

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

In addition, the committee prepares for discussion of the Group's management development plans, performance reviews and succession plans for managers, with particular emphasis on ensuring diversity.

The Committee consists of the Chair of the Board, one shareholder-elected director and one employee-elected director. The CEO is entitled to participate in the Committee's meetings if they so desire, except when their own situation is under discussion. Six (seven) meetings were held in 2016.

Members: Finn Jebsen (Chair), Anne-Grete Strøm-Erichsen and Roar Marthiniussen. The instructions for the Compensation Committee are published on the Group's website.

The Board's own evaluation

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

10. RISK MANAGEMENT AND INTERNAL CONTROL

The Board's responsibilities and the purpose of internal control

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

The Group has established a decentralised management model featuring delegated responsibility for profits. As a result, the control function parallels the Group's management model, and it is the individual unit's responsibility to make sure that it has the capacity and expertise it requires to carry out responsible internal control. In 2016 the Group developed a management system with further description of governance, roles and responsibilities, internal controls etc. The overall steering document describes the requirements for internal control, providing the framework for the entities' responsibility.

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

The Board's annual review and reporting

The annual review by the Board of the strategic plans and the budget forms the basis for the Board's management and decisions on cases throughout the year. The Group's risks are also part of these reviews. In addition, quarterly reviews are carried out on status and on operational risks. HSE matters are reviewed by the Board on a quarterly basis. Risk assessments and the status of the Group's work on compliance and corporate social responsibility are reported to the Board annually.

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

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

Compliance with values, ethics and corporate social responsibilities

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

In 2016, KONGSBERG continued the work on systematic development and follow-up of important areas for compliance with regulations, rules and internal guidelines. The Group's Code of Ethics was revised and updated in 2016. The Group still has a special focus on the anti-corruption programme, where employee training, cooperation with business partners on anti-corruption measures as well as training and review of market representatives have been the key elements. There is also a particularly strong focus on export control and sanctions. The Group has compliance functions at both corporate level and in the business areas. In the same way as the financial reporting, the internal control was established in accordance with a decentralised management model. The KONGSBERG compliance programme is coordinated and monitored from a corporate level.

Routines have been established for notification and follow-up on any alleged misconduct. In 2016, the Group developed a whistleblower system with a web-based notification channel which, from 2017, will include all employees globally, and will provide the opportunity for external notifications and anonymity for whistleblowers.

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

11. REMUNERATION OF THE BOARD

The Annual General Meeting approves the remuneration paid to the Board each year. The proposal for remuneration is made by the Chair of the Nominating Committee. From the Annual General Meeting in 2016 until the next Annual General Meeting, the total remuneration to the Board members will amount to NOK 2,028,000 (NOK 1,973,000).

The remuneration breaks down as follows:

- Chair person NOK 445,000 (NOK 432,000)
- Deputy Chair NOK 239,000 (NOK 233,000)
- Other Board members NOK 224,000 (NOK 218,000)

In addition, the members of the Audit Committee receive NOK 9,900 (NOK 9,600) per meeting, and a maximum of NOK 48,000 (NOK 48,000) per year. The Committee's Chair receives NOK 11,200 (NOK 10,900) per meeting, and a maximum of NOK 54,500 (NOK 54,500) per year.

The members of the Compensation Committee receive NOK 9,200 (NOK 8,900) per meeting, and a maximum of NOK 44,500 (NOK 44,500) per year. The Committee's Chair receives NOK 10,400 (NOK 10,100) per meeting, and a maximum of NOK 50,500 (NOK 50,500) per year.

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

12. REMUNERATION OF EXECUTIVE MANAGEMENT

Guidelines

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

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

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

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

Performance-based compensation

In 2006, the Board introduced a new bonus system for executive management. The scheme will continue in 2016, in a slightly adjusted form. Performance-based compensation is linked to profit growth, profit margin and individual goals. The payment of performance-based salary has a ceiling of 50 per cent of the basic salary. A more detailed description of the scheme is given in Note 28, "Declaration regarding the determination of salaries and other remuneration to senior executives" in the annual report for 2016. In 2016 the group had 91 managers who were covered by an incentive plan that included an individual performance element.

The Bonus System meets guidelines for salaries and other remuneration to senior employees of enterprises and companies with a state shareholding. The main changes from the previous year are a downward revision of the maximum accrual percentage as well as direct payments of margin and individual components. The progress component goes into the bonus bank. Previously, all bonus accrual went into the bonus bank before payment. The scheme will be continued in 2017.

Long-term incentive (LTI)
In 2012, the Board decided to introduce a (LTI) scheme as part of the regular remuneration for the CEO and other members of corporate executive management. The programme was changed to a variable performance system in 2016. Criteria were introduced for achievement, and the framework for remuneration was revised upwards to 30 per cent of the annual base salary for the CEO and 20-25 per cent for the other members of the Group's management. The rationale is to be competitive with comparable companies. A more detailed description of the system is provided in Note 28 of the annual financial statements for 2016.

Conditions
Remuneration to corporate executive management and the Board is described in Note 28 and 29 to the consolidated financial statements for 2016.

13. INFORMATION AND COMMUNICATIONS

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

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

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

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

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

14. TAKE-OVERS

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

Where a bid is made for the company, the Board shall draw up a statement containing a justified evaluation of the bid and, if need be, provide an independent third-party assess-

ment. The evaluation shall specify how, for example, a takeover would affect long-term value creation at KONGSBERG. If a bid is made for the Company's shares, the Company will not limit others from presenting similar bids for the Company's shares, unless this is clearly justified as being in the Company's and shareholders' common interest. In the event of a bid for the Company's shares, the Company will publish the required disclosures pursuant to legislation and regulations for companies listed on the Oslo Stock Exchange.

15. AUDITOR

The auditor's relationship to the Board

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

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

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

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

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

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

Ernst & Young AS is the Group auditor. Some smaller companies within the Group use other audit firms. Some foreign companies do not have auditors as this is not a part of the local requirements.

In addition to ordinary auditing, the auditing company has provided consultancy services related to accounting. For further information, see Note 30 of the Group's financial statements.

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

16. MANAGEMENT AND INTERNAL PROCEDURES

This point is not covered by the Code of Practice.

Chief Executive Officer

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

Corporate executive management

Corporate executive management currently consists of nine individuals. In addition to the CEO, corporate executive management consists of the CFO, the EVPs of the four areas Kongsberg Maritime, Kongsberg Defence Systems, Kongsberg Protech Systems and Kongsberg Digital, EVP Business Development, EVP Public Affairs and EVP staff. The CEO appoints members to corporate executive management.

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

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

Executive Steering Group (ESG)

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

Intra-Group Boards

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

Guidelines for share trading

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

04

SUSTAINABILITY

ABOUT THE SUSTAINABILITY REPORT

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

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

The report covers the period from 1 January 2016 to 31 December 2016, and addresses topics we feel are of importance to us and our stakeholders.

Any significant events from 1 January 2017 to 8 March 2017 will also be mentioned. All figures are related to the 2016 financial year.

Changes to the reporting platform since the preceding report

There were no major changes in the reporting format from 2015 to 2016.

Limitations of the report

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

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

Process to define the content

The content of the report is largely defined based on what we have called "Areas of Focus for 2016-2017". The areas of focus are a response to a "materiality analysis" conducted in 2015. In addition, the areas of focus are derived from goals and lists of activities approved by the corporate executive management and, ultimately, by the Group's Board.

In this report, we have once again chosen to cite some examples of what we have called sustainable innovation. We have based this selection on the UN's 17 Sustinable Devevelopment Goals that the world should resolve by 2013. Technology development is crucial for creating a more sustainable society where KONGSBERG, as a technology company, can play a key role. The report is also formulated according to the principles of the Global Reporting Initiative (GRI) and as a result of our affiliation with the UN Global Compact Initiative.

CONTENTS

FRAMEWORK FOR THE PREPARATION OF THE SUSTAINABILITY REPORT

White Paper No. 27 (2013-2014) – Diverse and value-creating ownership
The Norwegian state owns 50.001 per cent of the shares in the company. The State's stake is managed by the Ministry of Trade and Fisheries. The process we have used to define the content of the report ensures that we are reporting in accordance with the expectations put to us through the White Paper.

WE SUPPORT

Global Compact
The Group joined the UN Global Compact in 2006. Membership requires that we submit a report to the UN each year, describing our activities and the advances we have made in the field of sustainability. The Group's Sustainability Report serves as such a report – a COP (Communication on Progress). We would maintain that the report complies with Global Compact's criteria for 'Advanced Level'. For more details about the Global Compact, see their website at www.unglobalcompact.org

Global Reporting Initiative (GRI)
We use the GRI's guidelines for voluntary reporting on sustainable development. The guidelines cover financial, environmental and social dimensions related to operations, and are the leading global initiative in this field.

In 2015 we conducted a materiality analysis to identify the most important sustainability topics for KONGSBERG and our most important stakeholders. This is described in more detail over the next two pages.

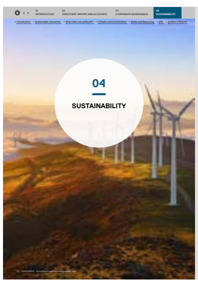
In our opinion, our reporting practice is generally compliant with GRI's reporting principles. GRI G4 uses a classification that indicates the extent to which a company applies GRI's definitions and disclosure requirements, Core or Comprehensive, respectively. KONGSBERG has chosen to comply with the requirements for the Core level.

The report's final pages contain a reference to the individual GRI indicators and where they are discussed in the report. For more details about GRI, see their website at www.globalreporting.org

The Norwegian Accounting Act
The Norwegian Accounting Act requires large enterprises to report on their corporate social responsibility either in the Directors' Report or in a separate report. The report is to cover consideration for human rights, labour rights and social conditions, the outdoor environment and the programme to combat corruption.

Special regulations stipulate that reporting pursuant to the UN's Global Compact or Global Reporting Initiative (GRI) can supersede the requirements for reporting in the Directors' Report.

It is our assessment that the Sustainability Report for 2016 is fully adequate and compliant with the requirements of the Norwegian Accounting Act.

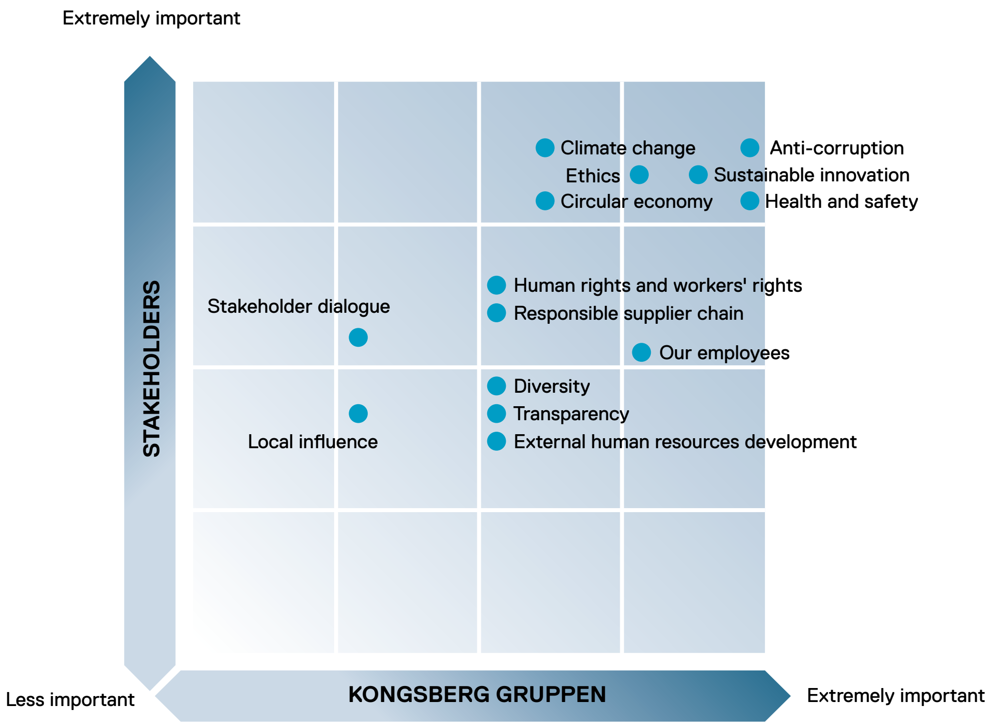


Board Management
The Group's Sustainability Report has in its entirety been reviewed and approved by the Group's corporate management and the Board of Directors.

External verification
The report has been verified by a third party, the independent auditor Deloitte. See the Auditor's Statement on page 166.

KONGSBERG'S MATERIALITY ANALYSIS

KONGSBERG is reporting in accordance with the GRI Sustainability Reporting Guidelines. As from 2015, compliance is with version GRI G4.



A prerequisite for reporting in accordance with GRI G4 is, amongst other things, to have conducted a materiality analysis to identify the most important sustainability issues for the Group and its key stakeholders. In turn, this should be reflected in the Sustainability Report.

KONGSBERG will undertake such analyses periodically. The analysis carried out in 2015 was performed in two steps:

1. An internal analysis identifying what we believe are important sustainability topics for KONGSBERG. This involved representatives from the business areas and the Group's experts in this area.
2. A corresponding analysis into what stakeholders believe to be important sustainability topics. The analysis was conducted based on some "one-to-one meetings", while other topics were analysed based on our knowledge of the stakeholders and information on their websites. The stakeholders included in the analysis were owners, customers, professional/trade organisations and volunteer organisations.

The analysis indicates that the in-house assessments generally coincide with the emphasis from our stakeholders. However, the topics of climate and circular economy were deemed more important by our stakeholders than internally.

The next page describes how we define the various sustainability topics deemed most important, and why they are important to us.

In addition to the topics mentioned above, a number of other topics are of importance to KONGSBERG, e.g. a healthy economy and value creation as the basis for the entire business; and the high quality of the products we deliver is also essential. The same applies to compliance with export regulations and IT security, as two other examples. These are central topics, but not in the context of sustainability and corporate social responsibility, so there is little description of them in this sustainability report.

	HOW WE UNDERSTAND THE CONCEPT	WHY THE TOPIC IS IMPORTANT TO US
ANTI-CORRUPTION	Corruption, bribes, facilitation payments, representation and gifts, follow up of market representatives, money laundering, etc.	Corruption is destructive for innovation, entrepreneurship, market mechanisms and financial stability, all of which are the very fabric of business and industry. It can result in serious penal sanctions, the loss of contracts and the destruction of reputations.
ETHICS	Ethics refers to our values, culture and internal relations, e.g. human rights, the working environment, HSE, climate and the environment, etc. It also includes topics related to our external stakeholders.	Ethical behaviour is critical for our long-term reputation and business operations. This is reflected in our Code of Ethics and Business Conduct which expresses our fundamental attitudes and describes how we should behave and relate to colleagues, customers and society at large.
TRANSPARENCY	Transparent, responsible, correct information, country-to-country reporting.	Our stakeholders expect transparency from us regarding how we run our businesses. Transparency creates confidence, both internally and externally.
LOCAL INFLUENCE	Local jobs (direct and indirect), local procurements, infrastructure, investments and donations/sponsorship of local activities (culture, social objectives, etc.).	As an important player in many local communities, it is important for us to have a positive impact on the development of these communities.
HUMAN RIGHTS AND WORKERS' RIGHTS	Child labour, rights for minorities, discrimination, conflict minerals, evaluation of possible violations of rights, the right to organise, working hours, a living wage, etc.	As a responsible corporate social player, we see it as our responsibility to comply with international guidelines on these topics, relative to our employees as well as our external stakeholders.
RESPONSIBLE SUPPLY CHAIN	Anti-corruption, climate and the environment, human and workers' rights, health and safety, ethics, etc.	Systematic and good collaboration on corporate social responsibility in the supply chain is part of our strategy for responsible business operations. This contributes to reduce risk and increase quality in the value chain.
CLIMATE CHANGES	Activities to reduce emissions of the greenhouse gas CO_2, related to energy use, flights, transport and the supply chain.	Our greatest contribution to the struggle against climate change is undoubtedly the development of technology that enables our customers to reduce their emissions. That being said, we are also responsible for reducing our own emissions.
STAKEHOLDER DIALOGUE	Systematic dialogue with stakeholders associated with sustainability and corporate social responsibility.	Dialogue with stakeholders gives important information about expectations and opinions on how we run our businesses.
SUSTAINABLE INNOVATION	The development of technology that helps us face the major global challenges, such as population growth, climate change, urbanisation and shortages of vital resources like minerals, water, food and energy.	The global challenges also create significant opportunities in new and existing markets. We have the expertise to make positive contributions to sustainable solutions in some of these areas.
CIRCULAR ECONOMY	An economy that helps resources remain in the economy, even after a product is no longer used for its original purpose (as opposed to a more linear "disposable economy" that calls for resources that are unlimited and easily manageable as waste).	Efficient use of resources through reuse, recycling and a life-cycle mentality (energy, materials, water, etc.), is important in a financial sense and in the larger perspective with a view to shortages of essential resources.
HEALTH AND SAFETY	Accidents, prevention, work-related illnesses, relations to third parties, business trips, etc.	KONGSBERG's employees are the Group's most important resource. We must therefore ensure they are well taken care of with regard to health and safety.
OUR EMPLOYEES	Skills development, training, talent development, management, career development, job satisfaction, etc.	Employees are a crucial resource for a knowledge-driven Group like KONGSBERG and it is therefore critical that we employ sufficient time and means in developing this resource.
DIVERSITY	Age, gender, culture, etc.	Diversity opens up opportunities for a nuanced approach to thinking and problem-solving. This leads to better solutions and increased value creation.
EXTERNAL COMPETENCY BUILDING	Initiatives aimed at children, young people and students to motivate them to choose and complete studies in science and maths, both at secondary school and college level.	As a technological expertise company, we are dependent on being able to recruit employees with the right skills and knowledge. Scientific expertise is profoundly important to us.

PRESIDENT AND CEO GEIR HÅØY

Sustainability and corporate social responsibility is key to KONGSBERG. We are a major Norwegian industrial player with a considerable international operation. It requires a solid business model compliance with our values and a firm foundation of our culture as a corporate social responsible player. The world is changing rapidly, and businesses are expected to contribute to a sustainable social development. KONGSBERG is no exception, and we see considerable business opportunities for how our world-leading technology competence may contribute to solving some of the major challenges the world is facing.

Technology development is essential to create a more sustainable society. With the global environmental, climate, and sustainability challenges facing the world, technology companies such as KONGSBERG hold a key role. We see no incompatibility between responsibility and profitability; increased focus on sustainability and greener solutions creates important business opportunity for KONGSBERG.

A growing number of our customers and partners request new, innovative and sustainable solutions for their challenges and opportunities. Our business areas holds competence and technology that may help our customers reach their sustainability targets. This includes technology that makes the operations of vessels more efficient and reduces emissions, enabling technology for sustainable aquaculture or new industry areas such as wind power.

KONGSBERG committed to the UN Global Compact programme in 2006. This is a voluntary initiative under the auspices of the United Nations in which businesses commit to arrange strategies and operations according to principles on human rights, labour rights, environment and anti-corruption. In September 2015, Norway and other countries adopted the UN sustainability goals, which are a joint working plan to eradicate poverty, fight inequality and stop the climate changes by 2030. These goals also form an important basis for our strategy for responsible and sustainable business operations.

Global challenges provide a host of business opportunities for KONGSBERG. Sustainable thinking is not an alternative way of thinking, it is a prerequisite for healthy operations in the coming decades. Customers, authorities, owners, employees and future generations in the labour market will certainly expect it. We are aware of our corporate social responsibility as a defence supplier, and will contribute to developing reliable solutions that improve security in demanding operations.

On this background, we established a new sustainability strategy in 2016, "Technology for Global Challenges". This strategy addresses how sustainability is connected to our technology competence, in what areas we see opportunities, relevant rules and standards, risk factors and future technology opportunities. This strategy is integrated and operationalised within the strategy of all our business areas.

"KONGSBERG'S VALUES BIND US TOGETHER AND ACT AS A COMPASS FOR OUR OPERATIONS AS WELL AS OUR CORPORATE SOCIAL RESPONSIBILITY."

KONGSBERG's values bind us together and act as a compass for our operations as well as our corporate social responsibility. We spend a considerable amount of resources in bringing our values to life and strengthening them – personal attitudes and motivation for sustainability is far stronger than procedures and regulations. Values are on the agenda of leaders throughout our organisation, with close supervision of collective as well as individual behaviour. We also closely follow up on our subcontractors with regard to values and sustainability. The sum of our sustainability also depends on our subcontractors' contribution and clear focus.

One of our values is to be innovative. If we are to continue as the industry leaders and solving the most demanding challenges our customers are facing, our ability to innovate is crucial. Close to ten per cent of our total sales is spent on innovation and product development. Innovation of solutions which contribute to reducing greenhouse gas emissions, environmental research, sustainable fisheries and other areas are increasing in scope. In this year's Report, we focus on six examples of sustainable innovation.

One common denominator for KONSBERG, innovation and sustainability is the ocean space. Much of our business operations and our technologies are connected to operations in relation to the ocean, which is increasingly becoming important to nations and businesses. Here we see considerable opportunities for applying our competence and our technologies, both within the segments in which we are present today and new areas.

Diversity is a focus area where our efforts intensified over the course of last year, and will continue in 2017. We aim for diversity in terms of age, ethnicity and gender among our employees. Regarding gender equality we have introduced several measures in order to increase the percentage of women within the company as well as the percentage of female leaders. Externally we work to motivate more women for studying technology subjects in order to increase our recruitment base, while our internal measures include mentoring programmes and women's forums. We have set clear goals for where we should be by 2020, such as one stating that the percentage of female managers should be equal to the percentage of women in the company. For the latter we also aim to see an increase by 2020.

"KONGSBERG HAS ZERO TOLERANCE FOR CORRUPTION AMONG ITS EMPLOYEES, CONSULTANTS AND BUSINESS ASSOCIATES."

KONGSBERG is very serious regarding prevention of corruption. KONGSBERG has zero tolerance for corruption among its employees, consultants and business associates. As an enterprise with considerable international activities, KONGSBERG has implemented a comprehensive anti-corruption programme, and high ethical standards are an integral part of our business activities. In 2016, we continued the systematic efforts we have made in this area for many years, with particular focus on training of management groups and courses in how to audit market representatives.

In the autumn of 2016, the charges of corruption, which were made in connection with the sale of communications equipment to Romania from 2000 to 2008, were dropped after almost two and a half years of investigation. We are glad to see this case dropped and we can now move on. This case shows the importance of continuous anti-corruption work in order to keep our licence to operate.

The world is getting more complex, and the challenges related to sustainability issues as well as our responsible business conduct remains important to us. Our focus on challenges and opportunities are an integral part of our business conduct, and we have concrete plans with clear goals. In 2017 and the years to come, we will meet or exceed our goals and ambitions. Sustainability and responsible business conduct are crucial to our future success.

Geir Håøy,
Chief Executive Officer
February 2017

THE WORLD OF KONGSBERG

EUROPE

NORWAY

Employees 4,599 (4,773)
Number of suppliers[1] 2,086 (2,357)
Value creation[2] MNOK 8,892 (8,776)
Investments MNOK 357 (227)

The Group's head office is located in Kongsberg.
Kongsberg Maritime has operations for development, production, testing, sales and servicing in Kongsberg, Horten, Ulsteinvik, Sandefjord and Trondheim.
Kongsberg Defence Systems and **Kongsberg Protech Systems** account for the bulk of our defence activities, and most of their operations are in Kongsberg. We also have operations in Horten, Asker, Kjeller, Bergen and Stjørdal. Operations include development, production, testing, sales and servicing.
KONGSBERG Spacetec and Kongsberg Satellite Services (of which we own 50 per cent) have offices in Tromsø and both are part of Kongsberg Defence Systems. Kongsberg Satellite Services has ground stations for satellite data in Antarctica and on Svalbard.
Kongsberg Digital is located in Asker, Horten, Kristiansand, Stavanger and Trondheim. Operations there include sales, product development, project deliveries, service and production. KDI also owns 34.19 per cent of eSmart Systems AS. They are located in Halden and develop digital intelligence for the energy industry and smart communities.

GREAT BRITAIN

Employees 147 (215)
Number of suppliers[1] 157 (185)
Value creation[2] MNOK 386 (610)
Investments MNOK 17 (21)

Kongsberg Maritime's head office for offshore activities in Great Britain is located in Aberdeen, Scotland. We also have smaller offices in Wick (Scotland), and in Waterlooville (England) and Great Yarmouth (England). Operations include product development, production, sales and support. In addition, we have an office in the Bridge of Don involved in the production of cameras.
Kongsberg Defence Systems has a sales and service office in Bristol through its subsidiary Kongsberg Norcontrol.

POLAND

Employees 155 (113)
Number of suppliers[1] 17 (20)
Value creation[2] MNOK 100 (97)
Investments MNOK 14 (5)

Kongsberg Maritime has a company that is engaged in service and project support in Szczecin.
Kongsberg Defence Systems' subsidiary Kongsberg Defence Sp. Zo.o has a marketing office in Warsaw.

REST OF EUROPE

Employees 226 (286)
Number of suppliers[1] 734 (734)
Value creation[2] MNOK 943 (834)
Investments MNOK 11 (12)

The Group also has offices for sales, service and project support in Denmark, Finland, France, Greece, Italy, Ireland, the Netherlands, Russia, Spain, Germany and Hungary. We own 49.9 per cent of Patria Oyj who have their main office in Finland. Patria is Finland's leading supplier of technology solutions and maintenance services in defence, security and aeronautics.

1. Number of suppliers that invoiced KONGSBERG for more than NOK 50,000 in 2016. Certain suppliers have been counted two or more times if they are suppliers for two or more of our business areas. The figures do not include all suppliers dealt with directly by our international locations.
2. Added value shows the operating revenues generated in the legal units in the individual countries.

CHINA

Employees 602 (705)
Number of suppliers[1] 172 (196)
Value creation[2] MNOK 457 (593)
Investments MNOK 13 (13)

Kongsberg Maritime has built up substantial operations in China. The business area operates as a local supplier to the Chinese shipyard industry, and currently has offices in Shanghai, Dalian, Guangzhou and Zhenjiang. In Zhenjiang, we have a production unit that includes electro-mechanical assembly lines for the manufacture of consoles, cabinets and sensors. We also have a CNC centre where we make mechanical components and do light engineering.

INDIA

Employees 187 (181)
Number of suppliers[1] 6 (10)
Value creation[2] MNOK 84 (101)
Investments MNOK 1 (3)

Kongsberg Maritime has sales and service offices, software support and development activities in Mumbai. The business has grown in recent years.
Kongsberg Defence Systems' subsidiary company Kongsberg Norcontrol has a sales and service office in Ahmedabad, as well as owning 49 per cent of the company Aatash Norcontrol also located in Ahmedabad.
Kongsberg Digital has operations in both Mumbai and Bangalore. The business in Mumbai offers sales support and project support. In Bangalore, the main responsibility is software development.

SOUTH KOREA

Employees 209 (223)
Number of suppliers[1] 106 (110)
Value creation[2] MNOK 1,242 (1,880)
Investments MNOK 2 (3)

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

SINGAPORE

Employees 173 (222)
Number of suppliers[1] 146 (140)
Value creation[2] MNOK 890 (1,179)
Investments MNOK 67 (2)

Kongsberg Maritime in Singapore has sales, installation, engineering, commissioning, service/support and training as its main duties. Singapore has one of the world's largest harbours and is a substantial shipping and shipyard nation.
Kongsberg Defence Systems, through the company Kongsberg Norcontrol IT, makes significant deliveries to Singapore's vessel traffic monitoring, and is also represented here.

UNITED ARAB EMIRATES

Employees 39 (43)
Number of suppliers[1] 38 (34)
Value creation[2] MNOK 123 (144)
Investments MNOK 1 (1)

Kongsberg Maritime has a service office in Dubai.

THE REST OF ASIA

Employees 8 (6)
Number of suppliers[1] 37 (55)
Value creation[2] MNOK 42 (40)
Investments MNOK 1 (0)

Kongsberg Maritime has set up a sales and service office for fisheries activities in Malaysia.
Kongsberg Defence Systems has offices in Kuwait and Saudi Arabia. The main activities there are the operation and delivery of projects involving tactical radio and communications systems. Kongsberg Defence Systems also has an office in Malaysia for marketing and local project management.
Kongsberg Digital has a sales and project office in Malaysia.

USA

Employees 566 (626)
Number of suppliers[1] 367 (476)
Value creation[2] MNOK 1,813 (2,044)
Investments MNOK 153 (61)

Kongsberg Maritime has operations in Seattle (WA), Houston (TX), New Orleans (LA), Pocasset (MA), Long Beach (CA) and Washington (VA). In Pocasset, operations include development, sales and support for autonomous underwater vehicles (AUV). The other units are mainly engaged in sales and customer support. The unit in Seattle is also engaged in technology development and the adaptation of existing products for the US market.
Kongsberg Defence Systems has a marketing office in Alexandria (VA).
Kongsberg Protech Systems has a marketing office in Alexandria (VA). Johnstown (PA) is the location where the PROTECTOR remote weapon station for the US market is produced and maintained. The business area has a project office in Mount Arlington (NJ).
Kongsberg Digital has operations in Houston (TX) in sales, support and project implementation, and a sales and customer support office in West Mystic Groton (CT).

CANADA

Employees 137 (146)
Number of suppliers[1] 41 (42)
Value creation[2] MNOK 686 (392) mill.
Investments MNOK 1 (9)

Kongsberg Maritime's largest operation in Canada is located in Vancouver. The company here is engaged in proprietary product development and production. The business in Vancouver is based on hydroacoustics-related technology, and is coordinated with Kongsberg Maritime's other subsea activities. The business area also has two sales and customer support locations on the east coast, in Nova Scotia and Newfoundland.
Kongsberg Defence Systems is represented through Kongsberg Geospatial in Ottawa. The company is well-known for its cartography graphics tool for military command and control systems.
Kongsberg Protech Systems is located in London, Ontario. The plant was established to maintain and manufacture weapons systems for the Canadian market.
Kongsberg Digital has operations in St. Johns and is engaged in sales and customer support.

BRAZIL

Employees 73 (109)
Number of suppliers[1] 41 (55)
Value creation[2] MNOK 103 (171)
Investments MNOK 2 (5)

Kongsberg Maritime's business in Brazil comprises sales, service, engineering and the commissioning of systems for the merchant marine and offshore vessels, as well as user training and simulator training.

MEXICO

Employees 24 (27)
Number of suppliers[1] 1 (2)
Value creation[2] MNOK 38 (53)
Investments MNOK 1 (1)

Kongsberg Maritime has set up a service office in Veracruz, Mexico.

REST OF CENTRAL AND SOUTH AMERICA

Employees 4 (1)
Number of suppliers[1] 12 (11)
Value creation[2] MNOK 9 (3)
Investments MNOK 0 (0)

Kongsberg Maritime has a service office in Panama.
Kongsberg Defence Systems has a sales office in Santiago, Chile.

ANTARCTICA AND SVALBARD

Kongsberg Defence Systems' 50 per cent owned subsidiary Kongsberg Satellite Services has ground stations for satellite data in Antarctica and on Svalbard.

AUSTRALIA

Employees 8 (12)
Number of suppliers[1] 18 (30)
Value creation[2] MNOK 34 (115)
Investments MNOK 0 (0)

Kongsberg Maritime has sales and service activities in Perth.
Kongsberg Protech Systems has a marketing office in Canberra.

ALGERIA AND SOUTH AFRICA

Employees 4 (0)
Number of suppliers[1] 9 (16)
Value creation[2] MNOK 3 (0)
Investments MNOK 0 (0)

Kongsberg Maritime has an office in Cape Town, South Africa that is involved with customer support.
Kongsberg Defence Systems has offices for operations and the delivery of projects related to tactical radio and communications systems in Algiers, Algeria. In South Africa, Kongsberg Norcontrol owns approximately 35 per cent of a company in Capetown.

RESPONSIBLE BUSINESS CONDUCT

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

We are part of an industry and operate in countries that may involve different types of risk. We conduct risk analyses, prioritise and manage risks to prevent and mitigate to the greatest possible extent.

The defence industry

The Norwegian Armed Forces perform important tasks for the society in times of peace, crisis, armed conflict and war. A modern defence calls for state-of-the-art defence systems, and KONGSBERG's defence systems and products are an integral part of this. KONGSBERG's role as a supplier of defence products must be seen in the context of Norway's national security policy, and Norway's international obligations as a member of the UN and NATO. The Armed Forces and KONGSBERG cooperate closely to develop tailor-made systems to meet Norway's particular needs. KONGSBERG has also developed high-technology defence systems that are important in an international context. In 2016, the defence business accounted for 40 per cent of our sales.

The export of defence material

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

KONGSBERG has partners, suppliers and customers in other countries. Other countries' export control regulations must therefore be complied both with regards to exports from the countries in which we operate and possible re-export.

KONGSBERG has a comprehensive internal control and training system in connection with our export business. Several employees are qualified as Certified Export Control Managers for both defence and multi-purpose products. This will be continued in 2017 to build further expertise.

Oil, gas and the merchant marine

Close to half of our Group is involved in the oil, gas and shipping industries. The global demand for energy and the need for transportation are growing, and although the use of renewable energy is rapidly increasing, oil and gas will continue to be the most important energy source for many years.

KONGSBERG's systems and products are utilised for optimisation, safety, control of machinery, production processes and equipment. We supply systems and services that facilitate effective use of resources, ensure more efficient sailing routes and safer operation of complex vessels and installations.

What types of defence products does KONGSBERG sell?
KONGSBERG does not produce cluster bombs, land mines or nuclear, chemical or biological weapons. We comply with all requirements and directions specified in the UN conventions on disarmament. Most of our defence businesses supply missiles, and systems for weapon command and control, decision-support and communications.

WE ENCOURAGE CHILDREN AND YOUNG PEOPLE TO CHOOSE SCIENCES AND MATHS

We believe that science is the key to solving some of the challenges facing the world. Consequently, we would like to motivate children and young people to see how useful physics, mathematics and science really are.

An interest in science often begins when children are very young. KONGSBERG therefore supports the Kongsberg Science Centre (Kongsberg Vitensenter), which is free for schools and nursery schools to use. Here, children are introduced to science and maths through play and experimentation. The Kongsberg Vitensenter is also open to upper secondary school students and offers teaching modules in subject areas such as energy, mechanics, mathematics, technology, animation and more.

We work with a number of secondary schools and colleges. Our contribution includes motivational speeches to raise interest in science subjects, we invite school classes for on-site visits and we engage students for internship.

We collaborate with colleges and universities in Norway, participate in career days, make company presentations, invite students to visit our companies and offer selected student projects if students would like to write their theses in collaboration with the Group. KONGSBERG is the main sponsor of two interdisciplinary student projects at NTNU where students will put theory into practice. Each year, in the project Revolve NTNU, a new team of students develop, design and build a racing car that they enter into competitions. The project Ascend NTNU is the first Nordic team to participate in the International Aerial Robotics Competition. The competition involves building drones that can perform tasks autonomously, at the same time as avoiding collisions with obstacles on the ground and other drones in the air.

KONGSBERG is also collaborating with NTNU to establish the world's first professorship in Big Data Cybernetics, which combines the fields of chemometrics and cybernetics. The agreement involves a five-year endowed professorship sponsored by KONGSBERG. In addition we sponsor several professorships at colleges and universities.

The Group, in cooperation with other enterprises, University College of Southeast Norway (dept. Kongsberg) and the Norwegian Centre of Expertise, have developed a master's degree in Systems Engineering. Under this programme, students hold paid part-time positions at one of the enterprises. Along with other companies in Kongsberg, we offer a unique training programme for apprentices. Moreover, a special guild certificate in the subject of polymer composites has been established at the composite plant in Kongsberg.

A high dropout rate is a challenge for science and math education in Norway. KONGSBERG has therefore initiated a national voluntary technology project with the aim of promoting science subjects and preventing engineering students from dropping out. Summer jobs are an important part of this initiative. Each year, KONGSBERG employs approximately 150 students in different departments and projects throughout the entire corporation.

Summer jobs are an important part of KONGSBERG's corporate social responsibility, recruitment and product development. We want to ensure that more engineering students get practical experience. For many people, a summer job is the first step towards a permanent job at KONGSBERG. Read more about the summer students on page 136.

Students from Revolve NTNU build a racing car out of composite at Arsenalet.

The students can test themselves on exciting tasks when they have a summer job at KONGSBERG.

CONTRIBUTIONS TO SPORTS, CULTURE AND SOCIAL EVENTS

KONGSBERG contributes to value creation and economic development in the local communities in which we operate. The Group is an integral part of these communities. This is because we take a genuine interest in our employees, and in supporting sports, culture and social events. Here are a few examples.

Brazil

We provide support to the Bola pra Frente Institute, which offers poor children schooling and football training. The institute was founded in 2000 and since then, it has helped hundreds of children and young people to a better life. We are also part of the project "Dream Learn Work" that offers children from poor areas training and education that can help qualify them to work in the companies that take part in the project.

Additionally, support is given to the social project Karanba in Rio de Janeiro. Using football as a tool, the project helps disadvantaged children from the slums with education, development and advancement. Today, Karanba is helping more than 1,000 children and adolescents, boys and girls alike, from several different parts of Rio de Janeiro.

India

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

Norway

In Norway, we have concentrated our support on organisations and associations in the local communities in which we are represented. Priority is given to sports and culture. KONGSBERG is the general sponsor of the Gloger Festival and main sponsor of the Kongsberg Jazz Festival.

Since 2013 KONGSBERG has supported the Kongsberg Science Centre with NOK 200,000 per year, and a 40 per cent employment position at the centre. This support will be continued for three years. The Kongsberg Science Centre provides opportunities for children and young people, with a focus on science and practical learning.

In 2016 the Kongsberg Innovation Centre opened inside the Kongsberg Teknologipark. Here, our employees can book time in the evenings and bring children and experiment with different technologies. The centre will also be used for school groups and visitors.

Outside the large city of Bangalore in India lies a school for children from poor families. Here, Kongsberg Digital has invested part of its social responsibility commitment.

KONGSBERG is the general sponsor of the annual classic music festival, the Gloger Festival in Kongsberg.

ORGANISATION AND GOVERNANCE

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

ANNUAL GENERAL MEETING (AGM)

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

THE BOARD OF DIRECTORS

The corporate Board of Directors bears the ultimate responsibility for KONGSBERG's ethical behaviour and contribution to sustainable development. The Board adopts the Group's Code of Ethics and Policy for Sustainability and Corporate Social Responsibility, and the Sustainability Report is reviewed and approved by the Board.

CORPORATE EXECUTIVE MANAGEMENT

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

BUSINESS AREAS

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

ETHICS COMMITTEE

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

FORUM FOR SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

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

Council for Climate and the Environment
The Council is a link between the business areas, corporate services and Corporate Executive Management in respect of questions regarding climate and the environment. Its main responsibility is to help promote, further develop and coordinate the Group's efforts in this field.

Council for Monitoring Corporate Social Responsibility in the Supply Chain
The Council is responsible for promoting and further developing the Group's work on corporate social responsibility in the supply chain, and for ensuring coordinated skills-upgrading, risk assessment and the coordination of audits.

BUSINESS CONDUCT REVIEW BOARD

KONGSBERG has a business code of ethics that describes how we are to conduct ourselves in business situations. These guidelines have been adopted by the Board. The Business Conduct Review Board is the Group's compliance forum and bears the main responsibility for ensuring compliance with the ethical guidelines.

RESPONSIBLE TAXATION

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

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

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

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

SUSTAINABLE INNOVATION

As a technology enterprise, our most important contribution to the climate challenge and resource situation is to use our knowledge to develop products that can help address these challenges. On the following pages, we discuss cases that exemplify sustainable innovation.

TECHNOLOGY FOR GLOBAL CHALLENGES

The UN has defined 17 Sustainable Development Goals the world should resolve by 2030. Several of these goals can only be achieved through innovation and the sensible application of new technologies.

The UN's sustainable development goals are a joint work plan for extreme poverty, to fight inequality and to protect our planet. "The Global Goals" have become a guideline for sustainability efforts across the entire globe. "The Global Goals" have likewise become a guide for KONGSBERG's work with technology for global challenges.

Our main contribution to the "The Global Goals" is to use our expertise to develop products and systems that provide our customers with better opportunities to implement their goals in the process towards a more sustainable society. Here are some examples of what we call sustainable innovation.

"Technology development is essential to create a more sustainable society. With the global environmental and climate challenges facing the world, technology companies such as KONGSBERG hold a key role."

Geir Håøy, president and CEO

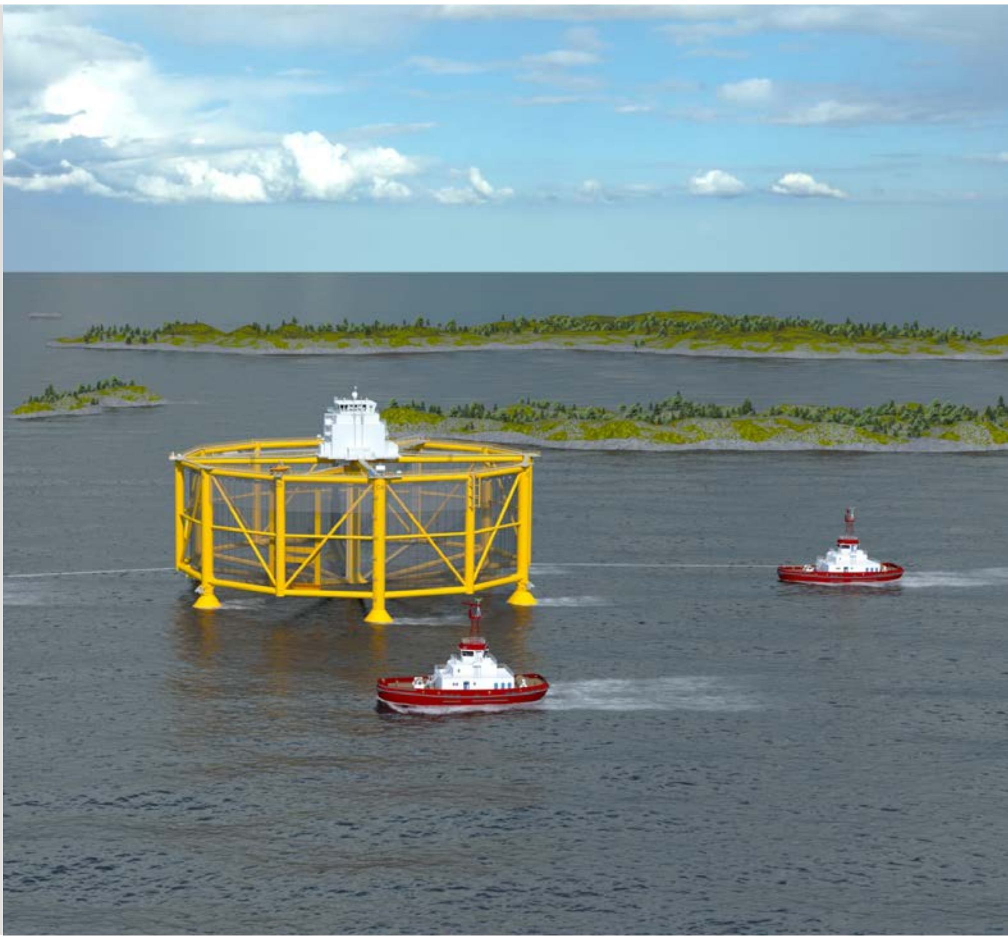
OFFSHORE FISH FARMING

The world's first digital fish farm

Today, two per cent of the food we eat comes from the sea. If we are to feed the world's growing population, we must increase the production of farmed fish and make the industry more efficient.

KONGSBERG is cooperating with the company Ocean Farming on the development of the world's first digital fish farm. Here, the living conditions for salmon are monitored by a large number of our sensors. These send signals into a single database, where "Big data" from the plant is analysed, processed and visualised in real time.

The visualisation will help in the effort to feed the salmon optimally and avoid stress and diseases. The goal of the industry is to use under one kilogram of feed per kilogram of salmon.



WIND OFF-/ONSHORE

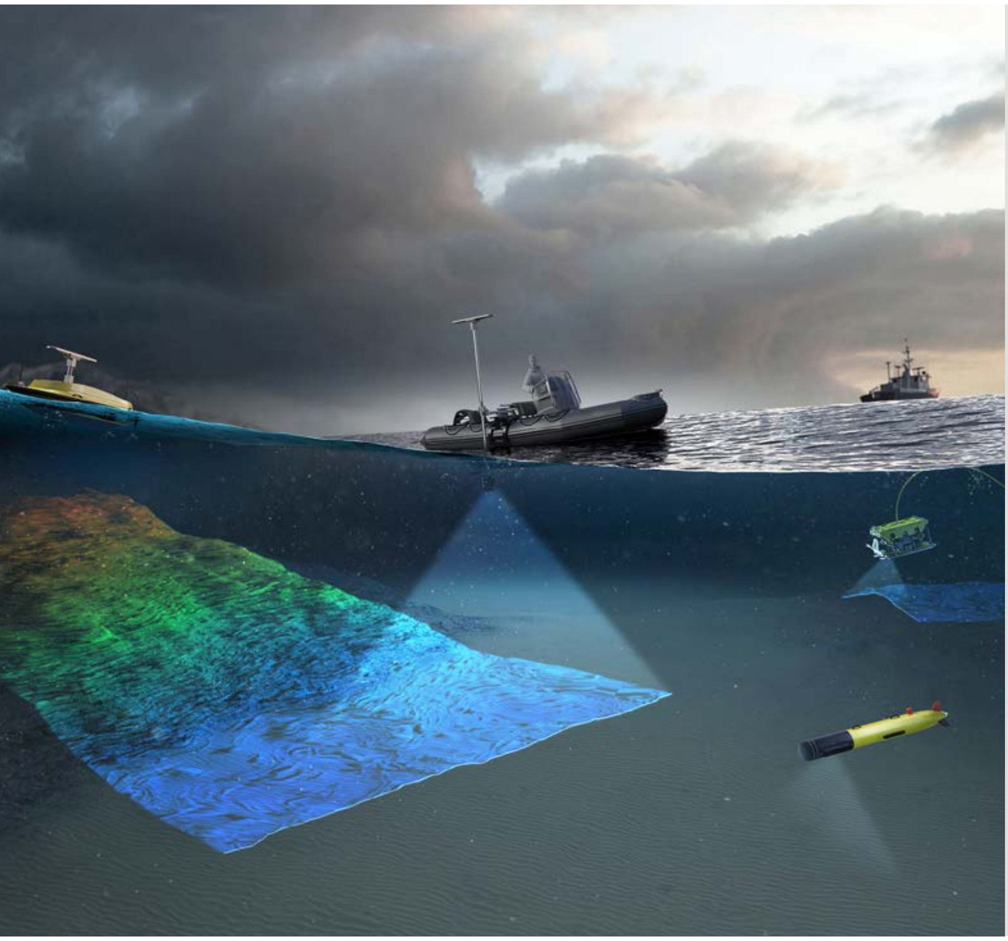
Increase the efficiency of wind power

Reduced costs mean that the industry predicts more growth in offshore wind. Last year, Europe took the decision to develop offshore wind for NOK 163 billion, which is a new record.

Kongsberg EmPower is a turbine independent decision support system based on our broad experience within automation and decision support systems. The system allows the user to have complete control over the production, operation and maintenance planning at each wind farm.

KONGSBERG delivers EmPower to Statoil's floating wind turbine Hywind Demo and to Statkraft and Arctic Wind who use the system on land.

Kongsberg EmPower helps our clients to achieve higher operational performance and reduce maintenance costs.



OCEAN SPACE

Enabling technology for the ocean space

70 per cent of the soil surface is covered by water, 80 per cent of the ocean is deeper than 3,000 meters, 90 per cent is not yet explored and 90 per cent of the world's biomass is in the sea.

The ocean space has huge potential to solve the greatest challenges we face today. Energy, food, climate and transportation are key areas where the ocean space can be exploited in a sustainable way with the use of technology.

KONGSBERG delivers technology that enables mapping and utilisation of resources beneath the seabed and in the water column. On the ocean surface, KONGSBERG delivers technology to ships that use the sea for transport routes, to wind farms that create green energy and to sustainable fisheries.

Our aerospace technology monitors the ocean environment and utilise assets related to information technology. On the defence side, KONGSBERG supplies systems that safeguard resources in the oceans.

STRATEGIC INFRASTRUCTURE

Maintain the route network in Norway

KONGSBERG, in collaboration with Indra Navia and Avinor, has developed technology for remote-controlled control towers. The technology makes it possible to operate control tower services at a number of airports from a single control centre.

As of 2018, the system will be used by a number of of small Norwegian local and regional airports to operate the tower service.

Avinor expects to reduce costs for tower services at the airports by approximately 30-40 per cent. Lower costs at the airports in turn means lower fees for the airlines, and will help to maintain the large route network Avinor has in Norway today.

Remote-controlled towers also leads to a strengthened emergency health service for these districts as small airports will be able to open for air ambulances outside normal working hours.

SECURITY AND SOVEREIGNTY

Border control and maritime surveillance

Copernicus is Europe's major satellite-based programme for environmental monitoring and civil protection. These services support border control, maritime surveillance and protection against terrorism and international crime.

KONGSBERG is the main supplier of ground station services for the programme and has participated in deliveries for the ground segment.

AISSat is a joint project between the Norwegian Defence Research Institute, the Norwegian Coastal Administration, KONGSBERG and the Norwegian Space Centre.

AISSat consists of satellites that monitor shipping traffic in Norwegian and international waters. They do this by capturing Automatic Identification Signals (AIS), which provide details of a ship's identity, positioning, speed and direction.

AIS is a system that should prevent collisions between ships, and all vessels over 300 gross tons are required to have the system on board.

The Norwegian Coastal Administration and other agencies use AIS data for fisheries protection, investigating environmental crime, mapping traffic in the Arctic, support for anti-piracy operations off the African coast and supervision of shipping activity in waters where Norway has interests.

FROM THEORY TO PRACTICE – SUMMER JOB PROGRAMME

Summer jobs are an important part of KONGSBERG's corporate social responsibility, and at the same time it strengthens recruitment and product development. We want to contribute to letting more engineering students experience how to turn theory into practice.

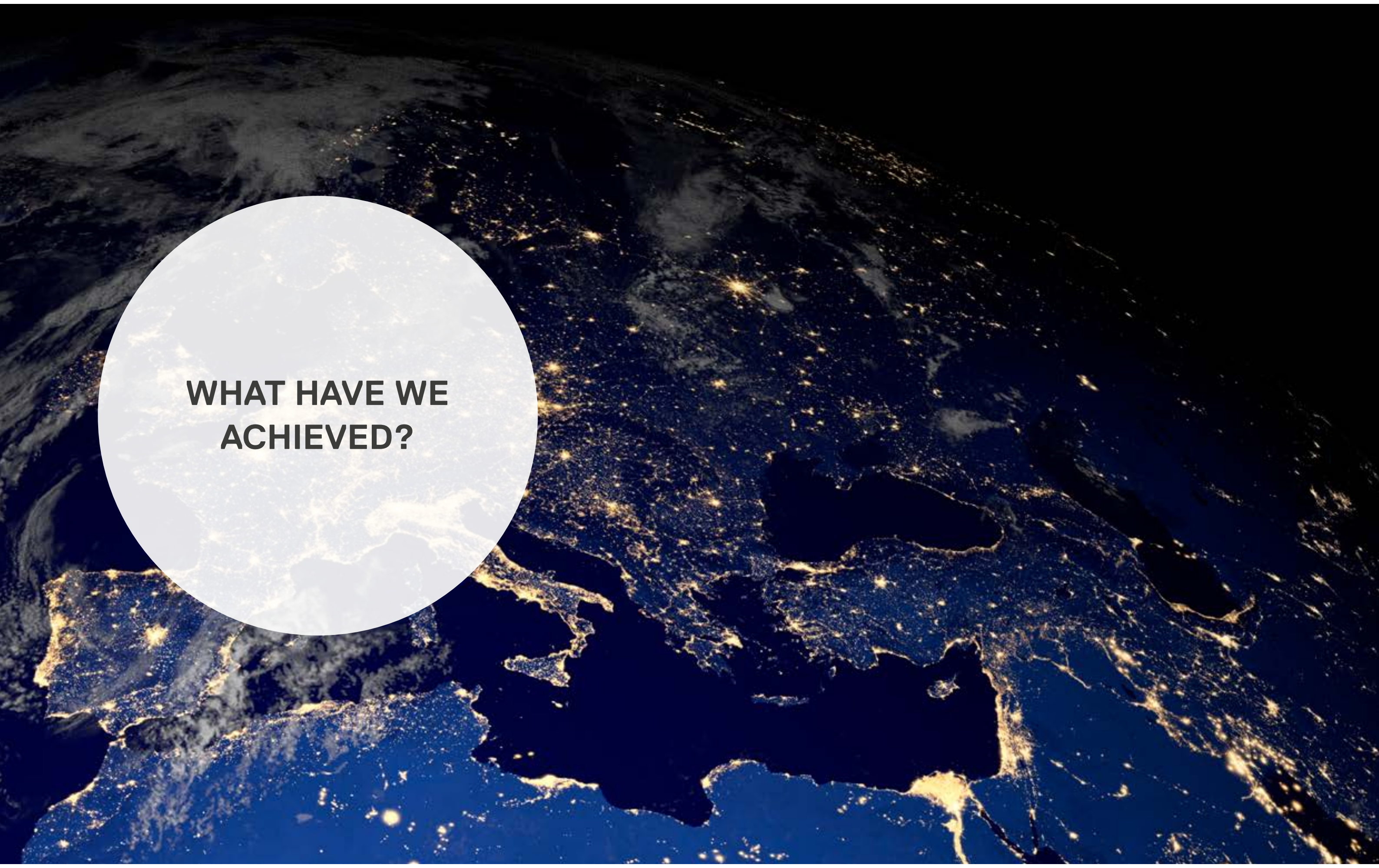
A high dropout rate is a challenge for natural science education in Norway. As a major Norwegian technology company, we see the ability to offer relevant summer jobs to as many students as possible as an important part of our corporate social responsibility. Summer jobs show students what opportunities are available after completing their education, and we hope this will motivate them to make optimum efforts with their studies and complete their degrees.

Each year, KONGSBERG takes on a large number of students who are allocated to different departments and summer projects throughout the entire Group. The projects are especially popular, and many of them have been ongoing for several years. The oldest project is "Local Hawk", which first started in 2008.

Our summer students attempt to solve some of the most technically challenging tasks that KONGSBERG faces. Challenges ranging from 11,000 metres below sea level to 36,000 kilometres into space. They can test themselves on relevant problems and put what they have learned in school into practice. Whilst they work very independently, they also get the close supervision of our experienced engineers.

Students acquire lots of relevant work experience. In addition, students bring the latest knowledge from their studies into KONGSBERG. What the students are working on is a part of the development process for new products and solutions. They work with "real-life" tasks and challenges, and bring in the latest methods and techniques.

For many of the students, the summer months provide a good opportunity to promote themselves to a potential employer. It is also a unique opportunity for students to find out if this is a career path they wish to pursue after they have completed their studies. At the same time, it is a good opportunity for KONGSBERG to get to know the students. The Summer Student Programme is a great recruitment arena for us.



In 2016, KONGSBERG chose to focus on the following areas of corporate social responsibility:

- Strategy for Sustainability
- Business ethics
- Anti-corruption
- Human rights and labour rights
- Sustainability and corporate social responsibility in the supply chain
- Climate challenge
- Our employees
- Diversity and gender equality

AREA OF FOCUS 2016-2017

STRATEGY FOR SUSTAINABILITY

In 2016 the Group completed a new sustainability strategy with the aim of using this as a toolbox for the business area's work with mapping risks and opportunities for their long-term strategic planning.

OUR POSITION

KONGSBERG works with advanced technologies and has relevant expertise in several key areas of technology that can be used to develop sustainable and innovative products for our customers.

The Group's emissions of the greenhouse gas CO_2 from its own operations are modest, and we therefore choose to increase activities related to innovation for our customers and maintain our internal ambitions for reducing global greenhouse gas emissions.

OUR CHALLENGES

The Group's work with sustainability and corporate social responsibility is currently an integral part of its other strategic processes. The work is based on the challenges facing our planet in relation to climate change affecting food production and water supply, increased extreme weather, shortages of key resources and issues related to urbanisation.

The perspective of opportunities – Technology innovation and high skills are central to KONGSBERG and creates increased business opportunities in new customer markets beyond the current established areas. This is the most important perspective in our new sustainability strategy, "Technology for global opportunities".

The perspective of risk – Climate change and other issues related to megatrends present challenges linked to our own operations. Objectives and goals for reducing our own CO_2 emissions will continue to drive the group in a more sustainable direction.

WHAT HAVE WE ACHIEVED?

The perspective of opportunities – The Group currently has numerous products in our portfolio that we define under the heading "Sustainable innovation", see pages 131–136. Within the areas named "Ocean Space" and "Smart Communities" we foresee significant growth opportunities in combination with our new and increased focus on digitisation, robotics and automation. This affects both the various new technologies and new business models.

The perspective of risk – The work on risk assessment and long-term climate measures has commenced. The result of this work will be part of our sustainability strategy.

OUR AMBITIONS

Our strategy is to identify directions based on the perspectives of both opportunities and risks. We aspire to utilise our technical expertise in the growing 'green' market, and we will strive to be a group that maintains its 'licence to operate' in a responsible and sustainable manner.

BUSINESS ETHICS

KONGSBERG's Code of Ethics and Business Conduct expresses our basic attitudes and indicates how we ought to relate to colleagues, customers and society at large.

OUR POSITION

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

Updating our Code of Ethics and Business Conduct
The corporate Code of Ethics and Business Conduct is updated aligned with national and international advances and was last updated in 2016.

OUR CHALLENGES

Ethical behaviour is of the utmost importance to us. It is important for us not to lose this fundamental perspective. This time-consuming work is done continuously.

Sanctions in 2016
None of the companies in KONGSBERG were sanctioned due to law violations in 2016.

WHAT HAVE WE ACHIEVED?

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

The Group has two ombudsmen who can provide advice and receive alerts from employees. Internal and external enquiries about ethics, alerts etc., can be addressed to the Corporate Compliance Officer by email at: ethics@kongsberg.com.

In 2016, we received and processed four queries. The cases relate to working environment, bullying and retaliation. There is a web-based alert channel for our employees in the US and Canada. The website address is https://kongsberg.alertline.com/

From 2017 we will open a global web-based alert channel.

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

OUR AMBITIONS

KONGSBERG's Code of Ethics and Business Conduct applies to the Group's directors, management, employees, temporary employees, consultants, market representatives (agents), lobbyists and others who act on behalf of KONGSBERG. We emphasise that all employees and the Group's Board of Directors must maintain high ethical standards while performing their duties. The Group has developed ethical guidelines for its suppliers.

AREA OF FOCUS 2016-2017

ANTI-CORRUPTION

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

Geir Håøy, president and CEO

OUR POSITION

KONGSBERG has zero tolerance for corruption. By that, we mean that we will never permit sales to be achieved through corruption. At the same time, we recognise doing business in vulnerable parts of the world may involve greater risks for corruption. For our business partners, zero tolerance in practice means requiring that any historical situations are regularised, that an approved anti-corruption programme is implemented and complied with, and that corruption is clearly denounced through words and actions. Our approach is expressed clearly through our Code of Ethics and Business Conduct, and our endorsement of the UN Global Compact, the OECD's Guidelines for Multinational Enterprises and our membership of Transparency International. The Board and executive management devote considerable attention to this work.

OUR CHALLENGES

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

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

Our activities involve the use of agents and market representatives. The use of third parties is generally known to imply a high risk of corruption, so we pay particular attention to that aspect of our anti-corruption programme. We have developed and implemented in-house regulations for signing and following up agreements with market representatives. The regulations include assessments of a market representative's ethical standards and reputation.

Further, risk is assessed based on industry, country and company, and approval procedures have been introduced for the use of standard terms of business and verification of payments, as well as for follow-up during the agreement period and for training and audits.

In 2014, a charge was filed against Kongsberg Gruppen ASA, Kongsberg Defence & Aerospace AS and an employee of Kongsberg Defence & Aerospace, alleging corruption in conjunction with deliveries of communications equipment to Romania from 2003 to 2008. The charges of corruption were dropped in August 2016.

Anti-corruption continues on the next page ▶

Anti-corruption continued

WHAT HAVE WE ACHIEVED?

In 2016, we continued our training activities for our employees at various levels, courses and revision for our market representatives (agents), dialogue meetings with our business partners, and compliance surveys in relation to acquisition activities. We have developed our alert system (for whistle-blowing) and will, from 2017, have a global web-based alert channel. In recent years, we have further developed the Group's compliance system, placing considerable emphasis on compliance as being a line responsibility and part of day-to-day operations. In addition, we regularly perform in-house inspections to ensure compliance with our Code of Ethics in connection with the use of market representatives, including control of payments. Anti-corruption is an area in which we maintain continuous focus on prevention, risk mitigation measures and the identification of possible non-compliance.

In 2016 we revised our Code of Ethics guidelines and continued this process with a strong focus on anti-corruption.

We have signed up to the *"Maritime Anti-Corruption Network"* http://www.maritime-acn.org and *"The International Forum on Business Ethical Conduct for the Aerospace and Defence Industry"* http://ifbec.info/ both of which are international member organisations that collaborate on ethics, integrity and anti-corruption.

OUR AMBITIONS

We base our efforts on systematic risk assessments, preventive activities, internal controls and reporting. We will continue to develop our training programme and our alert channel, as well as continuing to develop our internal guidelines for performing compliance due diligence with respect to all our business partners. We will perform an external evaluation of our anti-corruption programme every third year. We hired an independent law firm to carry out an evaluation in 2014. The evaluation demonstrated that we have a good and robust anti-corruption programme with regard to internationally recognised laws and regulations.

The evaluation applied the UK Bribery Act's requirements for "Adequate procedures" as a benchmark, and the result demonstrated that we satisfied this requirement. In 2017, we will perform a new evaluation and analysis of our system against the new ISO 37001 standard "Anti-bribery management systems". Our aim is to continue our proactive efforts to ensure that we are on a justifiable, high level with regards to both national and international legislation, framework and best practice.

HUMAN RIGHTS AND LABOUR RIGHTS

The Group's international activities make us susceptible to problems related to human rights and workers' rights, either directly through our own businesses or indirectly through our value chain

OUR POSITION

KONGSBERG has joined the UN Global Compact initiative. We support and respect international human and labour rights that are set out in the UN's Universal Declaration of Human Rights, the UN Convention on the Rights of the Child, ILO Core Conventions (International Labour Organisation) and the OECD Guidelines for Multinational Enterprises. KONGSBERG uses the Global Reporting Initiative (GRI) guidelines for the voluntary reporting of sustainable development.

Sustainability and corporate social responsibility shall be integrated into the Group's strategy processes. Sustainable technology development is a central element in contributing towards solving the major global challenges the world faces. For KONGSBERG, this means business opportunities in several markets viewed in the light of our broad technology and competence platform.

Respect and continuous improvement are important elements of our approach to human rights and workers' rights. Our stakeholders require that we operate our business in a sustainable manner and that we perform our corporate social responsibility in line with the applicable expectations of society. KONGSBERG requires this 'licence to operate' in order to perform its activities.

OUR CHALLENGES

KONGSBERG's internationalisation, both its proprietary ventures and its use of suppliers, is expanding year by year. This means that we must also devote more attention to, and learn more about, dealing with human rights and workers' rights.

WHAT HAVE WE ACHIEVED?

Since 2015 we have conducted a systematic evaluation of our own business activities related to human rights and employees' rights.

In the Group as a whole, there were no serious breaches or non-conformances. Some less serious cases were registered, followed up and closed during the year.

Discrimination – In 2016, we had no reports of cases of discrimination.

Child labour and compulsory labour – The Group's own activities are of such a nature that issues related to child labour and forced and compulsory labour are of little relevance. We are working to survey the situation in the value chain. There have been no reports of cases involving these issues.

The use of security personnel at international level – We use security personnel in areas where we consider it necessary. Thus far, the scope of this has been very limited.

Indigenous rights – The Group has not been involved in violations of indigenous rights.

Suppliers – The follow-up of human rights and workers' rights in the supply chain meets current in-house procedures. Self-declarations and audits are important tools in these efforts.

OUR AMBITIONS

We will comply with international standards for human rights and workers' rights as expressed in our corporate Code of Ethics and Business Conduct and our Policy for Sustainability and Corporate Social Responsibility. Further, we will develop our own processes and procedures related to follow-up.

SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY IN THE SUPPLY CHAIN

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

OUR POSITION

KONGSBERG uses 3,911 [1] suppliers globally, of which 2,086 [1] are located in Norway. This means we help to safeguard jobs and build competence, not only where we have proprietary operations, but also to a large extent where we use suppliers. Suppliers are an important part of our value creation and, at the same time, we are important and in many cases crucial for their value creation. This implies an obligation. Basically, we take responsibility for ensuring that the whole value chain linked to the Group's products complies with our standards for sustainability and corporate social responsibility.

OUR CHALLENGES

We are continually working on improvements founded on a risk-based prioritisation. The biggest challenge is to ensure that the supply chain from tier 2 and further down the chain satisfies our requirements, and to have a comprehensive overview of risks in the supply chain.

WHAT HAVE WE ACHIEVED?

We have drawn up principles and systems of governance for how we would like our suppliers to deal with sustainability and corporate social responsibility, and for how we will follow this up. In 2016, we conducted 6 audits focusing solely on sustainability and corporate social responsibility. In addition, a large number of quality audits were conducted where sustainability and corporate social responsibility were smaller parts of the audit.

OUR AMBITIONS

One main principle is that we will collaborate with suppliers to seek continuous improvement. The goal is to ensure that elements that fail to meet the standards to which we aspire will be adapted and improved through dialogue. Further, we must ensure that we maintain close control of risk.

In recent years, the role that the business community can, and must, play in the fight against human trafficking has received an increased international focus. Several countries and international organisations have adopted laws, regulations and/or declarations that place a clear responsibility on, and require specific actions by, companies. Due to its global presence and customer base, KONGSBERG is subject to these requirements.

Human trafficking is broadly defined and includes topics such as forced labour, bonds of debt, organised prostitution and recruitment through violence or fraud and more.

KONGSBERG is committed to playing its part in combating human trafficking. KONGSBERG's Code of Ethics places high expectations on employees with regard to the fight against human trafficking. In addition, we have developed and will continue to develop internal guidelines and procedures, staff training and plans for following up in our supply chain.

1. Number of suppliers that invoiced KONGSBERG for more than NOK 50,000 in 2016. Certain suppliers have been counted two or more times if they are suppliers for two or more of our business areas. The figures do not include all suppliers dealt with directly by our international locations.

CLIMATE CHALLENGE

KONGSBERG has a long-term commitment to the reduction of CO_2 emissions. The company's emissions are very low, and our biggest contribution to reducing global warming is to deliver new, innovative services and product solutions to our customers. We want to strengthen our competitiveness through implementing our new climate strategy "Technology for Global Challenges".

OUR POSITION

We are a company with moderate emissions of greenhouse gases. Flights and emissions associated with shipping goods represent around 70 per cent of our total emissions. Emissions per person-year of labour are estimated at 4.8 metric tonnes of CO_2. Thus it is important for KONGSBERG to have a clear focus on the customer perspective when we help solve the threat to the global climate.

OUR CHALLENGES

Most of our emissions come from flights and shipping of goods. We have used digital communication solutions as a replacement for some of our business travel. Our targets for reducing emissions are currently relative, meaning that as we grow, actual emissions may increase even though we reach our targets for relative reductions in emissions. For KONGSBERG the biggest challenges and the best opportunity to have an impact on the global climate is associated with our customers' operation and activities. This is why we focus on technology for making wind farms more efficient in producing green energy, efficient solutions for transport ships and sustainable fisheries and food production.

Ambitions and goals are adjusted with the change in pace of new technology.

WHAT HAVE WE ACHIEVED?

The Group has several services and product areas that have a positive impact on the environment in a variety of ways. Moreover, the Group has defined several new areas for innovation that have substantial potential for sustainable growth. See the descriptions in the chapter entitled "Sustainable innovation".

OUR AMBITIONS

KONGSBERG shall fulfill its long-term business goals in a manner that minimises contributions to global warming. We will accomplish this by:

- Finding new innovative services and product solutions that can reduce our customers' greenhouse gas emissions
- Reducing direct and indirect greenhouse gas emissions from our own operations
- Using environmental profiling as one of several assessment criteria when choosing suppliers

We will work systematically to reduce energy consumption and GHG emissions, with special focus on products, product processes, material consumption, energy consumption, infrastructure, effective communication and transportation.

We are working on a long-term basis on our targets for the reduction of CO_2 emissions for our in-house operations. By the end of 2020, our emissions are to be reduced by 20 per cent relative to sales, based on the figures that applied on 31 December 2015. This will positively support the obligations of the Paris Agreement. Words will now be put into practice and attitude will become valuable actions.

OUR EMPLOYEES

KONGSBERG's success rests on the knowledge and expertise held by our employees. Therefore, we work systematically to make KONGSBERG an exciting, attractive and evolving workplace. It is important for us to attract the right competence, to use these skills optimally and to ensure that we continually develop our employees.

LEADERSHIP IN KONGSBERG

Leadership in KONGSBERG is about creating value. We believe that good leadership means achieving results through others. The key to success lies in the combination of good management and dedicated employees. Managers shall exercise their leadership based on our values, the Corporate Code of Ethics and leadership principles. On the basis of this, we have implemented a leadership development programme that will contribute to clarifying and quality-assuring processes for goal setting, goal follow-up and evaluation. Leadership@KONGSBERG is our management platform which has been built around manager development, talent management and scorecards. This platform encompasses all the Group's managers and ensures a uniform process for the follow-up and development of leaders. The Group follows an overall principle involving a commitment to agreed goals through a decentralised form of management. Our managers have clear goals and goal reconciliation with their managers, including the evaluation of the manager. We have a broad range of leadership development programmes both internally and externally. Our management platform also covers structured processes for succession planning and talent development. Leadership@KONGSBERG will contribute towards creating a continuous supply of talented leaders.

RECRUITMENT AND DEVELOPMENT

One prerequisite for achieving the Group's growth targets is our ability to attract and retain highly qualified co-workers.

Each individual business hires people locally with the assistance of local managers and HR managers. Outside Norway, we usually hire local employees except in certain managerial positions and positions that call for special expertise.

The Group offers an extensive range of competence development through a combination of in-house and external programmes and courses.

Our employees' career paths should be open to lateral as well as vertical movement throughout the Group.

EMPLOYEE RELATIONS

A separate committee has been established in order to ensure good communication between the Group's management and the various trade unions. Regular meetings are held and also extraordinary meetings in cases where this is considered necessary, including in connection with providing rapid information regarding individual cases. The committee consists of the Chief Executive Officer and central managers in the Group and at the business area levels, in addition to representatives from each of the business areas.

We believe in involving our employees and their union representatives in the development of the company.

KONGSBERG recognises employees' freedom of association and their right to engage in collective negotiations in accordance with the ILO conventions. Where this conflicts with local legislation, local legislation shall have precedence. Where legislation prohibits the right to organise, efforts will be made to ensure alternative means of ensuring good dialogue between management and employees.

In Norway, wage negotiations take place through central and local negotiations.

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

Our employees continues on the next page

Our employees continued

HEALTH, SAFETY AND ENVIRONMENT

One basic principle is that the HSE work should be preventive. KONGSBERG has a goal of zero injuries and accidents in the company.

All companies in the Group shall work systematically with HSE to ensure a good working environment, prevent injuries and accidents and work to reduce sickleave. We will create a healthy HSE culture through this work.

The HSE work is organised through formal bodies with representatives from management and employees.

We have well-developed HSE procedures in our Norwegian operations. All employees in Norway have access to company health services.

In our international business operations local practice and legislations will apply. In Norway, the formal bodies are the Executive Committee, Cooperation Committee, Departmental Committee and Working Environment Committee. Provisional committees are additionally established in connection with special projects. Both the management and employees are represented in these committees.

The international HSE work builds on our global HR policy and on laws and regulations in the country in question. In the majority of countries, there is a requirement for an HSE administrator to be appointed with a responsibility for ensuring that the company follows local and national laws and regulations.

KONGSBERG adapts itself to the national health service and supplements this with its own company agreements as required. Employees on international assignment, their families and travelling personnel are dealt with particularly through the occupational health service, cultural awareness training and extended insurance schemes.

The Group has established its own guidelines to reduce risks on business travel and in areas where employees spend considerable time. Travel may be restricted or prohibited due to political, financial, environmental, safety or health-related reasons. In addition, we have procedures regarding the way in which employees must behave on business travel.

The Group has designated security boards which determine employees' travel safety globally.

HSE data is collected from all companies in the Group and reported to Corporate Executive Management and the Board on a quarterly basis.

These reports are submitted to the authorities in accordance with legislative requirements in various countries.

SICKLEAVE

Systematic work is carried out in connection with the follow-up of sickleave, and we believe that a good working environment, interesting work assignments and good development opportunities have a positive effect on absence due to illness. See the details on page 158.

INJURIES

Injuries and near-miss-accidents are registered and followed up in the respective business unit and reported to the Group each quarter. See the details on page 158.

SALARIES

KONGSBERG will reward its employees on the basis of results achieved and desirable behavior. We shall be competitive but not salary leader. Starting salaries shall reflect this. With the exception of special positions, all employees in Norway are directly or indirectly covered by collective wage agreements. Salaries shall be adapted to the local market conditions in the areas and the countries where we operate. All salaries shall satisfy the requirement concerning a minimum living wage.

RETIREMENT AGE

Our employees in Norway can retire at the age of 67, and we have a mandatory age limit set by the company of 70 years.

DIVERSITY AND GENDER EQUALITY

We believe that diversity creates value and makes us more competitive. It expands the mindset and positively influences the company's strategy and execution. Therefore, we work systematically and focused to recruit, develop and retain people of different ages, ethnicity and gender. The focus on diversity must be integrated into all HR processes, such as profiling, recruitment and leadership development, along with reporting and follow-up. In 2015 and 2016, we have had special focus on gender equality. This will continue in 2017.

RECRUITMENT

We must continuously strive to be an attractive employer to ensure we reach relevant candidates. Our ambition for 2020 is to increase our overall percentage of women in the Group. The goal is that 25 per cent of all recruits shall be women. To reach this goal, we must raise awareness of this in our recruitment processes.

SUMMER JOB PROGRAMME

Only 16 per cent of all graduates in science and technology are women. Norwegian women choose education at higher level, but only a small number select science and technology. We must increase the number of women in technical subjects. The Summer Programme is an important recruitment arena for us. It is therefore important to focus on bringing in more girls, to expand our selection base. Our goal is to have 30 per cent females in the summer programme.

LEADERS AND POTENTIAL LEADERS

One of our goals is to recruit more women in leadership positions. The goal is to make the proportion of women in management positions equivalent to the proportion of women in the company as a whole. We therefore have a focus on identifying and developing our female talent, and motivating and inspiring them to take more responsibility. Some of the measures to increase the proportion of female leaders include increasing the proportion of women in our internal training and internal mentoring programmes, creating more role models, and stepping up participation in the Kongsberg Female Forum and Female Future organised by NHO (the Confederation of Norwegian Enterprises).

SUCCESSORS

To increase the proportion of women in senior positions, we need to focus on and be aware of this in the process of identifying successors. Every fourth successor candidate at the top four management levels must be a female.

COMMUNICATION/ SURVEYS

To achieve our ambitions, we work systematically through our HR and management processes by raising awareness in relation to diversity and equality. We also conduct quarterly surveys, which are reported to the governing bodies.

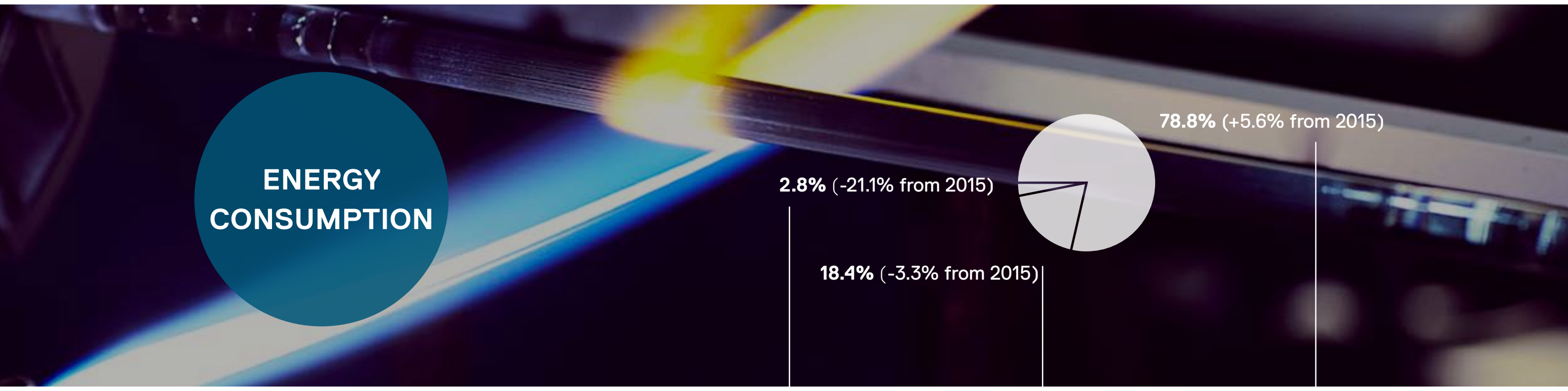
We are working to increase awareness among the management and employees regarding our commitments to work actively, focused and strategically to promote diversity and equality. It is important to continually focus on the subject in order to ensure its achievement.

CLIMATE AND ENVIRONMENT

The climate and environmental statement provides an overview of KONGSBERG's consumption of energy, CO_2 emissions, waste processing and water consumption. It covers all Norwegian units, all production units and major offices abroad.

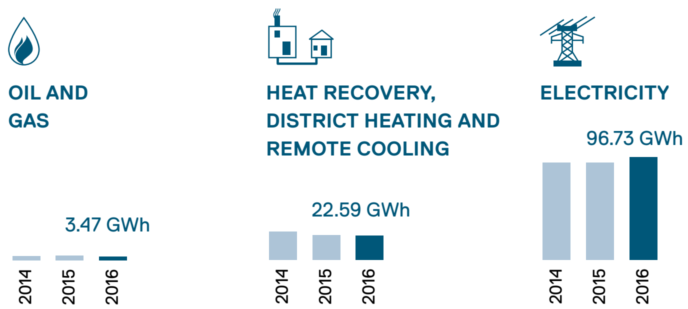
CLIMATE AND ENVIRONMENTAL ACCOUNTS 2016

The Group has adopted a target of reducing CO_2 greenhouse gas emissions by 20 per cent relative to turnover by the end of 2020, based on figures as of 31 December 2015. In 2015, for the first time, we reported CO_2 emissions linked to the transportation of goods and merchandise paid in Norway. CO_2 emissions in 2015 were just below 40,000 metric tonnes with a solid reduction in 2016 to 33,500 metric tonnes. The decrease of close to 15 per cent is primarily due to lower emissions from air travel and transport. The Group reports to the international "Carbon Disclosure Project" framework on issues relating to climate changes and the level of greenhouse gas emissions. Our goal of increasing our quality and score in this reporting resulted in an improved score, going from an E for 2015 to a B for 2016.



TOTAL ENERGY CONSUMPTION IN 2016

122.79 GWh



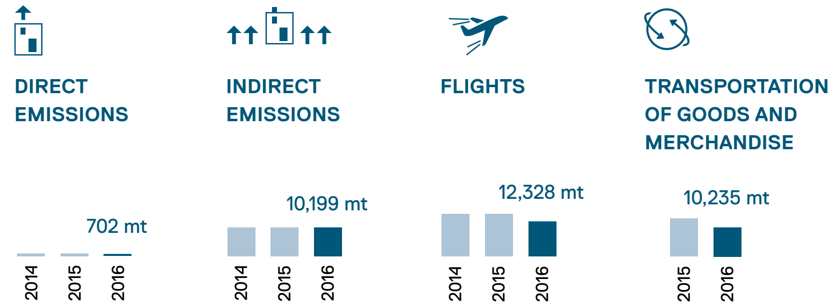
KONGSBERG uses energy in the form of electricity, district heating, remote cooling, gas and fuel oil in its activities. Kongsberg Technology Park produces district heating, remote cooling and compressed air for enterprises located in the technology parks in Kongsberg. Half of the produced energy is supplied to other enterprises in the technology park. District heating and remote cooling are produced using electricity, fuel oil, gas and heat recovery.

Efficient technology allows 20–25 GWh to be recovered annually by the heat recovery unit at the plant in Kongsberg Teknologipark. In 2016, 22 GWh were recovered at the plant.

Graphs: Total energy use for KONGSBERG. The figures include electricity, oil and gas and recovered energy used by Kongsberg Teknologipark for the production of district heating, remote cooling and compressed air for companies that are not part of KONGSBERG.

TOTAL CO_2 EMISSIONS IN 2016

33,464 mt



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

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

1) **Source:** 2015 data from the Department for Environment, Food & Rural Affairs, UK. http://www.ukconversionfactorscarbonsmart.co.uk/. For Norway, a location-based factor of 50t CO_2/GWh (this pollution factor for Norway has also been used in earlier reporting years).
2) Reported CO_2 figures include import, export and inland, payable in Norway in 2016

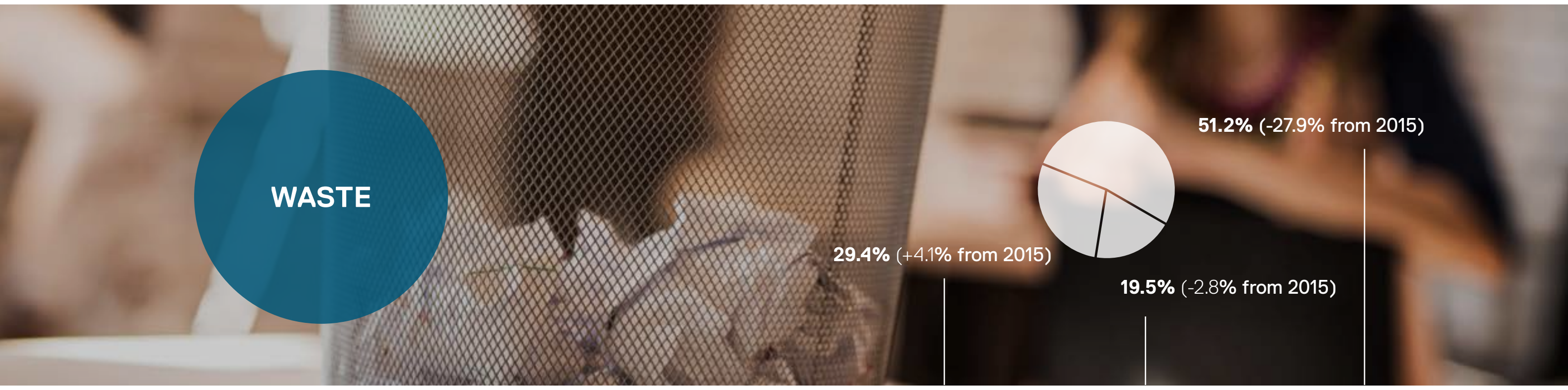
CO_2 emissions associated with transport of good and services has been reduced by 23 per cent from 2015 to 2016. The transportation of goods and merchandise constitutes approx. 30 per cent of our total reported emissions.

Emissions from flights within Norway are at a lower level than in 2015, and for international flights we also see somewhat lower emissions. Flights still constitute approx. 37 per cent of our total CO_2 emissions. Flights ordered abroad are somewhat inadequately reported.

CO_2 emissions

Metric tonnes [1)]	*Change past year*	*2016*	*2015*	*2014*
Scope 1 (Direct emissions)	-25.6%	702	943	941
Oil and gas (business area)		605	682	723
Olje og gass (Kongsberg Technology Park)		97	261	218
Scope 2 (Indirect emissions)	1.0%	10 199	10 094	10 185
Electricity (business area)		8 432	8 064	8 071
Electricity (Kongsberg Teknologipark)		1 761	1 624	1 523
District heating from external supplier		6	247	470
District cooling from external supplier		0	159	121
Scope 3 (Other emissions)	-17.2%	12 328	14 896	14 879
Flights purchased in Norway		8 845	11 296	11 144
Flights purchased abroad		3 483	3 600	3 735
Total excl. shipping		**23 229**	**25 933**	
Shipping of goods paid for in Norway		10 235	13 335	
Total incl. shipping	**-14.8%**	**33 464**	**39 268**	**26 006**

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



TOTAL WASTE IN 2016

1,986 mt

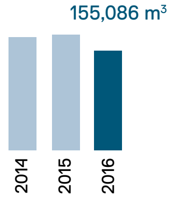
KONGSBERG generates waste from production and from office activities. Waste is part of KONGSBERG's in-house environmental reporting. The reports cover generated waste broken down by category of waste and waste for recycling sorted by recycling fractions.

The total volume of waste for KONGSBERG was reduced by 16 per cent from preceding years. Less recycled waste is mainly due to the termination of the production facilities of Kongsberg Oil & Gas Technologies in Drammen.

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

TOTAL WATER CONSUMPTION IN 2016

155,086 m^3



Reported water consumption shows a decline of 15 per cent from 2015 to 2016. We assume that there is some margin of error connected to the reporting.

Water is the lifeblood of all life on earth. It is crucial to support good eco-systems so they can keep the Earth's environment in balance. Meanwhile, access to clean water is in short supply many places. Getting access to clean water is and will increasingly be one of the main challenges facing sustainable value creation. Flooding and droughts are also growing global problems. The UN's World Water Development Report 3 points out that initiatives are needed urgently if we are to avoid a global water crisis. Population growth, rising consumption and climate change are three of the main explanations for this serious situation.


GOALS
AND REPORTING

GOALS AND ACTIVITIES FOR SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

The Group gives priority to its work on sustainability and corporate social responsibility, with great accountability and interest from the executive management and the Board. The activities that have received 😐 or ☹ are still a long-term goal with the focus on incremental improvement. Activities with ☺ are completed according to schedule. All activities will continue to be high-priority areas in 2017.

	What we said – activities	*Objectives for 2016*	*What we did – status*	
STRATEGY FOR SUSTAINABILITY	New strategy for sustainability to be drawn up in 2016	· Complete a new strategy	· The strategy "Technology for Global Challenges" is established and released for use in KONGSBERG	☺
UN'S GOALS FOR SUSTAINABLE DEVELOPMENT	UN's 17 new sustainable development goals	· Consider KONGSBERG's approach to the UN's 17 new sustainable development goals	· All UN objectives are evaluated against our business operations and strategies. A selection of these have been chosen as the focus area for further work.	☺
ANTI-CORRUPTION	Ensure an efficient risk-based anti-corruption programme	· Continue communication regarding a clear attitude against corruption in all forms	· A clear message is communicated from the top management and Board	☺
		· Further develop and maintain in-house policies and procedures	· Revised Code of Ethics and underlying governance documents	☺
		· Carry out risk analyses, internal controls and audits to confirm compliance with legislation, rules and internal procedures. Carry out risk reduction measures as needed	· Conduct risk assessments in all business areas (at least) annually as a basis for action plans · Conducted external audit of compliance with internal procedures for use by market representatives	☺
		· Further develop and carry out continuous training	· Conducted e-learning for all employees with a clear message of zero tolerance for corruption	☺
		· Further develop good forms of co-operation with business partners and other external parties	· Conducted training programme for selected employees · Carried out meetings with important business partners, which has strength-ened the anti-corruption programmes · Member of International Forum on Business Ethical Conduct for the Aerospace and Defence Industry (IFBEC) and Maritime Anti Corruption Network (MACN)	☺

Continues on the next page

Objectives for 2016 continued

	What we said – activities	*Objectives for 2016*	*What we did – status*
HUMAN AND EMPLOYEES' RIGHTS	Carry out due diligence for all major units and assess overall corporate risk	· Assess the quality of the analyses carried out in Q1 2016 · Carry out initiatives where needed	· First analysis was completed for the business areas and the Group as a whole in 2015. Follow-up of the analyses has been partially carried out
SUPPLIERS	Follow up annual action plans prepared by each individual business area	· Focus on the implementation of planned audits · Focus on drawing up a satisfactory overview of the risk in the portfolio	· Conducted external audit for compliance of internal rules and procedures for monitoring the supply chain
CLIMATE STRATEGY	New climate strategy will be incorporated into the Group's sustainability strategy · Goals for CO_2 emissions · Goals for reporting in regard to CDP (Carbon Disclosure Project)	· Draw up and communicate the data forming the basis for the new goal period · Carry out measures that allow us to obtain A/B score for 2016's reporting to CDP - including a risk analysis related to climate change	· New sustainability strategy is established and contains guidelines for climate goals. The plan is being followed and measures have been identified for each business area · KONGSBERG made good progress on initiatives under the auspices of CDP. We achieved Score B, which is an improved result on previous years
OUR EMPLOYEES	**DIVERSITY** We strive to have a well-diversified organisation. There is currently special focus on the percentage of women employees and women in leading positions	· Establish objectives and processes to ensure focus on increased diversity · Focus on female talent through our leadership development programmes · Focus on the recruitment of women	· Specific goals have been established and these are monitored quarterly. During the year we have managed to increase the proportion of women in relation to the measures we have been focusing on · A clearer focus in the recruitment process on having a greater proportion of women has led to an enhanced proportion of women among new appointees
	HSE Ensure a good working environment, prevent injuries and accidents, and prevent high absence due to illness	· Continue systematic HSE work · Follow up established goals · Maintain low absence due to illness · Work proactively to prevent injuries and accidents	· We work systematically through, amongst other things, establishing action plans and implementing risk analyses · Quarterly reporting to the Board and management on the target KPI indices · The low sick leave figures are maintained through close and good follow-up between manager and employee · E-learning was distributed to all employees in 2016, with more than 80 per cent completing the course by the end of the year.
	OUR EMPLOYEES To reach the Group's growth goals, we must attract, retain and develop our employees. We emphasise both professional and personal development, as well as leadership development. Job-satisfaction and working conditions are measured through a global employee survey carried out every other year.	· Ensure that all employees at every level and in different disciplines have development and career plans · Focus on further developing the Leadership@Kongsberg process and increase the completion rate · Evaluate internal management training to ensure that the content is in-keeping with ambitions, needs, our values and leadership principles · Define mandatory training	· The Leadership@Kongsberg process has been evaluated and further developed during the year. Surveys have been introduced on the extent of implementation to ensure the desired development · The contents of our internal management training programmes have been evaluated · Mandatory training which applies to all employees has been identified and surveyed. There will be closer monitoring of those who have not completed this training in 2017

Goals for 2017–2021

The objectives and goals for 2017 to 2021 will be to continue working on the areas of focus we adopted in 2016. We have also set some new targets in new areas of focus as a result of the materiality analysis we conducted in 2015.

	Activities	*Objectives for 2017 – 1 year*	*Goals for 2019 – 3 years*	*Goals for 2021 – 5 years*
STRATEGY FOR SUSTAINABILITY	Implement and operationalise the new sustainability strategy "Technology for Global Challenges"	· Use the new guidelines actively in the business areas' long-term strategic planning	· Follow up initiatives and actions related to the strategy · Evaluate and further develop	· Follow up initiatives and actions related to the strategy · Evaluate and further develop
UN'S GOALS FOR SUSTAINABLE DEVELOPMENT	Collaboration with the UN's 17 sustainability goals	· Clarify the relationship between the UN's goals and our application of new technologies and our social responsibility commitment	· Utilising the UN's goals for a competitive advantage in our solutions for products and services	· Evaluate the goals and results · Adjust and further develop activities towards the most relevant UN goals
BUSINESS ETHICS	Clarity that every aspect of our business activities shall be conducted in an ethical and responsible manner	· Continue to communicate a clear and distinct "Tone at the Top" to all managers at all levels	· Continue clear communication · Revise Code of Ethics	· Continue clear communication · Revise Code of Ethics
ANTI-CORRUPTION	Ensure an efficient risk-based anti-corruption programme	· Carry out external gap analysis against the ISO standard for "Management systems for anti-corruption" · Further develop and maintain in-house policies and procedures · Carry out risk analyses, internal controls and audits to confirm compliance with legislation, rules and internal procedures. Carry out risk reduction measures as needed · Further develop and carry out continuous training · Further develop good forms of cooperation with business partners and other external parties	· Further develop and maintain: · Communications internally and externally regarding our attitude to corruption · Policies and procedures · Risk analyses · Action plans · Reporting · Training · Cooperation with external parties	· Further develop and maintain: · Communications internally and externally regarding our attitude to corruption · Policies and procedures · Risk analyses · Action plans · Reporting · Training · Cooperation with external parties · External evaluation of compliance and the anti-corruption programme
		· Develop incentives and KPIs for ethics and integrity, as well as internal rules and procedures for reactions and sanctions	· Continual maintenance	· Continual maintenance
HUMAN AND EMPLOYEES' RIGHTS	Carry out due diligence for all major units and assess overall corporate risk	· Each business area must identify risk areas and draw up an audit plan on this basis · Carry out initiatives where needed	· Evaluate and further develop procedures	· Evaluate and further develop procedures

Goals for 2017–2021 continue on the next page

Goals for 2017–2021 continued

	Activities	*Objectives for 2017 – 1 year*	*Goals for 2019 – 3 years*	*Goals for 2021 – 5 years*
SUPPLIERS	Follow up annual action plans prepared by each individual business area	· Focus on the implementation of planned audits · Focus on drawing up a satisfactory overview of the risk in the portfolio	· Evaluate and further develop work with a sustainable supply chain	· Evaluate and further develop work with a sustainable supply chain
CLIMATE STRATEGY	Implement climate strategy with the Group's sustainability strategy. Establish realistic and good ambitions · Establish realistic and contributing goals for CO_2 emissions · Reporting in regard to CDP (Carbon Disclosure Project)	· Follow up our long-term goals for reducing CO_2 emissions · Sanction and operationalise ambitions for the measurement period · Implement measures in order to stabilise our performance at level B	· Follow up and evaluate the strategy and the goals that have been set	· Follow up and evaluate the strategy and the goals that have been set
DIVERSITY AND GENDER EQUALITY	We strive to have a well-diversified composition of age groups, competence, ethnicity and gender in the organisation. There is currently special focus on the percentage of women employees and women in leading positions	· Follow up established and new objectives in order to increase diversity · Focus on female talent through our leadership development programmes · Focus on the recruitment of women · Increase the proportion of female succession candidates	· Evaluate and follow up goals and processes for ensuring greater diversity and gender equality	· Evaluate and follow up goals and processes for ensuring greater diversity and gender equality
OUR EMPLOYEES	**HSE** Ensure a good working environment, prevent injuries and accidents, and prevent high absence due to illness	· Continue systematic HSE work · Follow up established goals · Maintain low absence due to illness · Work proactively to prevent injuries and accidents	· Further develop and improve established routines and objectives	· Further develop and improve established routines and objectives
	OUR EMPLOYEES To reach the Group's growth goals, we must attract, retain and develop our employees. We emphasise both professional and personal development, as well as leadership development. Job-satisfaction and working conditions are measured through a global employee survey carried out every other year.	· Increasing completion rate of appraisal interviews · Define mandatory training · Create action plans based on completed global employee survey · Follow-up of our diversity objectives · All employees must have at least one appraisal meeting per year. In 2017 we will check that this is being carried out	· Evaluate and follow up objectives and processes	· Evaluate and follow up objectives and processes

KEY SUSTAINABLE FIGURES

FINANCIAL VALUE ADDED

MNOK	*2016*	*2015*	*2014*	*2013*	*2012*	*2011*	*2010*
Added value							
Wages/salaries	4 649	4 725	4 537	4 304	3 894	3 515	3 172
Dividends	450	510	1 110	630	450	450	450
Dividends – percentage of earnings (new reporting)	69%						
Interest to lenders	63	24	30	43	37	35	41
Retained earnings	201	245	(230)	595	854	980	1 050
Other key financial figures							
Acquired goods and services	9 223	9 554	8 817	7 918	8 300	8 300	9 500
Financial support received from authorities	35	18	21	14	16	17	29
Tax							
Norway	(40)	85	291	332	416	513	528
Rest of Europe	17	9	27	11	14	17	18
North and South America	48	49	50	55	32	24	26
Asia	53	46	37	21	43	24	25
Total	**78**	**189**	**405**	**419**	**505**	**578**	**597**

SOCIAL INVESTMENTS

MNOK	*2016*	*2015*	*2014*	*2013*	*2012*	*2011*	*2010*
Financial support to organisations, etc.	12.4	9.3	8.8	7.3	6.7	3.0	3.0

EMPLOYEES

	2016	2015	2014	2013	2012	2011	2010
Level of education							
Master's degree (%)	29	28	28	29	28	26	28
– of which doctorates (PhD)	2	1	1	1	2		
Bachelor's degree (%)	35	37	36	34	36	35	35
Technicians (%)	12	15	14	14	14	14	11
Production workers %	11	11	11	11	10	12	13
Other (%)	13	10	11	11	12	12	13
Number of employees							
Number of employees, total	7 159	7 688	7 726	7 493	7 259	6 681	5 681
Number of full-time equivalents (FTEs)	7 027	7 571					
Number of full-time employees	6 963	7 364	7 470	7 171	7 003	6 393	5 442
Number of part-time employees	196	324	256	322	256	286	239
Age							
Average age	42	41	41	41	40	42	42
Employees under age 30 (%)	15	19	21	21	22	21	19
Employees between ages 30 and 50 (%)	58	56	55	56	55	55	57
Employees over age 50 (%)	27	25	24	23	23	23	24
Percentage of women							
Women as a % of the number of employees	21.2	21.0	20.9	21.4	21.2	20.9	19.5
Women in managerial positions as a % of total managerial positions	19	18	18	21	19	14	13
Shareholder-elected women on the Board (%)	40	40	40	40	40	40	40
Turnover							
Turnover (employees who have resigned)	477	430	516	587	459	424	346
Turnover (%)	6.7	5.6	6.7	7.8	6.3	6.4	6.1
– Men	6.0	4.2	5.5	5.9	5.2	4.4	4.9
– Turnover men, of total men	7.6	5.4	6.9	-	-	-	-
– Women	0.7	1.4	1.2	1.9	1.1	2.0	1.2
– Turnover women, of total women	3.3	6.4	5.8	-	-	-	-

HEALTH AND SAFETY

	2016	2015	2014	2013	2012	2011	2010
Sickleave as a % of hours worked	2.5	2.6	2.6	2.5	2.4	2.2	2.5
Sickleave for the Norwegian companies	2.8	2.8	3.0	3.1	2.8	2.8	
Number of reported injuries per million hours (TRI)	3.5	4.1	4.7	3.7	1.5	1.7	6.3
Number of lost time days per million hours (ISR)	32.0	14.2	45.3	15.6	13.6	1.1	22.3
Total number of injuries among co-workers	176	196	240	86	54		
Total number among employees and co-workers	183	140	140	158	78		
Registered occupational diseases	0	0	0	0	0		
Registered work-related fatalities	0	0	0	0	0		

CLIMATE AND THE ENVIRONMENT

	2016	*2015*	*2014*	*2013*	*2012*	*2011*	*2010*
CO_2 emissions *(metric tonnes)*							
CO_2 emissions not from goods and property *(metric tonnes)* [1) 2)]	23 229	25 933	26 006	25 294	19 579	22 747	20 005
CO_2 emissions from the transport of goods and property	10 235	13 335					
Total CO_2 emissions	**33 464**	**39 268**					
CO_2 emissions relative to sales *(metric tonnes/MNOK)*	2.1	2.4					
CO_2 emissions relative to man-years of labour *(metric tonnes/man-years of labour)*	4.8	5.3					
Energy use							
Electricity *(MWh)*[1)]	96 734	91 582	91 340	94 802	79 218	77 625	66 256
Gas/oil *(MWh)*	3 471	4 400	4 123	4 601	6 092	13 257	12 968
Heat recovery, district heating and remote cooling *(MWh)* [3)]	22 591	23 366	26 733	20 342	20 844	20 041	23 903
Energy consumption *(MWh)* per employee	17.2	15.5	15.8	16.0	14.6	16.6	18.2
Energy consumption *(MWh / MNOK)*	7.7	7.0	7.4	7.3	6.8	7.3	6.7
Waste *(metric tonnes)*							
Waste for recycling	1 016	1 410	1 048	1 100	1 100	1 191	1 330
Residual waste	583	560	604	550	200	131	265
Hazardous waste	387	398	136	285	484	300	177
Water *(m^3)*							
Water consumption (process and sanitary water)	155 086	180 741	176 743	115 968			

1) Includes emissions from air travel.
2) Most of the flights ordered from our international locations are included in the CO_2 accounts for 2013, accounting for a significant share of the increase from 2012 to 2013.
3) Energy recovery at Kongsberg Technology Park as well as purchased district heating and remote cooling from external companies. A change in the method of calculation from 2014 means that the figures for 2014 and 2015 are not directly comparable with previous years.

Environmentally friendly complex of 40.000 m² in Pocasset, Massachusetts.

EXTERNAL REPORTING

KONGSBERG also reports to various external organisations. We do this to ensure that the information we provide is structured, transparent and relevant in the light of international guidelines for reporting sustainability.

Global Reporting Initiative (GRI)
GRI is a voluntary international framework for how companies should report on their work with corporate social responsibility and their vision and strategy for sustainable development. KONGSBERG has reported pursuant to the GRI index since 2004.

WE SUPPORT

FN's Global Compact
The Global Compact is the UN's initiative for cooperating with business and industry to promote sustainable development. The initiative was taken by then UN Secretary-General Kofi Annan in 1999. The principles consist of 10 points related to human rights, labour rights, the environment and anti-corruption. KONGSBERG joined the initiative in 2006.

Carbon Disclosure Project (CDP)
CDP is an international framework that encourages companies to measure and report externally on the company's strategy in relation to climatic change and to publish the figures for the company's emissions of greenhouse gases. KONGSBERG has reported to CDP since 2011.

GLOBAL COMPACT

Topic		*GC Principles*	*References 2016, page*
HUMAN RIGHTS	Principle 1	Support and respect the protection of internationally proclaimed human rights	4, 13, 27–28, 105, 111, 119–120, 129, 139, 142–143, 153–156
	Principle 2	Make sure the company is not complicit in human rights abuses	4, 13, 27–28, 105, 111, 119–120, 129, 139, 142–143, 153–156
LABOUR RIGHTS	Principle 3	Uphold the freedom of association and the right to collective bargaining	4, 13, 27–28, 105, 111, 119–120, 129, 139, 142–143, 153–156
	Principle 4	Uphold the elimination of all forms of forced and compulsory labour	4, 13, 27–28, 105, 111, 119–120, 129, 139, 142–143, 153–156
	Principle 5	Abolish child labour	4, 13, 27–28, 105, 111, 119–120, 129, 139, 142–143, 153–156
	Principle 6	Eliminate discrimination in respect of employment and occupation	4, 13, 27–28, 105, 111, 119–120, 129, 139, 142–143, 153–156
ENVIRON-MENT	Principle 7	Support a precautionary approach to environmental challenges	4, 13, 27–28, 105, 111, 119–120, 129, 138, 139, 144
	Principle 8	Undertake initiatives to promote greater environmental responsibility	4, 13, 27–28, 105, 111, 119–120, 129, 138, 139, 144, 153–156
	Principle 9	Encourage the development and diffusion of environmentally friendly technologies	4, 13, 27–28, 105, 111, 119–120, 129, 132–135, 138, 139, 144
ANTI-CORRUPTION	Principle 10	Work against corruption in all its forms, including extortion and bribery	4, 13, 27–28, 105, 111, 119–120, 129, 138–141, 143, 153–156

GLOBAL REPORTING INITIATIVE INDEX (GRI)

KONGSBERG's reporting routines on sustainability and corporate social responsibility are based on Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, version G4. In our opinion, our reporting is generally commensurate with GRI's reporting principles and that the reports comply with level Core pursuant to the guidelines.

On the following pages, we list the GRI indicators with references to where they are discussed in the report, regardless of whether they are wholly or partially answered relative to GRI. For a full description of the individual indicator, see GRI's website at www.globalreporting.org.

We have engaged Deloitte AS for independent assurance of the company's reporting routines on sustainability and corporate social responsibility under GRI G4. The assurance is based on the International Standard on Assurance Engagements ISAE 3000 "Assurance engagements other than audits or reviews of historical financial information", published by the International Auditing and Assurance Standards Board, and is issued with a moderate degree of certainty. The Auditor's Statement is reproduced on page 166.

Indicator		*Reference and/or response*
STRATEGY AND ANALYSIS		
G4-1	Statement from the CEO	138, 139, 144
ORGANIZATIONAL PROFILE		
G4-3	Name of the organization	Kongsberg Gruppen ASA
G4-4	Primary brands, products and/or services	3, 15–24
G4-5	Location of organization's headquarters	36, 121
G4-6	Countries in which the organization's operations are located	4
G4-7	Nature of ownership and legal form	4, 36, 72
G4-8	Markets served	3, 15–24
G4-9	Scale of the reporting organization (employees, operations, net sales, capitalization, products and services)	7–9, 15–24, 31–33, 158
G4-10	Scale of the reporting organization (employees by contract and gender, region etc.)	158
G4-11	Scale of the reporting organization (employees covered by collective bargaining agreements)	146
G4-12	The organization's supply chain.	143
G4-13	Significant changes during the reporting period	10–11, 15–16, 115
G4-14	Explanation of whether and how the precautionary approach or principle is addressed	138, 160
G4-15	Externally developed economic, environmental, and social charters, principles, or other initiatives endorsed	4, 104, 115–116, 140, 147, 160
G4-16	Memberships in associations and/or national/international advocacy organizations	4, 115–116, 140–141, 160

Indicator		*Reference and/or response*
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		
G4-17	Operational structure of the organization	3–4, 15–18
G4-18	Process for defining report content	115–118
G4-19	Process for defining report content – material Aspects	115–118
G4-20	Boundary of the report - within the organisation	115–118, 148
G4-21	Boundary of the report, outside the organisation	115–118
G4-22	Explanation of the effect of any re-statements of information	115
G4-23	Significant changes from previous reporting periods	115
STAKEHOLDER ENGAGEMENT		
G4-24	Stakeholder groups engaged by the organization	115–118
G4-25	Identification and selection of stakeholders engaged	115–118
G4-26	Approaches to stakeholder engagement	115–118, 126–127, 133–135, 136, 143, 145
G4-27	Key topics and concerns raised through stakeholder engagement	117–118
REPORT PROFILE		
G4-28	Reporting period	2016
G4-29	Date of most recent previous report	KONGSBERG Annual Report and Sustainability Report 2015
G4-30	Reporting cycle	Annual
G4-31	Contact point for questions regarding the report	165
G4-32	"In accordance" option, GRI content index, and reference to the External Assurance Report	116, 161–165, 166
G4-33	Policy and current practice with regard to seeking external assurance	166
GOVERNANCE		
G4-34	Governance structure of the organisation	28, 101–113
ETHICS AND INTEGRITY		
G4-56	Values, principles, standards and norms of behavior such as codes of conduct and codes of ethics	5–6, 26–27, 139–141
SPECIFIC STANDARD DISCLOSURES		
	CATEGORY: ECONOMIC	
	Aspect: Economic performance	
G4-DMA	Generic Disclosures on Management Approach	28, 101, 104–113, 117–120, 129–130, 138
G4-EC1	Direct economic value generated and distributed	31–35, 121–125, 157
G4-EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change	132–134, 144
G4-EC3	Coverage of the organization's defined benefit plan obligations	Note 11 (s. 51 KOG Konsern), Note 5 (s. 87 KOG ASA)
G4-EC4	Financial assistance received from government	157

Indicator		*Reference and/or response*
	CATEGORY: ENVIRONMENT	
	Aspect: Energy	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138
G4-EN3	Energy consumption within the organization	149, 159
G4-EN4	Energy consumption outside of the organization	149, 159
G4-EN5	Energy intensity	159
G4-EN6	Reduction of energy consumption	149
G4-EN7	Reductions in energy requirements of products and services	133, 144
	Aspect: Water	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138
G4-EN8	Total water withdrawal by source	151, 159
	Aspect: Emissions	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138, 144, 154, 156
G4-EN15	Direct greenhouse gas (GHG) emissions (Scope 1)	150, 159
G4-EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	150, 159
G4-EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3)	150, 159
G4-EN18	Greenhouse gas (GHG) emissions intensity	159
	Aspect: Effluents and waste	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138
G4-EN22	Total water discharge by quality and destination	151, 159
G4-EN23	Total weight of waste by type and disposal method	151, 159
G4-EN24	Total number and volume of significant spills	No significant spills recorded in 2016
	Aspect: Compliance	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138
G4-EN29	Fines and sanctions for non-compliance with environmental laws and regulations	No cases recorded in 2016
	Aspect: Transport	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138
G4-EN30	Significant environmental impacts of transporting products and materials for the organization's operations, and transporting members of the workforce	150, 159
	Aspect: Supplier environmental assessment	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138, 143, 154, 156
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	143. All new suppliers are evaluated for environmental criteria as part of the procurement process
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	143
	CATEGORY: SOCIAL	
	SUB-CATEGORY: LABOUR PRACTICES AND DECENT WORK	
	Aspect: Employment	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138–139, 142, 145–147, 153–156
G4-LA1	New employee hires and employee turnover	158
	Aspect: Labor/Management relations	

Indicator		*Reference and/or response*
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138–139, 142, 145–147, 153–156
G4-LA4	Minimum notice periods regarding significant operational changes	Comply with national rules in the countries in which we operate
	Aspect: Occupational health and safety	
G4-DMA	Generic Disclosures on Management Approach	27, 117–120, 129, 138–139, 145–147, 154, 156
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees	145–146
G4-LA6	Fatalities, injuries and occupational diseases, lost days, and absenteeism, and total number of work-related fatalities	158
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	145–146
G4-LA8	Health and safety topics covered in formal agreements with trade unions	145–146
	Aspect: Training and education	
G4-DMA	Generic Disclosures on Management Approach	28, 117–120, 129, 138–139, 145, 147, 154, 156
G4-LA10	Skills management and lifelong learning that support the continued employability of employees	145, 147, 154, 156
	Aspect: Diversity and Equal Opportunity	
G4-DMA	Generic Disclosures on Management Approach	28, 117–120, 129, 138–139, 147
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age and other indicators of diversity	28, 158
	Aspect: Supplier assessment for labor practices	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138–139, 143, 154, 156
G4-LA14	Percentage of new suppliers that were screened using labor practices criteria	143. All new suppliers are evaluated for workers' rights criteria as part of the procurement process
G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	143
	SUB-CATEGORY: HUMAN RIGHTS	
	Aspect: Non-discrimination	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138–143
G4-HR3	Total number of incidents of discrimination and corrective actions taken	142
	Aspect: Freedom of association and collective bargaining	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138–143
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk	No incidents recorded in 2016
	Aspect: Child Labor	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138–143
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labor	142
	Aspect: Forced or compulsory labor	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138–143
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor	142
	Aspect: Security practices	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138–143
G4-HR7	Percentage of security personnel trained in the organization's human rights policies or procedures	142

Indicator		*Reference and/or response*
	Aspect: Indigenous rights	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138–143
G4-HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken	142
	Aspect: Assessment of human rights	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138–143, 153, 155
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	142, 153, 155
	Aspect: Supplier human rights assessment	
G4-DMA	Generic Disclosures on Management Approach	117–120, 129, 138, 143, 154, 156
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	143. All new suppliers are evaluated for human rights criteria as part of the procurement process
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	143
	SUB-CATEGORY: SOCIETY	
	Aspect: Anti-corruption	
G4-DMA	Generic Disclosures on Management Approach	27, 117–120, 129, 138–141, 153, 155
G4-SO3	Total number and percentage of operations asessed for risks related to corruption and the significant risks identified	140–141, 153
G4-SO4	Communication and training on anti-corruption policies and procedures	140–141, 153
G4-SO5	Confirmed incidents of corruption and actions taken	25, 139
	Aspect: Public Policy	
G4-DMA	Generic Disclosures on Management Approach	117–120, 126, 129, 138–139
G4-SO6	Total value of political contributions by country and recipient/beneficiary	Our Code of Ethics preclude supporting political parties
	Aspect: Anti-competitive behavior	
G4-DMA	Generic Disclosures on Management Approach	117–120, 126, 129, 138–139
G4-SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices	139
	Aspect: Compliance	
G4-DMA	Generic Disclosures on Management Approach	117–120, 126, 129, 138–139
G4-SO8	Significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	139

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To the management of Kongsberg Gruppen ASA

INDEPENDENT AUDITOR'S REPORT ON KONGSBERG – SUSTAINAIBILITY REPORT 2016

We have reviewed certain information presented in the KONGSBERG Sustainability Report 2016 ("the Report"), presented on pages 114 – 166 in the KONGSBERG – Annual and Sustainability Report 2016. The Report is the responsibility of and has been approved by the management of the Company. Our responsibility is to draw a conclusion based on our review.

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

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

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

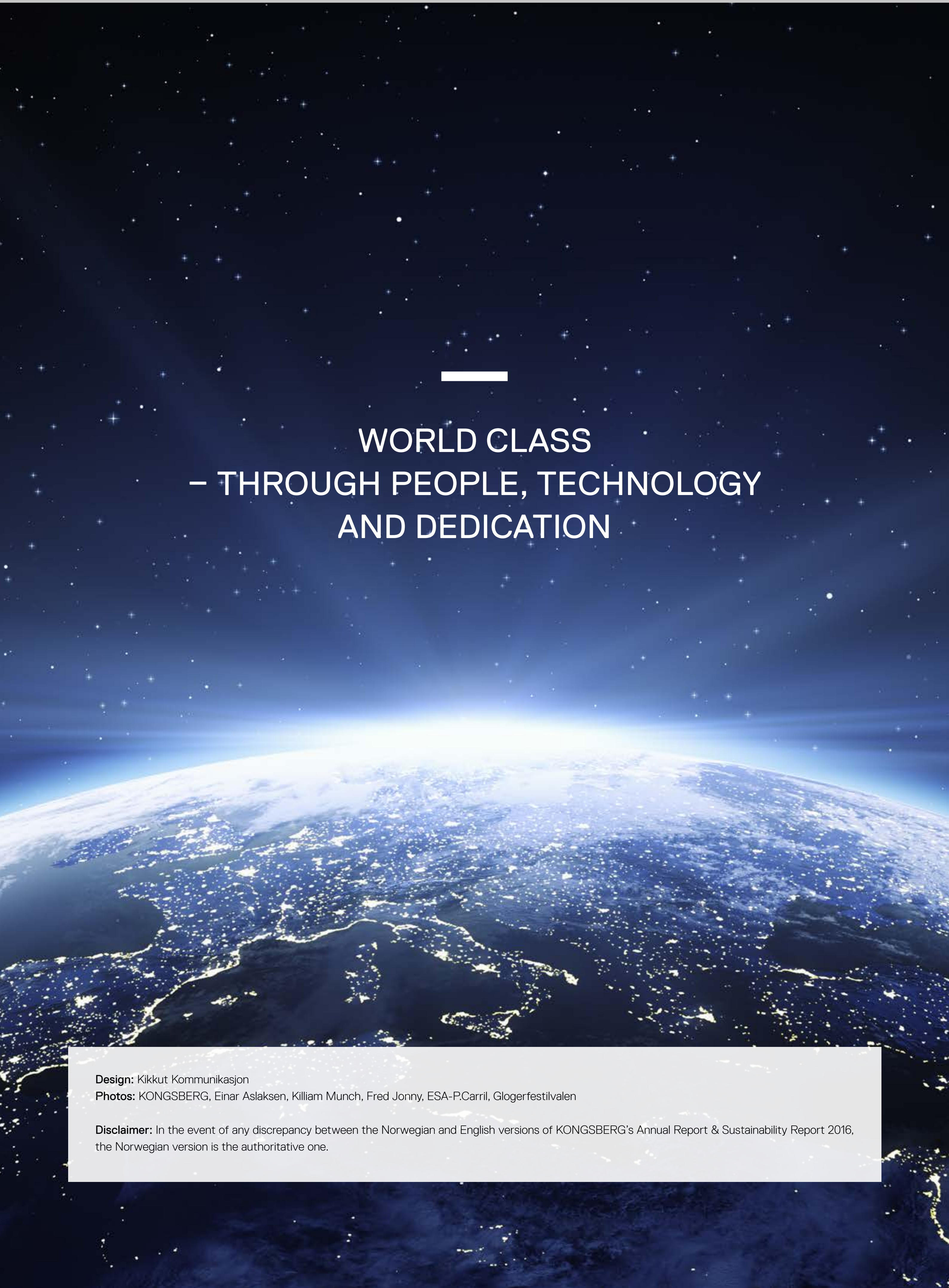
Conclusions
Based on our review, nothing has come to our attention causing us not to believe that:

- Kongsberg Gruppen has applied procedures to collect, compile and validate sustainability information for 2016 from its reporting units to be included in the Report, as summarised on pages 115 – 116. Information presented for 2016 is consistent with data accumulated as a result of these procedures and appropriately presented in the Report.
- Data reported for 2016 from the reporting units specified above, has been reported according to the procedures noted above and is consistent with source documentation presented to us.
- Information about attainment of targets, as presented on pages 153 – 154, appropriately reflects performance related to the objectives for 2016.
- The Report fulfils the content requirements for reporting in regards to sustainability as stated in the (Norwegian) Accounting Act, § 3-3c, article one.
- Kongsberg Gruppen applies a reporting practice for its sustainability reporting that is aligned with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (version G4) reporting principles and the reporting fulfils the in accordance level Core according to the GRI guidelines. The GRI Index presented on pages 161 – 165 appropriately reflects where relevant information on each of the standard disclosure elements and performance indicators of the GRI guidelines is presented. The Company's reporting on the UN Global Compact is consistent with the description on page 115 – 116 and the UN Global Compact table presented on page 160 appropriately reflects where relevant information on each of the UN Global Compact principles is presented in the Report.

Oslo, 8 March 2017
Deloitte AS

Eivind Skaug
State Authorized Public Accountant (Norway)

Frank Dahl
Deloitte Sustainability



WORLD CLASS – THROUGH PEOPLE, TECHNOLOGY AND DEDICATION

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