Annual Report 2010

KONGSBERG

Introduction

Kongsberg Gruppen (KONGSBERG) is an international corporation that offers high-technology solutions to help ensure safer, more efficient operations under extreme and complex conditions. The Group is a world-wide knowledge-based organisation with a well-organised performance culture. KONGSBERG develops advanced systems and technologies for the defence, maritime, offshore and aerospace industries in close cooperation with customers and research groups. As a result, the Group creates value for its customers, owners, employees and society-at-large.

CONTENT

For more details about KONGSBERG's business and the Sustainability Report, please see:

- Corporate social responsibility report 2010
- Annual review 2010
- www.kongsberg.com

Kongsberg Gruppen ASA

Operating revenues MNOK 15 497 EBITA MNOK 2 216

Kongsberg Maritime

- Offshore
- Merchant Marine
- Subsea

Operating revenues

MNOK 6 286

EBITA

MNOK 991

Kongsberg Defence Systems

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

Operating revenues

MNOK 3 376

EBITA

MNOK 245

Kongsberg Protech Systems

Operating revenues

MNOK 5 683

EBITA

MNOK 995

Vision, objectives and strategy

Vision

WORLD CLASS
- through people,
technology
and dedication

Objectives

KONGSBERG is an internationally-oriented, knowledge-based technology corporation headquartered in Norway. Stakeholders' value creation will be safeguarded and enhanced by taking advantage of the Group's high level of expertise to develop attractive solutions for the market, and by constantly improving operations:

- Continuous improvement measures will be implemented to enhance profitability.
- Growth and profitability will be generated organically and through acquisitions and structural initiatives.
- The Group will be organised in a manner designed to take advantage of interrelationships and synergies.
- The business will be operated in an ethically, environmentally and socially responsible manner, with a well-defined image and a good reputation.

Strategy

Important initiatives for achieving the objectives hinge on:

Culture and values

KONGSBERG has a unique, strong corporate culture that has been built over many years. The way in which work is done is clearly marked by our shared value platform. KONGSBERG's culture and values are important parts of the Group's strategic platform.

The market, internationalisation and growth

More than 80 per cent of the Group's earnings come from countries outside Norway, and more and more of our value creation is taking place outside Norway. Several customers require local content. Strategic alliance-building is also crucial to success in several of KONGSBERG's product areas. KONGSBERG works continuously to develop its marketing system to effectively help satisfy customers' needs. Maintaining a local presence is essential for providing optimal service with a view to response time and capacity alike.

Acquisitions in our core areas play a central part in KONGSBERG's growth strategy. Constant improvement in the Group's strategic market position is an important aspect of our acquisition strategy.

Expertise

Knowledge and expertise are KONGSBERG's most important competitive parameters. Opportunities for development of expertise are important for positive performance trends, making them a high priority. It is crucial to offer attractive, challenging job responsibilities. The Group offers a systematic leadership development programme.

Corporate Social Responsibility and ethics

KONGSBERG has a corporate Code of Ethics, an Environmental Policy and a Policy for Corporate Social Responsibility. These are basic elements in the efforts to achieve a corporate culture that supports profitable sustainable development.

Technology

Annual expenditures on product development are equivalent to roughly 10 per cent of operating revenues. Profitable organic growth is contingent on a high level of activity in this field. Product development is funded both by customers and equity. The needs of the market invariably determine our direction, ambitions and solutions for product development. KONGSBERG's markets are characterised by high standards for performance, quality and operational reliability. Collaboration with the end user is critical to success when developing the best solutions and for ensuring customers more value added and a high utility value for their invesments. KONGSBERG's products are largely based on the following core competencies: software development, engineering cybernetics, systems integration and signal processing.

Financial strategy

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

Key figures 2010

2010 was an eventful year with growth and good results.

Operations

Amounts in MNOK		*2010*	*2009*	*2008*	*2007*	*2006*	*2005*	*2004*	*2003*	*2002*	*2001*
Operating revenues		15 497	13 816	11 056	8 306	6 720	5 791	5 901	6 651	6 980	6 176
– operating revenues, outside Norway	%	84	80	77	71	72	67	69	76	72	74
– operating revenues, civilian	%	45	52	62	62	57	59	54	54	58	63
Earnings before interest, tax and amortisation (EBITA)		2 216	1 376	1 122	796	464	378	239	383	485	437
EBITA margin	%	14	10,0	10,1	9,6	6,9	6,5	4,1	5,8	6,9	7,1
Earnings before tax (EBT)		2 097	1 169	861	685	390	314	180	190	291	191
Profit for the year		1 500	828	587	490	252	262	118	125	216	123
Backlog of orders		17 759	19 892	16 692	12 646	6 472	5 416	5 425	5 913	5 143	6 401
Employees		5 681	5 423	5 243	4 205	3 650	3 372	3 495	4 176	4 208	4 012
Owners' values											
Market capitalisation		15 960	10 590	9 840	10 170	5 250	3 720	2 970	3 180	2 715	2 895
Earnings per share after tax in NOK		12.46	6.83	4.86	4.04	2.08	1.80	0.92	1.06	1.80	1.05
P/E in NOK		10.67	12.92	16.87	20.96	21.08	17.24	27.62	25.06	12.55	23.09
Equity		35	30	15	30	23	23	26	30	31	27
Equity ratio	%	4 881	3 726	1 894	2 758	1 684	1 505	1 626	1 830	1 741	1 538
Dividend per share in NOK		3.75	2.00	1.38	1.25	0.63	0.54	0.50	0.33	0.53	-

Key figures by business area

	Operating revenues			**Ebita**		
Amounts in MNOK	*2010*	*2009*	*2008*	*2010*	*2009*	*2008*
Kongsberg Maritime	6 286	6 657	6 029	991	831	722
Kongsberg Defence Systems	3 376	2 734	2 054	245	144	115
Kongsberg Protech Systems	5 683	4 123	2 399	995	442	301
Other/elimination	152	302	574	(15)	(41)	(16)
Total	**15 497**	**13 816**	**11 056**	**2216**	**1 376**	**1 122**

President and CEO Walter Qvam

“Extreme performance for extreme conditions”

Kongsberg is an international corporation with a broad, common corporate technology platform. We operate in a wide variety of markets and countries. Our robust technology platform enables us to offer tailormade technological products and solutions across a vast range of market segments. This boosts resilience, synergies and expertise, and helps us build a strong network of customers.

One common denominator for our products is that we develop and deliver solutions for use in challenging operations under demanding conditions. Our products and systems help ensure safer, more efficient operations, be they onshore, on or in the ocean, or in outer space. We like to describe this as: Extreme performance for extreme conditions.

Strategically important solutions

Another distinctive feature about us is that almost all of Kongsberg's products, services and systems are of strategic importance to most of the countries in which we have customers. Examples of this are solutions for defence, the merchant marine, the exploitation of oil and gas resources, and fisheries. In this sense, Kongsberg's involvement with customers, partners and suppliers is of great importance, since we create value for our customers and are an important supplier of strategically important solutions in the individual countries.

Kongsberg's systems and solutions are largely based on our common core technologies, at the same time as they help improve decision-making and offer safer, more effective operations. This expertise has been built up over many years in close cooperation with research institutions and our customers. Our long-term cooperative relationships have brought us extensive knowledge about end users' needs and about implementation requirements in the various market segments.

We strive to build good supplier networks and strong alliances with partners. Working with our suppliers, we develop alternative technological solutions and build up special expertise and production capacity. We have increasingly become a system and product integrator for our customers. Close cooperation with customers and a thorough understanding of the specific tasks of the operator in question, as well as access to relevant technology and the ability to mobilise comprehensive expertise from several disciplines, enable us to provide reliable, customer-tailored solutions.

"2010 will be remembered as a year in which virtually all KONGSBERG's key figures developed favourably"

HIGHLY CUSTOMER-CENTRIC

KONGSBERG has become an international group that focuses on being close to its customers and maintaining a presence in its markets. We are developing global value chains while building up local capabilities and capacity. Being close to customers and maintaining a local presence are decisive for improving our competitiveness and for giving our customers the best possible service.

Over the years, KONGSBERG's engineers have earned a reputation as being capable of solving especially challenging technological problems. We pride ourselves on being able to develop this ability further. Product development takes place in close cooperation with customers and research institutions, and KONGSBERG manages the development process from the time an idea is hatched until the finished product is launched on the market. Each year, we invest the equivalent of almost 10 per cent of our sales in product development. The Group's broad, deep technology platform allows us to benefit from the swift changes in technology coming out of important international communities. One important aspect of our innovation strategy is that we always focus on the actual tasks performed by an operator. We keep in focus that our solutions are intended to help ensure that operators can perform complex operations under demanding conditions safely and securely. KONGSBERG will continue to be highly customer-centric in everything we do. We will maintain our high level of investment in product development and continue to further develop our competence base. We will continue to expand internationally and integrate even more closely with our suppliers and partners.

2010 IN BRIEF

2010 will be remembered as a year in which virtually all KONGSBERG's key figures developed favourably. The markets were fraught with uncertainty at the outset of 2010, especially the offshore and merchant marine market. Our maritime businesses nonetheless had a very good year, with sales on a par with 2009 and higher margins. This, along with our good influx of new orders, can only be described as a year in which our maritime activities surpassed our expectations.

In the defence markets, we have longer horizons for our projects. KONGSBERG's two defence-related business areas expanded and improved their project portfolios and reported strong performance in 2010. Productivity improvement programs in all of our business areas helped improve our profit margin. These efforts are part of continuous improvements in work processes in our own business activities, as well as among our suppliers.

KONGSBERG has navigated through two years of financial crisis and troubled markets, and we have spent this time strengthening our financial and market-related position, our products, our organisation and our international presence. I would like to thank all my co-workers for the hard work and enthusiasm you demonstrate. I would also like to thank our customers for the confidence you place in us, and to thank our suppliers, partners and owners for good cooperation.

Walter Qvam

Walter Qvam, President and CEO

Growth and robust results

Directors' Report

2010 was a good year, featuring growth and robust results for KONGSBERG. Revenues were up 12 per cent to MNOK 15 497, and EBITA climbed by 61 per cent to MNOK 2 216. This brought an EBITA margin of 14.3 per cent (10.0 per cent). Earnings per share came to NOK 12.46 (NOK 6.83). The Board is satisfied with this trend and proposes a dividend per share of NOK 3.75 (NOK 2.00), in keeping with the Group's dividend policy.

THE NATURE OF THE BUSINESS AND LOCATION

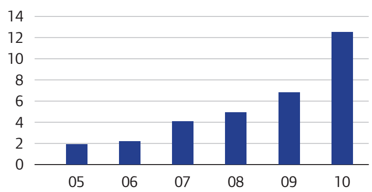
KONGSBERG is an international, knowledge-based corporation that supplies high-technology systems and solutions to customers in the oil and gas industry, the merchant marine, and the defence and aerospace industries. At 31 December 2010, the Group had 5 681 employees in more than 25 countries. The head office is located in Kongsberg, Norway.

GENERAL OVERVIEW

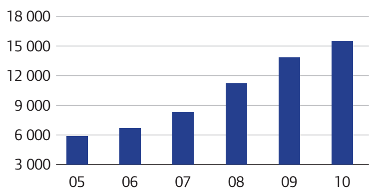
Kongsberg Maritime, Kongsberg Defence Systems and Kongsberg Protech Systems all reported strong growth in EBITA and EBITA margins in 2010, compared with 2009. Revenues were also good in all business areas, with growth for Kongsberg Protech Systems as well as Kongsberg Defence Systems. New orders in 2010 were down from the year before, but are nonetheless considered satisfactory. New orders have been high for Kongsberg Maritime in particular, given the prevailing market conditions.

In the past few years, Kongsberg Maritime's markets have been affected by the uncertainty in world economy. In the latter half of 2010, the world's shipyard industry saw a rise in new orders again after a period with very few new contracts. Kongsberg Maritime's diversified product portfolio, good order backlog and strong position in merchant marine and offshore markets have contributed to

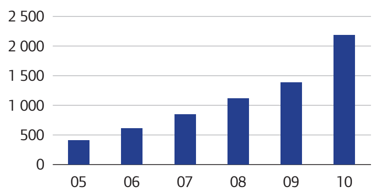
EARNINGS PER SHARE
NOK



OPERATING REVENUES
MNOK



EBITA
MNOK



the business area's good sales, robust results and satisfactory level of new orders throughout this period. Kongsberg Maritime equipment is now installed on more than 14 000 vessels at sea. This has led to continuous improvement in after-sales and customer support, a trend expected to continue.

Kongsberg Defence Systems had a good year, making headway in terms of sales and margins alike. The business area has operated smoothly during the year, and is now in the delivery phase for Naval Strike Missiles (NSM) for Norway, coastal artillery system for Poland and air defence system for Finland, as well as for a number of minor projects. This has contributed to relatively steady earnings during the year, at the same time as margins have improved. The influx of orders has included many important new contracts, e.g. a contract valued at MNOK 650 for Kongsberg Satellite Services with Digital Globe of the US and the expansion of the coastal artillery contract with Poland. In addition to these major contracts, the business area has won new orders for the F-35 programme, and contracts for equipment for submarines and communications solutions. The new composite plant in Kongsberg is now in operation and the first parts for the F-35 Lightning II (Joint Strike Fighter) have been qualified and delivered.

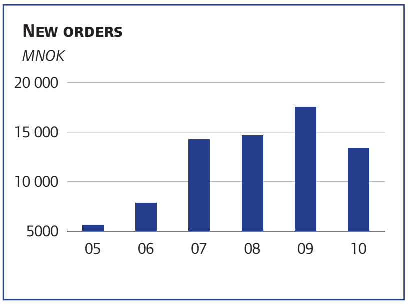
Kongsberg Protech Systems also reported strong growth in 2010. During the year, a total of 4 300 weapon control systems were delivered, further reaffirming the business area's good market position. Kongsberg Protech Systems has started setting up new locations in Canada and Australia. While the US Army is unquestionably the largest customer, it is worth noting that the business area now has customers in 17 different countries. There are currently strong prospects outside the US as well. In autumn 2010, a framework agreement was signed with Rheinmetall of Germany. Rheinmetall is a major supplier of military vehicles, and the contract implies joint marketing of KONGSBERG's Protector and more integration of the two companies' products. Such cooperation agreements are crucial for KONGSBERG's access to new markets. To date, KONGSBERG has won delivery contracts for more than 10 000 systems for the US CROWS programme. The US Army is in the initial stage of announcing a new competition for continuation of the programme. In February 2011, the US Army announced that it wants to continue KONGSBERG's design in this competition. KONGSBERG is well-positioned and aspires to further improve its position to win the production contract for the systems. The US has announced plans to procure up to 18 000 systems over the next five years.

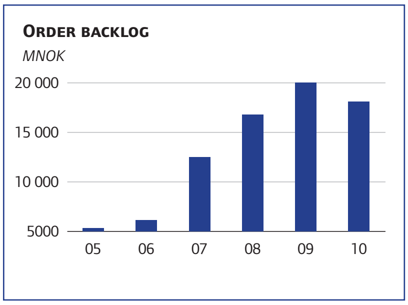
THE KONGSBERG SHARE AND SHAREHOLDERS

KONGSBERG's share price climbed from NOK 88.25 at year-end 2009 to NOK 133.00 at year-end 2010. This translated into market capitalisation of MNOK 15 960 at the end of 2010. Including the dividend of NOK 2.00 per share, the yield in 2010 totalled 53 per cent. The All-Share Index (OSEBX) on the Oslo Stock Exchange reported a return of 18.3 per cent during the same period. At 31 December 2010, KONGSBERG had 6 600 shareholders, an increase of 75 from 2009. The company had 585 foreign shareholders who collectively held 7.50 per cent of the shares (4.94 per cent). The State, as represented by the Ministry of Trade and Industry, is the largest owner with 50.001 per cent of the shares. The 10 largest shareholders owned 82.12 (83.29) per cent of the shares collectively. There are 120 million shares outstanding, each with a nominal value of NOK 1.25.

KONGSBERG has paid dividends to its shareholders every year since its stock exchange listing in 1993, with the exception of 2000 and 2001. At the general meeting on 9 May 2010, it was decided to pay a dividend of NOK 2.00 per share for 2009. The Board will propose a dividend of NOK 3.75 per share for 2010 to the General Meeting on 11 May 2011.

In 2010, about 14.1 million (about 12.0 million) KONGSBERG shares were traded, divided among 25 829 (9 220) transactions. The share's liquidity improved in 2010, but continues to be low. The company is working actively to promote interest in the share through activities aimed at the investor market. KONGSBERG is regularly represented at roadshows, meetings





and conferences in Norway and abroad. Regular investor presentations are held to report each quarter, and there is an annual Capital Markets Day. In recent years, analyst coverage of the Group has gained momentum. At year end, 10 securities houses had active coverage of the share.

The Board considers employee share ownership to be favourable. At 31 December 2010, more than 1 500 employees owned a total of about 3 000 000 shares in KONGSBERG. This corresponds to roughly 2.5 per cent of the shares. In summer 2010, the Group's annual employee share programme was conducted for the 13th time. A total of 378 784 (566 286) shares were sold at a price of NOK 92.00 (20 per cent discount on the market price). 1 323 (1 323) employees took advantage of the offer.

MARKET CONDITIONS AND OPERATING PARAMETERS

Kongsberg Maritime

Developing delivery models based on a certain amount of value being created near important customer centres is a key element of the business area's strategy to improve efficiency. In recent years, Kongsberg Maritime has set up new offices in India, China, Brazil and Dubai, among other places. In 2010, important steps in the development of the business model included the ramp-up of operations in Brazil, construction start on a new factory in Zhenjiang, China, and the opening of a new office in Dubai. At year-end 2010, 1 418 of Kongsberg Maritime's 3 136 employees worked outside Norway. The establishment of these international operations puts the Group in an even better position to provide fast, efficient local customer support and to meet ever keener international competition.

Orders for new vessels picked up somewhat in 2010, compared with 2009. Less than half of Kongsberg Maritime's revenues are generated by newbuilding activities at the shipyards. Seabed surveying, inspection, oceanography and fisheries activities, along with growing after-sales, are only to a limited extent impacted by the pace of contracting at the shipyards. Nearly 60 per cent of Kongsberg Maritime's deliveries are related to the oil/offshore market. This market showed a positive trend throughout 2010. The global economic recession has caused a shift towards renovating and upgrading the existing fleet. Kongsberg Maritime's systems are often installed late in the building process. These factors have enabled Kongsberg Maritime to maintain a high level of activity and a fairly good influx of new orders despite relatively low contracting rates at the shipyards in the past two years.

Norway's maritime and offshore industries occupy strong positions, and are important parts of the export industry. The Board therefore emphasises the need for an industrial policy that will promote growth and development in this sector.

Kongsberg Defence Systems

In collaboration with KONGSBERG, the Norwegian Armed Forces has developed solutions that have proven highly competitive on the international market. It is of the utmost importance to the Group that this national cooperation continues. It also gives the Norwegian Armed Forces the opportunity to develop and apply technology that is especially well-suited to conditions in Norway, at the same time as it has a quality and cost that make it a contender in international competitions.

Kongsberg Defence Systems has a very modern product portfolio, featuring many recently developed systems that are just beginning their life cycles. Among those worthy of mention are the NASAMS air defence system, the Naval Strike Missile (NSM) and the Joint Strike Missile (JSM). These systems are believed to have a huge international market potential. The business area operates from a strong position in niches that are not heavily affected by the cutbacks in defence spending seen in several countries.

It is a prerequisite for the Norwegian defence industry that importance be attached to obtaining favourable offset agreements in connection with the purchase of defence materiel from abroad – a practice that applies in almost all other countries, with few exceptions. When the Armed Forces decides to make major investments with foreign suppliers, it ties up large parts of Norway's defence budget, limiting investments with national suppliers. To ensure defence deliveries that are well-adapted to conditions in Norway and promote a viable, competitive Norwegian defence industry, we underscore the importance of Norwegian participation in such programmes. Good offset agreements contribute to this. The Norwegian Government and the Storting (parliament) have both underlined the importance of offset agreements that are in keeping with international practice. Offset agreements to KONGSBERG also mean more business for many of the business area's nearly 1 500 Norwegian subcontractors. Predictability in the export regulations for defence materiel and in the way in which the authorities practice them are important parameters for KONGSBERG.

Kongsberg Protech Systems

In recent years, the business area has multiplied its sales of the Protector weapon control systems and worked hard to become the world's leading supplier. More than 10 000 systems have been delivered to 17 countries, and several other countries are interested. The US, both directly with the US Army and through vehicle suppliers, is the largest customer.

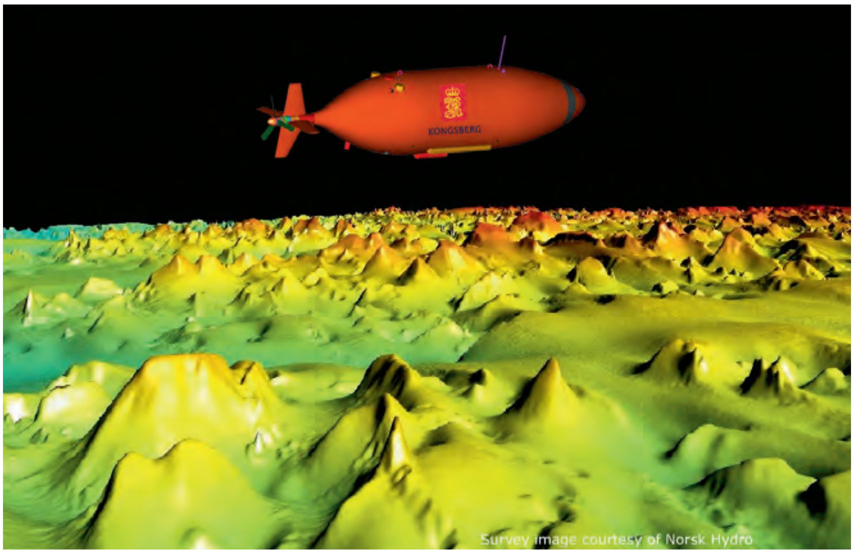
In August 2007, KONGSBERG won a framework agreement designated CROWS II with the US Army. It carried a price tag of NOK 8 billion. This framework has been expanded from 6 500 to 11 690 systems. The expansions bear witness to the quality of the system and to the need to protect one's own soldiers. The customer is now in the initial phase of announcing a new framework agreement, and announced in February 2011 that they would like to continue using Kongsberg's design. Production of the systems will be put up for tender, and Kongsberg is believed to be in a good position in the run-up to this process. The time line has not yet been established, but Kongsberg has started positioning itself for the competition.

Kongsberg Protech Systems is expected to sustain a high level of activity in future as well. There are significant new opportunities in the market for weapon control systems with a view to new and existing customers.

Other activities

Other activities mainly consist of Kongsberg Oil & Gas Technologies and external sales related to property operations.

Kongsberg Oil & Gas Technologies is a strategic target area for Kongsberg. Currently under development, the segment offers a range of high-technology niche products for the oil and gas market. There has been a pronounced upturn in



Survey image courtesy of Norsk Hydro

2010, following on the heels of a dip in the market in 2009. There is a growing global need for energy, with the strongest demand expected to come from India, China and the countries of Southeast Asia. Kongsberg Oil & Gas Technologies used 2010 to improve its market positions.

Comments to the financial statements for 2010

Operating revenue

The Group's operating revenues climbed by 12 per cent from 2009 to 2010. In recent years, Kongsberg has built up a substantial backlog of orders. Sales growth is ascribable to expanding market shares and new product launches.

	Kongsberg Gruppen ASA (Kongsberg)	*Kongsberg Maritime*	*Kongsberg Defence Systems*	*Kongsberg Protech Systems*
Operating revenues				
2010	15 497	6 286	3 376	5 683
2009	13 816	6 657	2 734	4 123
Percentage change	12 %	-6 %	23 %	38 %
EBITA				
2010	2 216	991	245	995
2009	1 376	831	144	442
Percentage change	61 %	19 %	70 %	125 %
EBITA margin				
2010	14.3 %	15.8 %	7.3 %	17.5 %
2009	10.0 %	12.5 %	5.3 %	10.7 %

EBITA trend

The good margins are due to a favourable product and project mix, and to continuous improvement work throughout the organisation in connection with project implementation, capital and logistics optimisation, administration and using the marketing system to the Group's advantage. The margin improved in all business areas.

Performance

Earnings before tax amounted to MNOK 2 097 (MNOK 1 169). The profit after tax came to MNOK 1 500 (MNOK 828), which was equivalent to NOK 12.46 (NOK 6.83) per share.

Financial situation and capital structure

Cash flow

Kongsberg generated a cash flow from operating activities of MNOK 2 018 (MNOK 2 669) in 2010. This consisted mainly of earnings before interest, tax, depreciation and amortisation (EBITDA) of MNOK 2 485 less tax paid and adjusted for changes in net current assets and accrual items. From that healthy cash flow from operations, MNOK 575 was spent on investing activities, of which MNOK 424 was related to the acquisition of property, plant and equipment. In 2010, MNOK 240 was disbursed to shareholders as dividends, while MNOK 24 constituted other payments associated with financing activities. Altogether, this adds up to a cash flow for 2010 of MNOK 1 179.

Currency

A large proportion of the Group's customer base is foreign and a large part of its revenues are in foreign currency. This means the Group's earnings are impacted by fluctuations in exchange rates between NOK and other currencies. The Group strives to limit foreign currency risk by having a fixed foreign exchange policy. KONGSBERG's foreign exchange policy entails that all contractual currency flows are hedged with forward contracts (project hedges). Some of the expected new orders are also hedged in accordance with established regulations (prognosis hedges). The regulations govern the percentage of expected new orders to be hedged, depending on the time until the orders are expected and currency levels. This way the Group seeks to mitigate the effects of currency exchange fluctuations up to two years in advance.

At year-end 2010, the portfolio of forward F/X contracts linked to the hedging of project contracts came to MNOK 7 307, measured at the agreed exchange rates. These forward contracts carried a net excess value at 31 December 2010 of MNOK 363. In addition, the Group had MNOK 3 437 in prognosis hedges measured at the agreed rates, all consisting of futures agreements. These forward contracts had a collective net excess value at 31 December 2010 of MNOK 269.

Capital structure

Consolidated equity came to MNOK 4 881, or 34.9 per cent of total assets at 31 December 2010. Equity increased by MNOK 1 155 in 2010 owing to good results from a favourable project mix and continuous improvement work throughout the organisation.

The Group's net cash reserves at 31 December 2010 were MNOK 1 813 (MNOK 634). Consolidated gross liabilities mainly consist of two bond loans totalling MNOK 800. The Group also has an undrawn syndicated credit facility of MNOK 1 000 that is available until July 2013. The loans are conditional on net interest-bearing liabilities not exceeding three times the EBITDA, although they can be up to 3.5 times the EBITDA for a maximum of three quarters.

KONGSBERG's operations reflect a long-term perspective on performance and strategy alike. This calls for 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.

OPERATING CONDITIONS IN THE BUSINESS AREAS

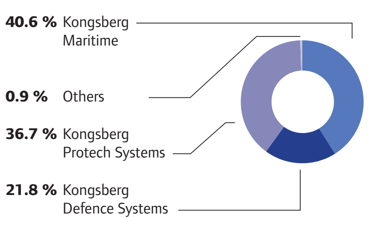
Kongsberg Maritime

	2010	2009
Operating revenues	6 286	6 657
EBITA	991	831
EBITA margin	15.8 %	12.5 %

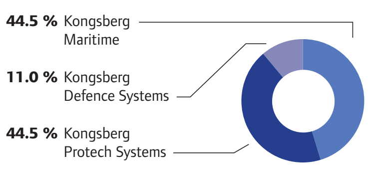
The business area has smooth operations and robust results in a highly competitive market. 2010 was a good year for Kongsberg Maritime, especially in the light of the market situation in its core segments. Comprehensive productivity and economisation measures introduced during the year had positive effects on profitability. In 2010, new orders were valued at MNOK 5 641, up MNOK 165 from 2009. The backlog of orders at the close of 2010 ended at MNOK 4 218, down MNOK 869 during the year. The backlog of orders was reduced through the early half of the year, but picked up in Q3 and Q4 2010, and then remained at a satisfactory level. The shipyards, particularly those in north-east Asia, still have good backlogs and new orders picked up somewhat for the shipyards in the latter half of 2010. Combined with stronger marketing activities on the part of the business area, this contributed to the positive trend in new orders.

During the year, Kongsberg Maritime consolidated its position in several areas. The business area won several FPSO contracts (Floating Production, Storage and Offloading), and the engineering unit experienced a breakthrough. Kongsberg Maritime's autonomous underwater vehicle (AUV) operations saw a strong influx of new orders and robust earnings in 2010, further underscoring the company's position as a leading player in this area. The planned Brazilian deepwater projects were also in the spotlight in 2010, and Kongsberg Maritime has managed to

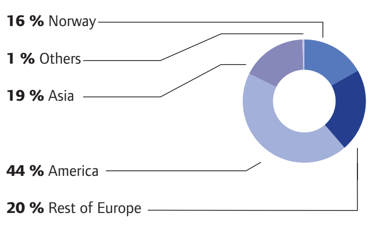
DISTRIBUTION OF REVENUES



DISTRIBUTION OF EBITA



GEOGRAPHICAL DISTRIBUTION OF REVENUES



position itself well for upcoming projects. Kongsberg Maritime still has a relatively healthy backlog of orders, so activities are expected to remain at a good level in 2011.

On 1 October 2010, Geir Håøy took over the helm as president of Kongsberg Maritime. Håøy has worked in the Kongsberg system since June 1993, holding various managerial positions since 1996. He succeeds Torfinn Kildal, president of the business area since 1999.

Kongsberg Defence Systems

	2010	2009
Operating revenues	3 376	2 734
EBITA	245	144
EBITA margin	7.3 %	5.3 %

The business area is now in the implementation phase of large-scale deliveries of coastal artillery to Poland, air defence to Finland and Naval Strike Missiles (NSM) to Norway. This has evened out the profit trend over the year, compared with what has otherwise been the case in recent years. All major projects are on schedule and have achieved the first important milestones. Kongsberg Defence Systems booked new orders valued at MNOK 2 823 in 2010 (MNOK 5 725). Several of the contracts reaffirm Kongsberg's strong positions. Examples include further orders for the NSM from Poland related to the coastal artillery contract signed in 2008, several contracts for deliveries to submarines and further orders for the F-35 programme. Kongsberg is now a contractor for all three variants of the F-35. In December, a contract was signed with a US company for services provided by Kongsberg Satellite Services' mid-latitude stations. The initial contract is valued at MNOK 650, but it contains options that could bring the total value up to more than NOK 1.1 billion. At year end, Kongsberg Defence Systems' backlog of orders amounted to MNOK 7 933 (MNOK 8 465).

Kongsberg Defence Systems is currently in the development phase of the new Joint Strike Missile (JSM). The plan is to develop the JSM for deployment on the F-35 Lightning II (Joint Strike Fighter). The project is on schedule and making headway. Along with the market opportunities identified for the products, the modern product portfolio gives reason to expect growth in the years ahead.

Kongsberg Protech Systems

	2010	2009
Operating revenues	5 683	4 123
EBITA	995	442
EBITA margin	17.5 %	10.7 %

The business area has grown rapidly in recent years in terms of sales and profits alike. Kongsberg Protech Systems has managed to keep its overheads down while growing exceptionally quickly. Along with cost cutting both in-house and as related to subcontractors, productivity improvements and a favourable product and project mix, this resulted in robust margins in 2010, especially in the latter half. The influx of orders in 2010 added up to MNOK 4 759 (MNOK 6 196), of which the majority, MNOK 3 587, represents orders for the US CROWS programme. At year end, Kongsberg Protech Systems' backlog of orders amounted to MNOK 5 422 (MNOK 6 345).

The US CROWS-programme is the business area's largest delivery programme. Thus far, Kongsberg has recived orders for 10 000 weapon control systems under this programme. The US Army will soon be announcing the next phase of CROWS. Kongsberg's design has been chosen and the business area is working in a goal-oriented manner to position itself for further competitive tendering.

Cooperation agreements with vehicle manufacturers, among others, are an increasingly important part of Kongsberg's business model in this market. In mid-October, Kongsberg and Rheinmetall (Germany) signed a framework agreement that provides a platform for cooperation on remote weapons systems (RWS). The agreement implies common marketing of Kongsberg's Protector weapon stations, as well as more integration between the companies' products. Such agreements are important for increasing the number of vehicles into which Kongsberg's weapon control system is integrated and for opening doors to new markets.

Other activities – Kongsberg Oil & Gas Technologies

Kongsberg Oil & Gas Technologies has been restructured in order to optimise operations and win market shares. The segment focuses on subsea products, production management and software for operations, as well as drilling rig operations. Several of the segment's products are currently under development or in the early phases of their life cycles.

In 2010, Odfjell Consulting was acquired to complement the undertaking with a view to services and software for operations and the operation of drilling rigs. The company offers integrated rig technology and consultancy services. The products give upstream players and service companies decision-making support and tools to optimise and integrate operations.

Technology, research and development

A substantial percentage of Kongsberg's added value consists of the development of high-technology solutions for national and international markets. Comprehensive expertise and knowledge sharing are crucial for competitiveness. Kongsberg's extensive knowledge of dynamic positioning is based on expertise developed in connection with guidance systems for submarines and missiles. The Group's systems and products generally revolve around four core competencies: signal processing, systems integration, engineering cybernetics and software development. Kongsberg focuses continuously on product development through equity-financed as well as customer-financed programmes. Total product development costs are equivalent to approx. 10 per cent of operating revenues over time.

Risk factors and risk management

The Group is exposed to different types of risk, and the Board monitors trends in the various risk areas closely. The Board has an Audit Committee to help deal with accounting and relevant discretionary items, and to follow up internal control, compliance and risk management.

The Board reviews operations reports on a monthly basis, and the administration draws up quarterly risk reports. The Board is of the opinion that there is a good balance between overall risk and the Group's capacity to deal with risk. In addition to routine risk management, the Board commissions and administrates risk analyses when considering major investments, tenders, initiatives and acquisitions.

Financial risk

Kongsberg has centralised management of financial risk. The Board has adopted guidelines for financial risk management, which are embodied in the Group's Financial Policy. Kongsberg aspires to balance financial risk and increase predictability while exploiting financing as a competitive factor. Kongsberg is vulnerable to financial risk such as credit risk, liquidity and refinancing risk, currency risk, interest rate risk and market risk associated with financial investments.

Credit risk is the risk of loss if a counterparty fails to fulfil its contractual obligations. The customer base is well diversified, consisting mainly of public institutions and large private sector companies. Historically speaking, the Group has incurred relatively modest losses on bad debts. The global economic trend in general, and in the shipyard and shipping industry in particular, has nevertheless led to a slight rise in credit risk in recent years. As a result, initiatives have been taken to limit risk exposure.

Liquidity and refinancing risk refers to the risk that Kongsberg will not be able to fulfil its financial obligations as they fall due, or take advantage of the opportunities that may arise. At 31 December 2010, the Group had an undrawn syndicated credit facility of NOK 1 billion, which will be available until 2013. In addition, the Group has two bond loans of MNOK 300 and MNOK 500, respectively, with terms to maturity of 30 March 2012 and 14 April 2014. On 31 December 2010, Kongsberg had net cash reserves of MNOK 1 813.

Given its high export share, Kongsberg has considerable foreign currency exposure. The Group's most important trading currencies outside Norway are USD and EUR. Kongsberg's policy is to limit currency risk while actively assessing various currencies' importance as competitive parameters. All contractual currency flows are hedged, and hedges are also made for parts of the Group's anticipated new orders.

For more details about the Group's financial risk management, please see Note 5 "Management of capital and financial risk".

Operational risk

The Group's value creation mainly consists of systems of great technological complexity. The deliveries are generally organised as projects. Efficient project management is an important success factor for reducing operational risk. Kongsberg has established targets for project management, based on a combination of internal and external "best practice". All project managers go through an internal training programme on this.

The projects' earnings are contractualised, so any uncertainty is therefore attached to assessments of remaining costs and the stipulation of the degree of completion. The Group has established principles for categorising projects in terms of technological complexity and development content. This lays the foundation for the assessment of profit at risk and taking to account the profits in the projects. "Profit at risk" refers to the profit retained in the projects until the uncertainty has been clarified.

Risk related to inadequate compliance in non-financial matters

In recent years, Kongsberg has built up a Corporate Compliance function. A regulatory framework and follow-up systems have been established for dealing with risks related to non-financial matters such as anti-corruption, competition regulations, health, safety and the environment, etc. In 2010, the main focus was on operationalising compliance efforts and putting an organisation into place to ensure compliance with relevant rules and regulations, Kongsberg's Code of Ethics and the Group's governance documents.

Market-specific risk

Business risk is contingent on market

conditions, competitors and other general business conditions prevailing in the markets in which KONGSBERG operates. KONGSBERG has good positions in the shipping/offshore and defence markets, and has a high backlog of orders. Cancellations in the shipyard industry, cutbacks in defence spending in several countries and a general, long-term economic downturn have increased risk and could impact the Group's level of activity over time. The Group operates in several markets that are heavily influenced by independent drivers. General cyclical trends will influence these markets to different extents and at different times.

CORPORATE SOCIAL RESPONSIBILITY

The Board of Directors emphasises that KONGSBERG is to operate in an ethical, environment-friendly and socially responsible manner. KONGSBERG aspires to achieve sustainable development, i.e. to strike a good balance between financial results and corporate social responsibility.

The Group's Code of Ethics is to be evaluated every other year. This is done to keep the guidelines updated on the general trends in this field. The guidelines were most recently revised in autumn 2010.

In 2010, the Group's work with corporate social responsibility focused on anti-corruption, on drawing up procedures for following up the supplier network relative to problems associated with corporate social responsibility, human rights and the preparation of a climate strategy. These

will continue to be areas of focus in 2011. Due to their nature, KONGSBERG's operations do not leave a large carbon footprint on the environment.

Please see the report on corporate social responsibility for a more detailed description of the Group's work in this field. The report has been discussed and approved by the Board.

HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

The Board ensures that health, safety and the environment are handled in a manner that promotes considerable job satisfaction and a good working environment. One basic principle for working with HSE is that the work should be preventative.

The Board follows up HSE work closely, reviewing the HSE reports every quarter. In 2010, the Group continued to devote special attention to HSE training for line supervisors, as well as to further improving incident reports from the business areas. Compliance training was conducted throughout the organisation in Norway and abroad. The reporting routines from the foreign subsidiaries have gradually improved, and reports of absence due to illness and work-related accidents from the international offices are a natural part of the HSE report.

In 2010, there were 65 (53) work-related accidents in the Group. Of that number, 25 were minor accidents that did not call for any type of treatment, although 16 of them required follow up. Nine were injuries that required medical attention and sick leave. There were 31 near-accidents, 14 of which required special follow up. No occupational diseases or work-related fatalities were recorded in 2010. Total absence due to illness was reduced from 2.6 per cent in 2009 to 2.5 per cent in 2010.

All employees in Norway have access to company health services. This varies in accordance with local practices and legislation for our foreign business activities.

KONGSBERG has many employees outside Norway and the number is growing. This requires additional attention to and insight into HSE issues in the countries in which we operate.

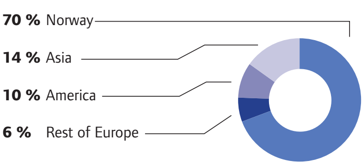
PERSONNEL AND ORGANISATION

Continuous efforts are made to adapt KONGSBERG'S organisation to its markets. Great efforts are invested in developing the Group's ventures outside Norway. This is cost efficient at the same time as it builds local presence and competitiveness. One of the Group's goals is for our international companies to be staffed by local employees insofar as possible.

KONGSBERG has a unique, strong culture that has been developed over many years. In 2010, efforts were made to further develop and coordinate a common value platform for the entire Group. It will be implemented throughout the organisation in 2011.

One vital criterion for long-term success is that KONGSBERG has to manage employees' expertise in a satisfactory manner. One goal is to develop and promote diversity within the Group in an effort to accommodate a wide range of experience, cultures, educations and ways of thinking.

GEOGRAPHICAL DISTRIBUTION OF EMPLOYEES



Number of employees	*31.12.10*	*31.12.09*
Kongsberg Maritime	3 136	3 113
Kongsberg Defence Systems	1 496	1 406
Kongsberg Protech Systems	670	568
Kongsberg Oil & Gas Technologies	273	231
The Corporate Centre	47	48
Kongsberg Teknologipark	59	58
Total in the Group	**5 681**	**5 423**
Percentage abroad	**30 %**	**29 %**

This enhances our ability to revitalise and make better decisions. The Group is working on exchanging more lessons learned and employees between the business areas. Good work processes and development opportunities are also important for recruiting and retaining good employees. Kongsberg attaches great importance to human resource development, and works continuously to further develop and coordinate training initiatives for our employees.

Kongsberg invests in leadership development. Comprehensive expertise and capacity among corporate executives are among the most essential elements needed to bring Kongsberg's strategy to fruition. Consequently, a new pan-corporate leadership training scheme was introduced in 2009. The scheme was implemented and further developed in 2010.

Cooperation with the trade unions through established consultation and co-determination schemes is good, providing invaluable contributions to meeting the challenges facing the Group in a constructive manner. The Board of Directors thanks all employees for their dedicated efforts and the fine advances made by the Group in 2010. In the light of the good performance in 2010, the Board has decided to pay out a bonus of NOK 10 000 to each employee, compared with NOK 7 500 last year.

Gender equality

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, philosophy of life, age or gender. About 19.5 per cent of the employees are women, and two of five shareholder-elected directors on the Board are women. In 2010, no initiatives were taken to promote gender equality or to prevent discrimination in contravention with the Act relating to gender equality, since the Board considers the Group to be in compliance with current regulations in this area.

Insofar as 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 clearances for employees. In certain cases, this may place constraints on which individuals can be hired.

Corporate Governance

Kongsberg's paramount objective is to protect and enhance stakeholder value by engaging in profitable, growth-oriented industrial development in a long-term, international perspective. Good corporate governance and leadership will ensure the greatest possible wealth creation, at the same time as the Group's resources are to be used in an efficient, sustainable manner. The value added should benefit shareholders, co-workers and society-at-large.

The Board attaches importance to the Group's governance documents being reviewed annually and updated to comply insofar as possible with the "Norwegian Code of Practice for Corporate Governance". The description on pages 63-69 is based on the latest revised version of the Norwegian Code of Practice for Corporate Governance (21 October 2010). In the Board's opinion, the Group has two departures from the main points of the Code. One departure is related to the Articles of Association, which state that General Meetings shall be chaired by the Chair of the Board of Directors. The Group also has some work left to do with internal control related to corporate social responsibility. This is a new point that was added to the Code on 21 October last year.

Salaries and other remuneration to senior executives

The Board has a special Compensation Committee that deals with all important issues associated with salaries and other remuneration for senior executives prior to formal Board treatment and decisions. In keeping with Norwegian company legislation, the Board has also drawn up a separate declaration on salaries and other remuneration for senior executives, which is included in Note 27 to the accounts.

Net profit and allocations

The parent company Kongsberg Gruppen ASA posted a net profit of MNOK 474 in 2010. The Board of Directors proposes the following allocations for Kongsberg Gruppen ASA:

- Dividends MNOK 450
- Transferred to legal reserves MNOK 24
- Total allocated MNOK 474

The proposed dividend is equal to about 30 per cent of the Group's profit for the year and is compatible with the Group's dividend policy.

At 31 December 2010, the company's distributable reserves totalled MNOK 1 048.

Prospects for 2011

Kongsberg Maritime is expected to maintain its good market positions. The business area continuously carries out different initiatives to adapt its capacity and product portfolio to the needs of the market and the strengthening of global after-sales and customer support has brought good results. Kongsberg Maritime's markets are strongly impacted by trends in the offshore industry and in world trade in general. Contracting activities at the shipyards for certain types of vessels picked up the latter half of 2010, but they continue to be at a relatively low level. There may still be cancellations and postponements of existing contracts. In the Board's opinion, the business area will have a satisfactory workload in 2011 as well.

Kongsberg Defence Systems expects activity levels to increase further in 2011. Several major long-term delivery programmes are in the implementation phase, making earnings more predictable. The business area is exploring specific opportunities for sales and the further development of missiles, submarine systems and air defence. The build-up of production for advanced composite components for the F-35 programme continues.

Kongsberg Protech Systems has a strong position in its market. 2011 promises to be another busy year and active efforts are being made with new and existing customers, e.g. the next phase of the US Army's CROWS programme. Major vehicle programmes have been adopted or are in the pipeline in the US and Europe. These programmes offer significant potential for several of the business area's products.

All in all, Kongsberg is well-positioned in the shipping, offshore and defence markets, and has a strong backlog of orders. This provides a strong platform for operations and profitability in 2011, but operating margins are expected to diminish from the level seen in Q4 2010, especially for Kongsberg Protech Systems and Kongsberg Maritime.

Going concern

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

Statement from the Board and the CEO

We hereby confirm, to the best of our conviction, that the annual accounts for 1 January to 31 December 2010 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 director's 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, 4 April 2011

Finn Jebsen
Chair

Benedicte Berg Schilbred
Deputy chair

Erik Must
Director

Anne-Lise Aukner
Director

John Giverholt
Director

Roar Marthiniussen
Director

Helge Lintvedt
Director

Kai Johansen
Director

Walter Qvam
President and CEO

Consolidated income statement for the year ended 31 December

Kongsberg Gruppen (Group)

Amounts in MNOK	*Note*	*2010*	*2009*
Revenues	6	15 497	13 816
Total revenues		**15 497**	**13 816**
Raw materials and consumables		(6 906)	(6 235)
Personnel expenses	8, 9, 27	(4 003)	(3 787)
Other operating expenses	28	(2 103)	(2 175)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**2 485**	**1 619**
Depreciation	10	(269)	(243)
Earnings before interest, taxes and amortisation (EBITA)		**2 216**	**1 376**
Amortisation	11.12	(103)	(113)
Earnings before interest and taxes (EBIT)		**2 113**	**1 263**
Financial income	13	49	100
Financial expenses	13	(65)	(194)
Earnings before taxes (EBT)		**2 097**	**1 169**
Income tax expense	14	(597)	(341)
Profit for the year		**1 500**	**828**
Attributable to:			
Equity holders of the parent		1 495	820
Non-controlling interests		5	8
Earnings per share in NOK			
- profit for the year/profit for the year, diluted	15	12.46	6.83

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

Kongsberg Gruppen (Group)

Amounts in MNOK	*Note*	*2010*	*2009*
Profit/loss for the year		**1 500**	**828**
Change in fair value:			
- Cash flow hedges, currency	20 F	(60)	1 811
- Cash flow hedges	20 D	-	3
- Available-for-sale shares	16	(44)	32
Actuarial gains/losses on pension expenses	9	(54)	(107)
Translation differences, currency		27	(101)
Taxes on items recognised in statement of comprehensive income	14	32	(478)
Comprehensive income for the period		**1 401**	**1 988**
Of which:			
Equity holders of the parent		1 396	1 980
Non-controlling interests		5	8

Consolidated statement of financial position at 31 December

Kongsberg Gruppen (Group)

Amounts in MNOK	Note	*2010*	*2009*
ASSETS			
Non-current assets			
Property, plant and equipment	10	2 182	2 029
Goodwill	11, 12	1 781	1 665
Other intangible assets	11, 12	655	544
Available-for-sale shares	16	129	171
Other non-current assets	17	101	55
Total non-current assets		**4 848**	**4 464**
Current assets			
Inventories	7	3 034	2 587
Receivables	18	1 694	1 648
Projects in progress	19	539	1 071
Project accruals, assets	19	397	393
Derivatives	20 A	805	740
Cash and short-term deposits	21	2 660	1 463
Total current assets		**9 129**	**7 902**
Total assets		**13 977**	**12 366**
EQUITY, LIABILITIES AND PROVISIONS			
Equity			
Paid-in capital		982	982
Other reserves		276	336
Retained earnings		3 599	2 386
Total equity holders of the parent		**4 857**	**3 704**
Non-controlling interests		24	22
Total equity	**22**	**4 881**	**3 726**
Non-current liabilities and provisions			
Long-term interest-bearing loans	20	847	829
Pension liabilities	9	316	340
Derivatives	20	6	9
Provisions	23	117	128
Deferred tax liability	14	546	590
Other non-current liabilities		92	25
Total non-current liabilities and provisions		**1 924**	**1 921**
Current liabilities and provisions			
Prepayments from customers	19	1 849	2 116
Project accruals, liabilities	19	1 204	1 299
Derivatives	20	173	200
Provisions	23	1 035	564
Other current liabilities	24	2 911	2 540
Total current liabilities and provisions		**7 172**	**6 719**
Total liabilities and provisions		**9 096**	**8 640**
Total equity, liabilities and provisions		**13 977**	**12 366**

Kongsberg, 4 April 2011

Finn Jebsen
Chair

Benedicte Berg Schilbred
Deputy chair

Erik Must
Director

Anne-Lise Aukner
Director

John Giverholt
Director

Roar Marthiniussen
Director

Helge Lintvedt
Director

Kai Johansen
Director

Walter Qvam
President and CEO

Consolidated statement of changes in equity 1 January - 31 December

Kongsberg Gruppen (Group)

Amounts in MNOK	*Equity holders of the parent*							*Non-controlling interests*	*Total equity*
	Paid-in capital		*Other reserves*						
	Share capital	*Other paid-in equity*	*Hedge reserve*	*Shares fair value*	*Translation difference, foreign exchange*	*Retained earnings*	*Total*		
Equity at 1 Jan. 2009	**150**	**832**	**(963)**	**24**	**38**	**1 797**	**1 878**	**16**	**1 894**
Comprehensive income	-	-	1 306	32	(101)	743	1 980	8	1 988
Trading in treasury shares	-	-	-	-	-	11	11	-	11
Dividends	-	-	-	-	-	(165)	(165)	-	(165)
Change, non-controlling interests	-	-	-	-	-	-	-	(2)	(2)
Equity at 31 Dec. 2009	**150**	**832**	**343**	**56**	**(63)**	**2 386**	**3 704**	**22**	**3 726**
Equity at 1 Jan. 2010	**150**	**832**	**343**	**56**	**(63)**	**2 386**	**3 704**	**22**	**3 726**
Comprehensive income			(43)	(44)	27	1 456	1 396	5	1 401
Dividends paid	-	-	-	-	-	(240)	(240)	-	(240)
Purchase, non-controlling interests	-	-	-	-	-	(3)	(3)	-	(3)
Dividends, non-controlling interests	-	-	-	-	-	-	-	(3)	(3)
Equity at 31 Dec. 2010	**150**	**832**	**300**	**12**	**(36)**	**3 599**	**4 857**	**24**	**4 881**

Consolidated cash flow statement 1 January - 31 December

Kongsberg Gruppen (Group)

Amounts in MNOK	Note	*2010*	*2009*
Profit for the year		**1 500**	**828**
Depreciation on property, plant and equipment	10	269	243
Amortisation on intangible assets	11	103	113
Net financial income/(expenses)	13	16	94
Income tax expense	14	597	341
Earnings before tax, depreciation and amortisation		**2 485**	**1 619**
Adjusted for:			
Changes in prepayments from customers		(267)	413
Changes in project accruals		(95)	491
Changes in other current liabilities		455	(423)
Changes in inventories		(447)	106
Changes in receivables		(186)	659
Changes in projects in progress		311	92
Change in provisions and other accrual items		336	(114)
Income tax paid		(574)	(174)
Net cash flow from operating activities		**2 018**	**2 669**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment	10	10	10
Purchase of property, plant and equipment	10	(424)	(461)
Capitalised proprietary intangible assets (R&D)	11	(124)	(54)
Net cash flow upon acquisition of subsidiaries		(93)	(33)
Net payment of loans and buying/selling of shares		56	206
Net cash flow from investing activities		**(575)**	**(332)**
Cash flow from financing activities			
Proceeds from loans	20 D	18	500
Prepayment of loans	20 D	-	(1 393)
Interest received		69	61
Interest paid		(89)	(105)
Purchase of treasury shares		(9)	11
Purchase of non-controlling assets		(13)	-
Dividends paid	22	(240)	(165)
Net cash flow from financing activities		**(264)**	**(1 091)**
Total cash flow		**1 179**	**1 246**
Effect of changes in exchange rates on cash and short-term deposits		**18**	**(66)**
Net change, cash and short-term deposits		**1 197**	**1 180**
Cash and short-term deposits, beginning of year		**1 463**	**283**
Cash and short-term deposits, end of year	**21**	**2 660**	**1 463**

Notes

Kongsberg Gruppen (Group)

1 General information

Kongsberg Gruppen ASA (Kongsberg) is a public limited liability company headquartered in Kongsberg, Norway. The company's shares are traded on the Oslo Stock Exchange. The Board of Directors adopted Kongsberg's consolidated financial statements for the year ended at 31 December 2010 at its meeting on 4 April 2011. The consolidated accounts for 2010 include the parent company and subsidiaries (collectively referred to as "Kongsberg" or "the Group"), as well as the Group's stakes in associates and jointly controlled entities.

2 Basis for the preparation of the consolidated accounts

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

The consolidated financial statements have been prepared in accordance with the EU-approved International Financial Reporting Standards (IFRS) and the appurtenant interpretations as at 31 December 2010, as well as the Norwegian disclosure requirements ensuing from the Accounting Act applicable at 31 December 2010. The IFRS, as approved by the EU, differs in certain areas from the standards issued by the International Accounting Standards Board (IASB). However, it would not have had any effect on the current consolidated accounts if Kongsberg had used the IFRS standards issued by IASB.

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

- Financial derivatives (forward contracts, currency options and interest swap agreements), measured at fair value
- Financial available-for-sale assets, measured at fair value
- Financial instruments which did not qualify for hedging, and which are measured at fair value, and changes in fair value, are recognised on the income statement

Uncertainty associated with estimates and the evaluation of the accounting policy

During the preparation of the financial statements, the company's management has applied its best estimates and assumptions considered to be realistic based on historical experience. The estimates are reviewed on an ongoing basis. Situations can arise which alter the estimates and assumptions, and which will in turn affect the company's assets, liabilities, revenues and expenses. Modified estimates are recognised in the period in which the estimates are changed.

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

- Revenue recognition, estimates of progress and contract profit in connection with construction contracts, cf. Note 3 C) "Summary of significant accounting policies – Revenue recognition" and Note 19 "Projects in progress"
- Estimates of whether equity-financed research and development will generate future financial benefits, cf. Note 3 F) "Summary of significant accounting policies – Intangible assets" and Note 11 "Intangible assets"
- Impairment test of goodwill and of intangible assets other than goodwill, including the calculation of recoverable amounts from cash-generating units, cf. Note 12 "Impairment test of goodwill and intangible assets"
- Estimates related to pension liabilities, cf. Note 9 "Pensions"
- Estimates related to impairment on trade receivables, cf. Note 18 "Accounts receivable and credit risk"
- Estimates related to impairment losses on the carrying amount of projects in progress related to the risk of cancellation, cf. Note 19 "Projects in progress"
- Estimates related to future warranty commitments and other provisions, cf. Note 23 "Provisions"

For more details about significant areas requiring discretionary judgment relating to the applications of accounting policy that have the most significant effect on the amounts recognised in the consolidated financial statements, reference is made to the following notes:

- Revenue recognition of construction contracts, cf. Note 3 C) "Summary of significant accounting policies – Revenue recognition"
- The application of the principles for capitalising expenses related to research and development, cf. Note 3 F) "Summary of significant accounting policies – Intangible assets"
- Financial instruments, including hedge accounting (fair value or cash flow hedges), cf. Note 3 J) "Summary of significant accounting policies – Financial instruments" and Note 20 "Financial instruments"
- Sale and leaseback related to property, assessment of operational versus financial leases, cf. Note 3 H) "Summary of significant accounting policies – Leases, Sale and leaseback" and Note 26 "Sale and leaseback"

3 Summary of significant accounting policies

a) Basis for consolidation

Subsidiaries

The companies in which Kongsberg has control are recognised in the consolidated financial statements as subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is usually achieved when the Group, directly or indirectly, owns more than 50 per cent of the shares in the entity, or when the Group is able to exert control over the entity through agreements or statutes. In assessing control, account is taken of potential voting rights that can be exercised immediately or are convertible.

New subsidiaries are recognised at their fair value on the date of acquisition. Fair value is allocated to identified assets, liabilities and contingent liabilities. Excess value that cannot be allocated to specific assets is classified as goodwill. New subsidiaries are included in the consolidated accounts from the date of acquisition. The date of acquisition is the date on which Kongsberg obtains control of the acquired company. Ordinarily, control will be achieved when all the terms of the agreement are satisfied. Examples of contingencies can be the approval of the Board of Directors, the general meeting or the competition authorities. For business combinations achieved in stages, the financial statements are based on the values at the time the Group obtained control. Goodwill is calculated at the time control is obtained. On each individual acquisition, it is decided whether goodwill should be limited to Kongsberg's stake or be based on 100 per cent. Entities that constitute the Group are listed in Note 30 "List of Group companies".

Conditional remuneration to be disbursed at a later date contingent on certain assumptions being met in connection with the acquisition is recognised at fair value on the date of the acquisition. Subsequent changes in the fair value of conditional remuneration classified as an asset or liability are recognised pursuant to IAS 39 on either the income statement or the statement of comprehensive income.

Transaction costs incurred in connection with the business combination are recognised as expenses on an ongoing basis.

Elimination of transactions

Intra-Group balances and unrealised gains and losses that arise between Group entities are eliminated upon consolidation. Unrealised losses are eliminated correspondingly, unless they are related to impairment which requires that they be included in the consolidated accounts.

Non-controlling interests
Non-controlling interests are included in the Group's equity as a separate line item. The non-controlling interest in the profit/(loss) is included in the profit for the year. Non-controlling interests include the relevant share of the fair value of the subsidiary, including its share of identified excess value on the date of acquisition. The share of the comprehensive income is ascribable even if this leads to a negative non-controlling interest.

b) Foreign currency
The consolidated accounts are presented in NOK (Norwegian kroner), which is also the parent company's functional currency. Each entity in the Group decides which functional currency to use, and every transaction in the accounts of the individual units is measured in its functional currency. Upon initial recognition, foreign currency transactions are measured in the functional currency on the date of the transaction. Trade receivables, other receivables, accounts payable and other financial liabilities in foreign currency are translated at the rate on the balance sheet date, and the translation differences are recognised in the profit/(loss). Differences that arise from the restatement of cash flow hedges, and which satisfy the criteria for hedge accounting, are recognised as other revenues and expenses in other comprehensive income (OCI).

Gains and losses related to foreign exchange items in the normal operating cycle are classified as operating revenues and expenses. Other gains and losses related to items in foreign currency are classified as financial income or expenses.

Translation – foreign subsidiaries
Assets and liabilities in foreign business activities, including goodwill, and in functional currencies other than NOK, are translated to NOK using the exchange rate on the date of balance sheet recognition. Revenues and expenses in foreign currencies are translated to NOK at the average exchange rates during the reporting period. The translation differences are recognised in the statement of comprehensive income. Upon the disposal of all of a foreign entity, the accumulated translation differences are recognised and reversed at the same time in the statement of OCI. Translation differences are not recognised to the profit/(loss) in connection with the partial disposal of subsidiaries.

c) Revenue recognition
In connection with revenue recognition, Kongsberg distinguishes between construction contracts, goods/standard production/services and licensing with related services

Construction contracts/system deliveries
Kongsberg's operations consist mainly of developing and manufacturing products and systems based on orders received. A construction contract is a contract negotiated for the construction of an asset or a combination of assets that are closely related or interdependent. Kongsberg has laid down the following criteria to define a construction contract:

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

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

The estimated accrued contract profit shall not exceed a proportional share of the estimated total contract profit. The recognition of project revenues and expected contract profits are based on the percent of completion of the individual project, which is largely determined by the costs incurred as a ratio of the expected overall costs. In some cases, progress is calculated as a function of incurred hourly expenses or milestones achieved. If the profit on a contract cannot be estimated with a reasonable degree of certainty, the project will be recognised without a profit until the uncertainty is manageable. All projects are followed up on an ongoing basis with project costings. Where a costing anticipates a loss on the remainder of a project, the loss will be expensed immediately in its entirety.

Gross balance sheet values related to long-term construction contracts are presented on the basis of an assessment of the financial status of the individual project. Net accrued debt from customers (projects in progress) is classified as assets, and net amounts due to customers for contract work (prepayments from customers) and accrued project costs are classified as an asset or liability. Classification is done on a project-to-project basis unless there is an agreement regarding set-offs.

The recognised value of construction contracts presented on the balance sheet are based on an evaluation of the individual project's financial status. Net accrued amounts due from customers (projects in progress) are classified as assets, and net amounts due to customers for contract work (prepayments from customers) and accrued project costs are classified as assets or liabilities. The classification is made on a project-to-project basis unless there is an agreement for a set-off.

Projects in progress (receivables) consist of accrued project profit less invoiced amounts for all ongoing contracts where project profit exceeds invoiced amounts.

Prepayments from customers (liabilities) comprise accrued project profit less invoiced amounts for all ongoing contracts where invoiced amounts exceed project profit.

Accrued project costs are the variable costs incurred as a percentage of the project's percent of completion less accumulated costs actually incurred on the project. When actually incurred expenses exceed variable expenses that rest on the percent of completion, this is classified as an asset. In the opposite case, this is classified as a liability.

Supplementary contracts are recognised in the project costing when the probability of customer acceptance of a contract can be ascertained with a high degree of certainty. Additional contractual services and estimated additional costs are included in the original project costings and recognised as revenue in keeping with the stage of completion of the overall project. Construction contracts that involve one or more similar deliveries are recognised with shared contract profit and a shared percent 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 delivery could not have been negotiated separately on the same terms. In special cases, work on projects will commence and expenses will be incurred before a contract has been signed with the customer. This presupposes a very strong probability that a 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 at a pace commensurate with earnings, which is usually upon delivery. Delivery is considered complete when the customer takes over the most significant risks and rewards for a delivered product.

In addition to assuming the risks and rewards, the following criteria must be satisfied for recognition:
– it is probable that the consideration can be collected
– the income can be measured reliably

The amount recognised is measured as the fair value of the consideration or receivable. Services that are delivered but are not part of a construction contract or licensed sales are recognised as revenue incrementally as the service is provided, as described under construction contracts.

License revenues
The Group also sells licenses for the use of software systems. License revenues are normally recognised as revenue when earned, which is usually when the system is delivered to the buyer. The date of delivery is defined as the date on which the risk and rewards are transferred to the customer, see the description under "goods/standard production/ services" above. If the sale of the license depends on customer acceptance, license 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 licenses, is recognised as revenue at the same stage of completion as deliveries, as described under "construction contracts/system deliveries". Maintenance and service/support are recognised as revenue incrementally as the service is performed or on a straight-line basis during the period in which the service is performed.

Combined deliveries of goods, services and license sales
The recognition criteria are applied separately for each transaction. Where there are

combined deliveries with different recognition criteria, the various elements must be identified and recognised as income separately. As regards the sale of goods with accompanying maintenance services, the goods are recognised as income upon delivery, while the maintenance services are considered deferred income and recognised as income over the period in which the service is performed.

When the prices of the various elements for delivery are stipulated in a contract, the income will be based on these prices and the stipulated price of the license will be recognised upon delivery. For service and maintenance, the stipulated price of the service will be deferred and recognised on a straight-line basis over the period in which service and maintenance are performed.

Upon the sale of different elements covered by a single fixed price contract, Kongsberg has the following principles for the recognition and measurement of income:

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

d) Taxes

Income tax expenses on the financial statements include tax payable and the change in deferred tax for the period. Assets and liabilities associated with deferred tax are calculated using the liability method. Deferred tax is calculated on net tax-increasing differences between the balance sheet items used for accounting purposes and those used for taxation purposes, adjusted for deductible temporary tax-reducing differences and tax losses carried forward if this satisfies the requirements in IAS 12.71.

Income from long-term construction contracts where Kongsberg is responsible for performance is not recognised for tax purposes until the risk and responsibility has been transferred to the customer. Owing to Kongsberg's volume of large, long-term contracts, there are therefore considerable taxable temporary differences.

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

e) Financial income and financial expenses

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

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

f) Intangible assets

Goodwill

Goodwill arises in connection with the acquisition of a business activity (business combination) and is not depreciated. Goodwill is recognised on the balance sheet at cost less any accumulated impairment loss. Goodwill does not generate cash flows independent of other assets or groups of assets and is allocated to the cash-gene-rating 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 impairment tested annually at the end of the year, or more often if impairment is indicated.

Goodwill is tested for impairment by calculating the recoverable amount for the individual cash-generating unit or group of cash-generating units with which the goodwill is associated and followed up by management. The group of cash-generating units is in any event not larger than an operating segment would be as defined by IFRS 8 Operating segments.

Impairment is calculated by comparing the recoverable amount with the individual cash-generating unit's carrying amount. The recoverable amount is the value in use or net realisable value, whichever is higher. The Group uses value in use to stipulate the recoverable amount from the cash-generating units. In determining 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. Where the value in use of the cash-generating unit is less than the carrying amount, write-downs reduce the value of the goodwill for accounting purposes 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. Write-downs on goodwill cannot be reversed in a subsequent reporting period if the recoverable amount of the cash-generating unit increases. Any impairment will be added into the write-downs over the profit/(loss).

Impairment testing of goodwill is described in Note 12 "Impairment test of goodwill and intangible assets". See also description 3I) "Summary of significant accounting policies – Impairment of non-financial assets".

Research

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

Development

Expenses related to development activities, including projects in the development phase, are capitalised if the development activities or project meet the defined criteria for capitalisation. Development comprises activities related to plans or designs for the production of new or significantly improved materials, devices, products, processes, systems or services before the start of commercial production or use. In the assessment of whether a project constitutes the development of a new system, functionality or module, what is 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 development or in relation to the replacement cost of the system. The capitalisation of development costs requires that those costs can be measured reliably, that the product or process is technically and commercially feasible, that future financial benefits are probable and that Kongsberg intends to and has sufficient resources to complete development, and to use or sell the asset. Other development costs are expensed as they are incurred.

When the criteria for balance sheet recognition are met, accrued expenses will be recognised on the balance sheet. Costs include the cost of materials, direct payroll expenses and a percentage of directly attributable joint expenses. Capitalised development costs are recognised on the balance sheet at acquisition cost less accumulated amortisation and impairment loss. Amortisation is based on expected useful life, based on the total production units or number of years. The remaining expected useful life and expected residual value are reviewed annually.

The estimation of financial benefits is based on the same principles and methods as impairment testing. This rests on long-term budgets approved by the Board. For more details about estimation, see Note 11 "Intangible assets".

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

Maintenance

Maintenance is the work that must be performed on products or systems to ensure their expected useful life. If a significant improvement is made on the product or system that leads, for example, to a prolongation of the life cycle, or if the customer is willing to pay more for the improvement, this can be considered development. Expenses related to maintenance are expensed as they are incurred.

Technology and other intangible assets

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

g) Property, plant and equipment

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

The remaining expected useful life and expected residual value are reviewed annually. Gains or losses on the sale of property, plant and equipment are stipulated as the difference between the sales price and the carrying amount of the unit, and recognised net as other income in the profit/(loss). Expenses incurred after the production equipment is in use, e.g. day-to-day maintenance, are expensed as they are incurred, but other expenses which are expected to offer future financial benefits and can be measured reliably, are capitalised.

h) Leases, sale and leaseback

Leases or sales with leaseback where Kongsberg generally takes over all risk and all benefits related to ownership, are classified as financial leases. In connection with first-time recognition, the asset is measured at fair value or at the net present value of the agreed minimum rent, whichever is lower. After first-time recognition, the same accounting policies are used as are used for the corresponding asset.

Other leases are operational leasing agreements and are not recognised on the Group's balance sheet. Kongsberg's sale and leaseback agreements are considered to satisfy the criteria for operational leasing agreements. Where a sale and leaseback agreement is defined as a loss-making contract according to IAS 37, the present value is added into the expected loss.

i) Impairment of non-financial assets

All non-financial assets, are reviewed for each reporting period to determine whether there are indications of impairment. Where indications of impairment exist, recoverable amounts are calculated.

The recoverable amount of an asset or cash-generating unit is its value in use or fair value less net cost to sell, whichever is higher. Value in use is calculated as the net present value of future cash flows. The calculation of net present value uses a discount rate that is before tax and reflects current market assessments of the time value of money and the risks specific to the asset.

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

Non-financial assets which have been subject to impairment losses are reviewed during each period to determine whether there are indications that the impairment loss has been reduced or no longer exists. Reversals of earlier impairments are made only to the extent of the carrying amount the assets would have had after depreciation and amortisation, had no impairment loss 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, loans, 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/(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 does not retain control, or transfers practically 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 intended purpose of the instrument. The Group classifies financial assets in the following categories:

i) fair value with changes in the value through the profit/(loss)
ii) investments held to maturity
iii) loans and liabilities
iv) available-for-sale financial assets

Financial derivatives are included in the category 'fair value over the profit/(loss)', also if the derivative has a negative value.

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

Except for shares in subsidiaries, jointly controlled entities or associates on the date of balance sheet recognition, all shares are defined as financial instruments available for sale. Available-for-sale financial assets are measured at fair value on the balance sheet date. Changes in the value of available-for-sale financial assets are recognised in the statement of comprehensive income (OCI), except for write-downs, which are recognised through profit/(loss). See Note 4 "Fair value" for 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 over the profit/(loss).

Write-downs on financial assets

Where there is objective evidence that a financial asset's value is lower than its cost, the asset will be impaired through profit/(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 by the original effective interest rate. As regards available-for-sale assets, an asset is impaired when its present fair value is lower than its cost and the impairment is regarded as significant or not temporary. Ordinarily, Kongsberg would assume that an impairment of more than 20 per cent of the cost is significant and that a prolonged decline in value as one lasting for more than nine months is not of a temporary nature.

Accumulated losses recognised in the statement of comprehensive income will also be transferred through the profit/(loss) on the impaired assets. Impairment can be reversed if the reversal can be related to a significant rise in the value after the impairment was recognised. For financial assets measured at their amortised cost and available-for-sale bonds, any reversal will be recognised through profit/(loss). Upon the reversal of financial assets that are investments in equity instruments, the change in value will be recognised in the statement of comprehensive income.

Derivatives

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

Hedging

Kongsberg has as policy to limit currency risk, while taking a pro-active position on the importance of a currency as a competitive parameter. Kongsberg's policy is to hedge all contractual currency flows. Parts of future projected currency flows are hedged in accordance with an established strategy (prognosis hedges). Kongsberg has hedged parts of its obligations with interest rate swaps involving a switch from floating to fixed interest rates (interest hedges).

Before a hedge transaction is conducted, the Group determines whether a derivative (or another financial instrument) should be used to:

i) hedge the fair value of a recognised asset or liability or a firm commitment (project hedges)
ii) hedge a future cash flow from a recognised asset or liability, or an identified highly probable future transaction (hedges of forecasted sales and interest hedges)

(i) Fair value hedges (project hedges)

In connection with fair value hedges, the change in the value of the hedged item is recognised for the change in value that is hedged. For the currency hedges of future contractual transactions, this implies that the changes in value on the future transaction associated with changes in the foreign exchange rate are recognised on the balance sheet. For projects, this will mean that the part of the project that is accrued is recognised at the current exchange rate, while the part of the project that is not accrued is recognised as a gain or loss in connection with changes in the foreign exchange rate. Since the hedge instrument is also recognised at fair value, this entails symmetrical recognition of the hedged item and the hedge instrument.

Hedge accounting ceases in the event:
(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 entered in the accounts at amortised cost, the change in the value of the hedge instrument is amortised over remaining period up to maturity of the hedged item.

(ii) Cash flow hedges (hedges of forecasted sales and interest hedges)
By hedging highly likely future cash flows, the effective part of the change in fair value of the hedge instrument is recognised in the statement of comprehensive income for the period.

When a hedged transaction takes place, the accumulated change in value of the hedge instrument is recognised out of equity on the statement of comprehensive income and recognised to the profit/(loss).

If hedging a very probable transaction subsequently leads to the recognition of a financial asset or liability, the resultant gain or loss to equity will be reclassified on the statement of comprehensive income during the same period(s) in which the asset or liability influences the result, e.g. over the period of depreciation for an asset.

In connection with hedges where the future transaction becomes a project, the gains/losses are recognised in step with the project's progress. In connection with cash flow hedges of financial obligations, the change in value is transferred from the statement of comprehensive income to the income statement over the term of the liability.

If a hedge instrument expires without being rolled over or if the hedge relationship is discontinued, the accumulated gains and losses is recognised directly to profit/(loss) when the hedged transaction takes place. If the hedged transaction is no longer expected to take place, the accumulated unrealised gains or losses on the hedge instrument previously recognised against equity are recognised directly to the profit/(loss) immediately.

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

K) CLASSIFICATION
Assets related to normal operating cycles for goods/services or that fall due within 12 months are classified as current assets. Other assets are classified as non-current. Similarly, liabilities related to normal operating cycles for goods/services or that fall due within 12 months are classified as current liabilities. Other liabilities are classified as non-current.

L) INVENTORIES
Inventories are valued at the lowest of cost or net realisable value. 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 products, net realisable value is the estimated selling price in ordinary operations less expenses for the cost of the sale. For work in progress and finished products, the acquisition cost is calculated as direct and indirect costs. Inventories are assessed using the average acquisition cost.

M) RECEIVABLES
Trade receivables and other receivables are financial assets with regular or specific payments that are not traded in an active market. They are estimated at the amortised cost using the effective interest method, but due to the brief term to maturity, accounts receivable and other receivables will in actual practice be recognised at their nominal values less any impairment loss. Accounts receivable in foreign currencies are recognised at the exchange rates on the balance sheet date.

N) CASH AND SHORT-TERM DEPOSITS
Cash includes cash-in-hand, bank deposits and short-term liquid investments that can be immediately converted into a given sum of money, with a maximum maturity of three months.

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

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

(iii) Hedge reserves
Hedge reserves include accumulated net changes in fair value for financial instruments used as cash flow hedges (hedges of forecasted sales and interest hedges), which are recognised to the statement of comprehensive income on an ongoing basis.

(iv) Fair value of shares
The fair value of shares includes aggregate accumulated net changes in fair value for financial instruments classified as available for sale.

(v) Foreign currency translation differences
Foreign currency translation differences are recognised in the statement of comprehensive income. Upon the disposal of all or part of a foreign entity, the accumulated translation differences are recognised, including the accompanying reversal in the statement of comprehensive income. 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 measured reliably. Generally speaking, provisions are based on historical data and a weighting of possible outcomes against the probability they will occur. When historical information is not available, other sources are used to estimate the provisions. If the time value is significant, the provision is calculated at the net present value of the liability.

Warranty provisions
Provisions for warranty costs are recognised when the underlying products or services are sold. Warranty provisions are based on historical data on warranties, where such information is available, and on a weighting of possible outcomes against the probability they will occur. Warranty costs are expensed on an ongoing basis based on the percent of completion of the projects, and reclassified as provisions for warranties 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 (loss-making) contracts
Provisions for onerous contracts are recognised when KONGSBERG's expected revenues from a contract are lower than the unavoidable expenses of meeting its obligations under the contract.

Q) EMPLOYEE BENEFITS
Defined contribution pension plans
The Group introduced a defined contribution pension scheme for all employees in Norway under age 52 as from 1 January 2008. Employees with defined benefit plans, aged 52 and older at the time of the transition, stayed with that scheme. Most of KONGSBERG's companies abroad have defined contribution pension plans. The premiums are expensed as they accrue and are shown as payroll expenses in the income statement.

Defined benefit pension plans

Pension benefits depend on the individual employee's number of years of service and salary level upon reaching retirement age. There are also early retirement plans for some executives. To ensure uniform calculation of Kongsberg's pension liabilities, all corporate entities have used the same actuary for calculations. In the income statement, the year's net pension expenses, after a deduction for the expected return on pension plan assets, have been recorded as "personnel expenses". The balance sheet shows net pension liabilities incl. social security contributions. The financial and actuarial assumptions are subject to annual review. The discount rate is based on the long-term government bond interest rate, plus a supplement that reflects the duration of the pension liability. Actuarial gains or losses attached to changes in the basis data, estimates and changes in assumptions are recognised in the statement of comprehensive income. The Group's legal liability is not affected by the treatment of pensions for accounting purposes.

Share transactions with employees

For a number of years, the Group has been conducting a share programme for all employees, i.e. offering shares at a discount. Discounts on the sale of shares are expensed as payroll expenses.

r) Earnings per share

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

s) New improved standards and interpretations

Standards that have been implemented and have an impact on financial accounting:

- IFRS 3 Business combinations (revised)
  According to the revised standard, acquisition costs are to be expensed as they are incurred and not, as previously, be included in the cost price. The standard further requires that goodwill be measured on the date of acquisition, also in the case of gradual acquisition. Further, the standard allows recognition of non-controlling interests at fair value. As regards conditional remuneration, it shall be measured at fair value and be included in the acquisition cost on the date of acquisition, and subsequent changes in value will usually be recognised.
- IAS 27 Consolidated and separate financial statements (revised)

The introduction of the revised standard means that in the event of loss of control of a subsidiary, any remaining assets in the former subsidiary will be measured at fair value and the gain or loss will be recognised. The current rules for the distribution of losses between controlling and non-controlling interests change so that the deficit shall be charged to the non-controlling interests even though the recognised value of the non-controlling interest is negative.

t) Interpretations and changed standards in IFRS and IFRIC that have not yet been implemented

In the financial statements for 2011 and later, the following standards, amendments and interpretations of existing standards will be obligatory. The Group has not opted for early application. The date of entry into force is set as the EU's date of entry into force to the extent it differs from the IASB's date of entry into force.

- IFRS 9 – Financial instruments (new), the date of entry into force has not been set by the EU. (IASB 1 January 2013)
- IFRS 7 - Financial instruments: Information – The transfer of financial assets (amended), the date of entry into force has not been set by the EU. (IASB 1 July 2011)
- IAS 24 – Information on related party disclosures (amended), date of entry into force 1 January 2010
- IAS 32 – Financial instruments: Presentation (amended), date of entry into force 1 February 2010
- IFRIC 14 – Limits of a net defined benefit pension assets, minimum funding requirements and their interaction (amended), date of entry into force 1 January 2011
- IFRIC 19 – Extinguishing financial liabilities with equity instruments (new), date of entry into force 1 July 2011
- Annual improvement project – May 2010
- IAS 12 – Income tax (amended), date of entry into force not established by the EU (IASB 1 January 2012)

The following are comments on a selection of the amendments and which represents the areas which management believes could have a significant impact on the Group's financial statements.

- IFRS 9 Financial instruments, which is expected to become mandatory at 1 January 2013 at the earliest, could change the classification and measurement of financial assets. The Group is not planning early application of the standard and the scope of any influence it might have on the accounts has not been determined

4 Fair value

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

Intangible assets

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

Brand names are calculated at the net present value of the estimated savings on royalty costs of 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

In connection with acquisitions, Kongsberg recognises 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 between a willing buyer and a willing seller in an "arm's length transaction". The market value of plant and equipment is based on appraisals obtained from independent appraisers. For smaller scale equipment and plant, an assumption is made upon acquisition that the carrying amount is an estimate of market value.

Inventories

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

Investments in equity instruments

The fair value of available-for-sale financial assets is measured using the final price listed on the date of balance sheet recognition. Listed shares consist either of those listed on the Oslo Stock Exchange or on the Norwegian Securities Dealers Association's OTC list. Where there has been no trading in shares for a longer period of time, the most recent share price will be used to estimate fair value. The alternative is to use the last traded share price and adjust it for significant events during the period from the last transaction and up to the balance sheet date. For unlisted investments, the most recent price of a share transaction or share issue will be used to estimate fair value. Where there have not been transactions, the discounted cash flow on the share is used.

derivatives

The fair value of forward contracts is based on observed market value. Kongsberg uses Reuters' prices for the different 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 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 on interest-bearing loans 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 one might expect to pay for comparable loans on the date of balance sheet recognition. Market interest, before the credit markup, is based on NIBOR, the money market interest rate.

5 Management of capital and financial risk

Kongsberg has a centralised financial affairs function that is responsible for the Group's financing, currency risk, interest rate risk, credit risk and liquidity management. The Group's subsidiaries have limited opportunities to establish independent funding. The Board has adopted guidelines for financial risk management, and they have been embodied in the Group's financial policy.

Funding and capital management

Kongsberg's operations reflect a long-term perspective, with defence projects extending for three to five years, and all business areas have a long-term marketing strategies. This requires reliable access to capital over time, and Kongsberg aspires to maintain a good credit rating (investments grade) with lenders and investors alike.

Kongsberg strives to ensure annual dividends of approx. 30 per cent of the Group's profit for the year from ordinary operations after tax.

Kongsberg aspires to financial flexibility, and has capital structure requirements that ensure a balance between liquidity risk and refinancing risk. Loans are to be renegotiated well in advance of their due date, and 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. This results in banking based on syndicated credit facilities and the issue of debt instruments on the Norwegian capital market. The Group has satisfactory access to capital in the NOK market and has thus concluded that there is no need to be subject to official rating from global credit assessment companies. The Group is, however, rated by its lenders and was classified as BBB+ in the most recently updated analysis.

Amounts in MNOK	*Total at 31 Dec. 2010*	*< 1 yrs.*	*2-3 yrs.*	*3-4 yrs.*	*4-5 yrs.*	*> 5 yrs.*
Interest-bearing liabilities (bond loans)	800	-	300	500	-	-

At 31 Dec. 2010, Kongsberg had a syndicated credit facility of MNOK 1 000 which is undrawn and scheduled to mature in July 2013.

Pursuant to covenants on existing loans, Kongsberg is to 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. Kongsberg is not subject to terms apart from the gearing ratio in its loan covenants.

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. Kongsberg has a centralised financial affairs function that bears the ultimate responsibility for managing the Group's liquidity risk. The Group's Financial Policy specifies requirements for liquidity reserves which guarantee that the Group can always meet its contractual payment obligations. Kongsberg uses credit facilities, short-term certificate loans and the Group bank account system to cover short-term liquidity needs. Short-term loans should not exceed the available borrowing facilities by more than one year. Kongsberg has a Group bank account system to which basically all subsidiaries are connected. The Group bank account system optimises availability and flexibility in terms of liquidity management. The Group's liquidity trend is routinely monitored through weekly rolling liquidity prognoses from the largest units, as well as budgets and reporting by segment when it comes to major investments.

Currency risk

A large share of Kongsberg's revenues 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 disclose the exposure. The centralised financial function offers instruments that reduce currency risk. Kongsberg has a policy of hedging all contractual currency flows (project hedges).

In addition, the Group has a foreign exchange policy in which anticipated new orders are hedged (hedges of forecasted sales) on the basis of a matrix. The matrix is designed so that the Group hedges a combination of a higher share of expected orders further forward in time at higher rates and a smaller share of expected orders with a shorter time perspective at lower rates. This enables the Group to mitigate the effects of currency fluctuations for up to two years. Forward contracts are the most commonly used hedging instruments. Options are used only to a limited extent. Currency accounts in the corporate accounting system are used to hedge small amounts with a short term to maturity.

In addition to financial instruments, operational measures such as incurring costs in the same currency as the sales contract are used to reduce foreign currency exposure.

Kongsberg has established 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.

See Note 20 B) "Financial instruments – Foreign currency risk and the hedging of foreign currency" for further information.

Interest rate risk

At 31 December 2010, Kongsberg had two bond loans totalling MNOK 800 and an undrawn syndicated credit facility of MNOK 1 000.

Kongsberg has as policy of emphasising predictability relative to interest expenses at times when changes in the interest level have a significant impact on consolidated profits. Each year, the funding plan is presented to the Board of Directors to consider interest rate exposure. See Note 20 D) "Financial instruments – interest rate risk" for further information.

Credit risk

Credit risk is understood as the risk that the Group's contractual counterpart cannot fulfil its obligations to Kongsberg. The business areas disclose the credit risk. Credit risk is related to trade receivables, forward currency and interest rate contracts and monetary investments.

The Group's Financial Policy requires financial institutions to have a certain credit rating before Kongsberg can engage in financial contracts with them.

At year-end 2010, Kongsberg had MNOK 1 859 in gross accounts receivable, of which MNOK 1 516 were trade receivables. These receivables carry varying degrees of risk, and depend on the customer, term to maturity and whether any payment guarantees or the like have been furnished.

Historically, the Group has had a relatively low percentage of bad debts. Kongsberg Defence Systems and Kongsberg Protech Systems mainly have government customers, and are not exposed to much credit risk. Kongsberg Maritime generally serves customers from the private sector, and is more exposed to this type of risk. Unrest in the global economy in general and in the shipyard and shipping industry in particular has added to credit risk in the markets addressed by Kongsberg Maritime. Kongsberg Maritime has set aside provisions to take this into account. Kongsberg Maritime has implemented operational initiatives to reduce credit exposure. Credit insurance is only used to a limited extent, but is considered in certain cases.

The Group has a policy decision about maintaining a responsible balance between increasing sales at good margins and interest expenses and the risk of incurring losses. Further, large parts of the Group operate on the basis of specially adapted credit manuals featuring routines for debt collection. As regards counterparty risk, Kongsberg has strict requirements for creditworthiness and has placed restrictions on its aggregate level of credit exposure. See Note 18 "Accounts receivable and credit risk" for further information.

Market risk attached to financial investments

Kongsberg's investments in other companies are based on strategic assessments. The value of the Group's financial investments is vulnerable to fluctuations in the equity market. Investments are evaluated and followed up centrally. The Group makes regular reports on trends in the value of financial assets. See Note 16 "Available-for-sale shares" for further information.

6 Information by operating segment

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 delivers products and systems for dynamic positioning, navigation and automation for commercial vessels and offshore installations, as well as products and systems for seabed surveys, surveillance, training simulators and for fishing vessels and fisheries research. The business area is among the market leaders in these areas. Countries with significant offshore and shipbuilding industries are important markets.

Kongsberg Defence Systems is Norway's premier supplier of defence and space-related systems. Norway's Armed Forces has been the single most important customer over time. Solutions developed in collaboration with the Norwegian Armed Forces have proven competitive on the international arena and have achieved a growing export share in recent years. All defence-related exports are contingent on the approval of the Norwegian authorities. One key element of the market strategy is to form alliances with major international defence enterprises. Kongsberg Defence Systems delivers systems for command and weapon control, weapon guidance and surveillance, communications solutions and missiles.

Kongsberg Protech Systems' main product is the Protector Remote Weapon Station (RWS), developed to protect military personnel in armoured vehicles. KONGSBERG is by far the largest player in this market. The system has been sold to many countries. The RWS is a product that is in demand for a growing range of military vehicles. Accounting for operating revenues of MNOK 4 909 in 2010, the US Army is the business area's largest customer.

The remainder of the Group's activities is shown in the column "Other/elimination". These activities include income, expenses, assets, liabilities and other elements that cannot be assigned to the segments in a prudent manner. This generally involves shareholder costs, certain overheads and effects on profit/loss related to property occupied by parties other than the Group's own units, as well as Kongsberg Oil & Gas Technologies, which currently has a limited scope of operations relative to the Group's business activities.

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 expenses 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 resource allocation. The operating segments' performance is assessed based on operating profit and return on capital employed.

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

Profit/(loss)	Kongsberg Maritime		Kongsberg Defence Systems		Kongsberg Protech Systems		Other/elimination		Consolidated	
Amounts in MNOK	*2010*	*2009*	*2010*	*2009*	*2010*	*2009*	*2010*	*2009*	*2010*	*2009*
Revenue from external customers	6 224	6 592	3 028	2 491	5 665	4 123	580	610	15 497	13 816
Intra-Group transactions	62	65	348	243	18	-	(428)	(308)	-	-
Total revenues	**6 286**	**6 657**	**3 376**	**2 734**	**5 683**	**4 123**	**152**	**302**	**15 497**	**13 816**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**1 108**	**936**	**319**	**223**	**1 064**	**493**	**(6)**	**(33)**	**2 485**	**1 619**
Depreciation	(117)	(105)	(74)	(79)	(69)	(51)	(9)	(8)	(269)	(243)
Earnings before tax prior to amortisation (EBITA)	**991**	**831**	**245**	**144**	**995**	**442**	**(15)**	**(41)**	**2 216**	**1 376**
Amortisation	(32)	(33)	(36)	(51)	(3)	(1)	(32)	(28)	(103)	(113)
Segment performance (EBIT)	**959**	**798**	**209**	**93**	**992**	**441**	**(47)**	**(69)**	**2 113**	**1 263**
Segment assets	**5 063**	**5 511**	**3 390**	**2 851**	**1 625**	**1 315**	**745**	**580**	**10 823**	**10 257**
Segment investments	171	104	243	255	118	107	16	30	548	496
Current segment liabilities and provisions	2 776	2 881	2 389	2 376	1 301	790	261	190	6 727	6 237

1. There are no differences between the measurement methods used at the segment level and those applied to the consolidated accounts.
2. Intra-Group transactions between the different segments are eliminated upon consolidation. Transactions between the segments are based on market prices.
3. The different operating segments' EBITAs include income and expenses from transactions with other operating segments in the Group.
4. Segment assets do not include available-for-sale shares, other non-current assets, derivatives, or cash and short-term deposits since these assets are controlled on a group basis.
5. Segment liabilities do not include deferred tax liabilities, taxes payable, interest-bearing liabilities, other non-current liabilities or provisions and derivatives, since such liabilities are controlled on a group basis.
6. Investments consist of the addition of property, plant and equipment, intangible assets and goodwill.

RECONCILIATION OF ASSETS

Amounts in MNOK	*2010*	*2009*
Segment assets	10 823	10 257
Available-for-sale shares	129	171
Other non-current assets	101	55
Derivatives	805	740
Fair value adjustments related to financial instruments	(541)	(320)
Cash and short-term deposits	2 660	1 463
TOTAL ASSETS	**13 977**	**12 366**

RECONCILIATION OF CURRENT LIABILITIES AND PROVISIONS

Amounts in MNOK	*2010*	*2009*
Current segment liabilities and provisions	**6 727**	**6 237**
Current derivatives	173	200
Fair value adjustments related to financial instruments	(326)	(256)
Tax payable	598	538
TOTAL CURRENT LIABILITIES AND PROVISIONS	**7 172**	**6 719**

GEOGRAPHICAL SEGMENT

In presenting information by geographical segment, 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 acqusition. The Group's activities are generally divided into Norway, Rest of Europe, America and Asia. Fixed assets include property, plant and equipment, intangible assets and goodwill (excl. financial instruments, deferred tax asset, pension fund assets and rights ensuing from insurance agreements).

Geographical segment	Norway		Rest of Europe		America		Asia		Other		Total	
Amounts in MNOK	*2010*	*2009*	*2010*	*2009*	*2010*	*2009*	*2010*	*2009*	*2010*	*2009*	*2010*	*2009*
Operating income from external customers	2 415	2 783	3 126	2 873	6 783	5 160	2 899	2 852	274	148	15 497	13 816
Operating income as a % of total	16 %	20 %	20 %	21 %	44 %	37 %	19 %	21 %	2 %	1 %	-	-
Fixed assets	3 785	3 440	71	77	626	629	135	91	1	1	4 618	4 238

In this list, fixed assets consist of property, plant and equipment, goodwill and other intangible assets.

7 Inventories

The Group's total inventories are distributed as follows:

Amounts in MNOK	*31 Dec 10*	*31 Dec 09*
Raw materials	1 826	1 478
Work in progress	733	662
Finished products	475	447
Total	**3 034**	**2 587**
Write-down on inventories during the period	68	67

8 Payroll expenses

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

Amounts in MNOK	*2010*	*2009*
Salaries	3 049	2 921
Performance-based salary component	123	82
Social security tax	474	449
Pension expenses, defined benefit plans (Note 9)	49	78
Pension expenses, defined contribution pension plans (Note 9)	165	147
Other benefits	143	110
Total personnel expenses	**4 003**	**3 787**
For a more detailed description of the performance-based salary component scheme for executive management, see Note 27 "Close associates".		
Average no. of FTEs (full-time equivalents)		
Total	**5 436**	**5 236**

9 Pensions

Kongsberg has a service pension plan that complies with legislation, and consists of a defined contribution plan and a defined benefit plan. The service pension plan covers all Group employees in Norway. Per 31 December 2010, there are 3 954 employees in Norway covered by the schemes. Kongsberg endeavours to ensure that as many of its employees as possible outside Norway are also covered by service pension schemes.

The defined contribution plan

The Group introduced a defined contribution pension scheme in 2007 for all employees under age 52 at 1 January 2008. The contribution rates are 0 per cent of the basic wage up to 1G, 5 per cent of the basic wage between 1 and 6G, and 8 per cent of the basic wage from 6G up to 12G. The employees can influence the way the funds are managed by choosing to invest either 30, 50 or 80 per cent, respectively, of their portfolios in shares.

The Group also has a collective, operations-based contribution scheme for salaries between 12 and 15G. The entity's deposits in this scheme are 18 per cent of the share of the basic wage in excess of 12G, up to a ceiling of 15G. Special terms and conditions apply for executives. This is described in Note 27 "Close associates". The employees have the same investment choices in the supplementary scheme as in the main scheme. Kongsberg's companies abroad generally have defined contribution plans. At 31 December 2010, 3 117 employees in Norway and most of the 1 727 employees abroad were covered by these plans. The deposits are changed against income as they are incurred.

The defined benefit plan

In connection with the transition to the defined contribution plan in 2007, employees aged 52 or more at the time of the transition continued to be in the defined benefit plan. The pension plan is insured through Vital - DnB NOR. Parts of the pensions are covered by payments from the National Insurance scheme. Such payments are calculated on the basis of the National Insurance scheme's basic amount (G), as approved each year by the Stortinget (Norwegian parliament). 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. Based on the current National Insurance system (at 31 Dec. 2010) and full accrual, the scheme gives entitlement to about 65 per cent of salary level at retirement, including benefits from the National Insurance scheme until age 77, then the service pension component will be reduced by 50 per cent. The Group also has a collective, operations-based contribution scheme for salaries between 12 and 15G. Special terms and conditions apply for executives. This is described in Note 27 "Close associates".

The collective, operations-based benefits scheme is comparable to about 65 per cent of the share of the basic wage that exceeds 12G until age 77, and then the benefit is reduced to 50 per cent of the share of the basic wage that exceeds 12G. This supplementary scheme was discontinued in connection with the transition to defined contribution pension plans in 2007.

In 2008, the Group introduced new rules for retirement with severance pay for newly hired members of corporate management. The rules entail retirement with severance pay at age 65 at the latest, but with reciprocal rights for the company and the employee in corporate management to request retirement with severance pay from age 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 years of accrual. If the employee resigns between age 63 and 65, this will nevertheless reduce pension earnings for those with a defined contribution retirement pension that applies from age 67.

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

Financial conditions	*31 Dec. 10*	*31 Dec. 09*
Discount rate	3.75 %	4.0 %
Projected yield	5.00 %	6.0 %
Wage adjustment	3.25 %	3.5 %
Pension base-level adjustment	3.75 %	3.5 %
Pension adjustment	0.75 %	1.0 %

Demographic assumptions	*31. Dec. 10*	*31. Dec. 09*
Mortality	K 2005	K 2005
Disability	IR 73	IR 73
Voluntary turnover	4.5 per cent for all ages	4.5 per cent for all ages

K 2005 has been drawn up by the Norwegian Financial Services Association, and addresses the tariff for mortality. IR 73 deals with tables for expected disability. The risk of death and disability are based on public tables and observations for disability at Kongsberg. The probability that an employee in a given age group will become disabled or die within one year and life expectancy is as follows:

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

The disability rate in IR 73 was chosen because it offers the best approach to Kongsberg's disability statistics. This is based on Kongsberg's historical figures, where about 25 per cent of the disability pension has been reimbursed through an international pool.

The year's pension costs were calculated as follows:

Amounts in MNOK	*2010*	*2009*
Current value of accruals for the year	92	79
Interest cost on accrued pension liabilities	59	56
Estimated return on pension plan assets	(80)	(68)
Amortisation, plan changes	-	1
Previous years accrual for 12G scheme	6	-
Accrued social security expenses	11	10
	88	**78**
Settlement of old early retirement scheme	(39)	-
Total net pension expenses for the year	**49**	**78**
Cost of defined contribution pension plans in Norway	146	130
Cost of defined contribution pension plans abroad	19	17

Change in net pension liabilities recognised on the balance sheet

	2010			2009		
Amounts in MNOK	*Funded*	*Unfunded*	*Total*	*Funded*	*Unfunded*	*Total*
Changes in gross pension liabilities						
Gross pension liabilities at 1 January	1 367	261	1 628	1 211	243	1 454
Net change in social security expenses	(2)	(1)	(3)	-	3	3
Current value of accruals for the year	70	27	97	58	21	79
Interest expenses on pension liabilities	54	6	60	48	8	56
Actuarial losses/gains	(4)	16	12	97	1	98
Settlement of old early retirement scheme	-	(34)	(34)	-	-	-
Payments of pensions/paid-up policies	(49)	(26)	(75)	(47)	(15)	(62)
Gross pension liabilities at 31 December	**1 436**	**249**	**1 685**	**1 367**	**261**	**1 628**
Changes in gross pension fund assets:						
Fair value, pension plan assets 1 January	1 287	-	1 287	1 129	-	1 129
Anticipated rate of return on pension funds	80	-	80	68	-	68
Actuarial losses/(gains)	(35)	-	(35)	4	-	4
Premium payments	86	-	86	133	-	133
Payments of pensions/paid-up policies	(49)	-	(49)	(47)	-	(47)
Fair value, pension plan assets 31 December	**1 369**	**-**	**1 369**	**1 287**	**-**	**1 287**
Net pension liabilities	**(67)**	**(249)**	**(316)**	**(80)**	**(261)**	**(341)**
Not recognised plan changes	-	-	-	-	1	1
Net capitalised pension liabilities at 31 December	**(67)**	**(249)**	**(316)**	**(80)**	**(260)**	**(340)**

The percentage distribution, pension plan assets by investment categories at 31 Dec. 2010 and earlier was:

	2010	*2009*	*2008*	*2007*	*2006*
Long-term bonds	33 %	36 %	29 %	28 %	30 %
Money market	11 %	8 %	14 %	7 %	5 %
Short-term bond loans	15 %	23 %	30 %	21 %	20 %
Shares	21 %	14 %	4 %	25 %	30 %
Property	18 %	17 %	17 %	16 %	13 %
Other	2 %	2 %	6 %	3 %	2 %
Recognised return, pension plan assets	6.2 %	4.7 %	1.9 %	11.8 %	7.5 %

Amounts in MNOK	*2010*	*2009*	*2008*	*2007*	*2006*
Net liabilities 1 Jan.	(340)	(323)	(336)	(747)	(665)
Net change in social security expenses	3	(3)	2	50	(11)
Recognised pension expenses	(78)	(68)	(74)	(132)	(112)
Settlement, pension plan	34	-	-	299	-
Premium payments	86	133	167	160	129
Premium payments, plan changes	-	-	-	-	14
Disbursements	26	15	16	10	7
Cutbacks in the workforce	-	-	-	-	-
Purchase(s)/sale(s)	-	-	-	-	(3)
Transition to proportionate consolidation method	-	-	-	1	-
Actuarial losses/gains	(47)	(94)	(98)	23	(106)
Net capitalised pension liabilities at 31 Dec.	**(316)**	**(340)**	**(323)**	**(336)**	**(747)**

Actuarial losses/gains are recognised in the statement of comprehensive income.

HISTORICAL INFORMATION

Amounts in MNOK	*2010*	*2009*	*2008*	*2007*	*2006*
Gross pension liabilities at 31 December	1 685	1 628	1 454	1 289	1 799
Fair value, pension plan assets 31 December	1 369	1 287	1 129	950	1 049
Net pension liabilities 31 Dec.	**(316)**	**(341)**	**(325)**	**(339)**	**(750)**
Actuarial gains/losses on pension liabilities 31 Dec.	12	98	89	8	76
Actuarial gains/losses on pension fund assets 31 Dec.	(35)	4	(9)	31	(30)
Actuarial gains/losses are recognised in the statement of comprehensive income	**(409)**	**(370)**	**(293)**	**(210)**	**(230)**

The company participates in social parties' (LO/NHO) scheme which entails that all employees can choose early retirement from age 62. In February 2010, it was decided that this scheme would be discontinued and it was only possible to retire under the old scheme up to 31 Dec. 2010. The gain on the dismantling of the scheme is recognised as revenue in 2010, and presented as a reduction in payroll costs. One remaining provision applies to the company's co-payment for individuals who retired early under the old scheme. Upon dismantling by the old contractual early retirement scheme, it came to light that there was substantial under-coverage in the scheme. This under-coverage must be covered by the member enterprises, so they will continue to pay premiums for the next five years. The company's percentage of this under-coverage has been estimated and provided for in the accounts.

The old contractual early retirement scheme has been superseded by a new contractual early retirement scheme. The new contractual early retirement scheme is, as opposed to the old one, not an early retirement scheme, but rather a regime that gives a life-long supplement to the ordinary pension. Employees can elect to draw on the new scheme as from age 62, even if they continue to work, and deposits will continue to accrue until age 67. The new scheme is a defined benefit multi-enterprise pension scheme, 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 scheme. For accounting purposes, the scheme is considered a deposit-based pension plan in which premium payments are expensed against income on an ongoing basis, and no provisions are set aside in the accounts. No premium will be paid for the new scheme prior to 2011, and then the premium will be stipulated at 1.4 per cent of aggregate payments between 1 G and 7.1 G to the enterprise's employees (estimated as MNOK 27). No fund will be built up in connection with the scheme, and the premium level is expected to increase in the years ahead.

The pension expenses for the year are calculated on the basis of actuarial assumptions at the beginning of the year. Gross pension liabilities are calculated on the basis of the financial and actuarial assumptions at year end. The gross value of pension fund assets is calculated on the assumption that there will be an annual return of 5 per cent, which was the expectation on 31 Dec. 2010. The actual return on investments came to 6.8 per cent, but it will not be included in the capitalised assets until 2011.

Pension premium payments for the defined benefit scheme for 2011 are expected to total MNOK 80.

The pension benefits are based on the individual employee's number of years of service and salary level upon reaching retirement age. Net pension liabilities are stipulated on the basis of actuarial estimates predicated on assumptions related to the discount rate, future wage growth, pension adjustments, projected yield on pension fund assets, and employee turnover. These assumptions are updated annually. The discounting rate is stipulated on the basis of the long-term government bond interest rate, which reflects the time frame for paying out on the pension liabilities for the benefit scheme.

The balance sheet shows net pension liabilities including social security.

SENSITIVITY ANALYSIS OF PENSION CALCULATIONS

The following estimates are based on facts and circumstances that applied at 31 Dec. 2010, provided all other parameters are constant. The actual results may deviate significantly from these estimates.

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

10 Property, plant and equipment

Amounts in MNOK	*Machinery and plants*	*Equipment and vehicles*	*Land, buildings and other real property*	*Total*
Cost of acquisition				
1 Jan. 2009	643	1 241	1 464	3 348
Additions	139	196	103	438
Disposals	(5)	(5)	(10)	(20)
Additions through acquisitions of operations	-	-	16	16
Translation differences	(11)	(21)	(34)	(66)
Total acquisition cost, 31 Dec. 2009	**766**	**1 411**	**1 539**	**3 716**
Additions	60	211	153	424
Disposals	(1)	(120)	(13)	(134)
Translation differences	(1)	5	6	10
Total acquisition cost, 31 Dec. 2010	**824**	**1 507**	**1 685**	**4 016**
Accumulated depreciation and write-downs				
1 Jan. 2009	281	857	347	1 485
Depreciation for the year	36	146	61	243
Disposals	(4)	(4)	(2)	(10)
Translation differences	(7)	(12)	(12)	(31)
Total accumulated acquisitions and write-downs, 31 Dec. 2009	**306**	**987**	**394**	**1 687**
Depreciation for the year	45	161	63	269
Disposals	(1)	(116)	(8)	(125)
Translation differences	(2)	4	1	3
Total accumulated acquisitions and write-downs, 31 Dec. 2010	**348**	**1 036**	**450**	**1 834**
Carrying amount 31 Dec. 2009	**460**	**424**	**1 145**	**2 029**
Carrying amount 31 Dec. 2010	**476**	**471**	**1 235**	**2 182**
Useful life	3 - 10 years	3 - 10 years	10 - 33 years [1)]	-
Annual rent from off-balance sheet property, plant and equipment	2	5	187	194

1) Land owned by the Group has an unlimited useful life, and not depreciated.

11 Intangible assets

Amounts in MNOK	*Goodwill*	*Technology*	*Capitalised proprietary development*	*Other intangible assets*	*Total*
Cost of acquisition					
1 Jan. 2009	2 157	605	152	52	2 966
Additions	-	-	54	-	54
Acquisition of operations	(12)	-	-	-	(12)
Additions	-	-	-	(16)	(16)
Translation differences	(61)	(46)	-	2	(105)
Total acquisition cost 31 Dec. 2009	**2 084**	**559**	**206**	**38**	**2 887**
Additions	-	-	124	-	124
Acquisition of operations[1)]	114	45	-	32	191
Translation differences	5	11	-	-	16
Total acquisition cost 31 Dec. 2010	**2 203**	**615**	**330**	**70**	**3 218**
Accumulated amortisation and impairment losses					
1 Jan. 2009	420	128	26	13	587
Amortisation and impairment losses	-	62	36	15	113
Disposals	-	-	-	(16)	(16)
Translation differences	(1)	(5)	-	-	(6)
Total accumulated amortisation and impairment losses 31 Dec. 2009	**419**	**185**	**62**	**12**	**678**
Amortisation and impairment losses	-	61	33	9	103
Translation differences	(3)	(2)	-	-	1
31 Dec. 2010	**422**	**244**	**95**	**21**	**782**
Carrying amount 31 Dec. 2009	**1 665**	**374**	**144**	**26**	**2 209**
Carrying amount 31 Dec. 2010	**1 781**	**371**	**235**	**49**	**2 436**
Useful life	-	8-10 years	5 years	8-10 years	-
Remaining useful life	-	1-9 years	3-5 years	4-9 years	-

1) "Acquisitions' of operations mainly applies to the purchase of 100 per cent of the shares in Odfjell Consulting AS. For preliminary purchase price allocation, see Note 29 "Acquisitions of operations".

With the exception of goodwill, which cannot be amortised, the amortisation of intangible assets is either linear over the useful life or based on the number of units produced.

Research and development cost recognised in profit and loss

The major part of the Group's research and development takes place through customer-financed projects. Expenses related to equity-financed research and development:

	2010			2009		
Amounts in MNOK	*Product maintenance*	*Develop-ment costs*	*Total*	*Product maintenance*	*Develop-ment costs*	*Total*
Kongsberg Maritime	103	384	487	93	378	471
Kongsberg Defence Systems	17	81	98	9	69	78
Kongsberg Protech Systems	79	11	90	15	45	60
Other	6	26	32	4	28	32
Total	**205**	**502**	**707**	**121**	**520**	**641**

Capitalisation of propriertary development

Development projects financed by customers are not capitalised, but KONGSBERG seeks to obtain ownership rights to the developed product. Based on technical success and market assessments, during the development phase in an equity-financed project, the decision is taken whether to complete development and begin capitalisation.

The capitalisations are related to the development of map systems at Kongsberg Defence Systems.

At Kongsberg Protech Systems, this year's capitalised proprietary development is predominantly related to the development of a new product concept in the RWS family, the Medium Calibre RWS.

Equity-financed development projects at Kongsberg Maritime generally consist of many projects, each of which has a limited overall scope. These development projects are not considered to meet the criteria for capitalising development. Many of the projects also entail considerable uncertainty about whether they are technologically feasible and how the final solution will turn out. As long as there is uncertainty about the final technological solution, it is difficult to estimate market value. Accordingly, the criteria for capitalisation will not be satisfied until fairly late in the development project. Remaining expenses will often be insignificant. Kongsberg Maritime is engaged in development projects in the product area 'dynamic positioning'(DP), where the projects satisfy the criteria and capitalisation has begun.

12 Impairment test of goodwill and intangible assets

GOODWILL

Goodwill obtained through acquisitions is allocated to the Group's operating segments and is followed up and tested collectively for the group of cash flow-generating entities that constitute the operating segment. Goodwill is followed up for groups of cash flow-generating entities that are similar to what is defined as the operating segment pursuant to IFRS 8 Operating segments.

Goodwill is assigned to operating segments as follows:

Amounts in MNOK	*31 Dec. 10*	*31 Dec. 09*
Kongsberg Maritime	1 314	1 287
Kongsberg Defence Systems	132	134
Other activities	335	244
Total goodwill recognised on balance sheet	**1 781**	**1 665**

Goodwill from 'Other activities' is related to Kongsberg Oil & Gas Technologies.

The Group tests goodwill and intangible assets for write downs each year, or more frequently if there are indications of impairment.

The Group has used value in use to ascertain recoverable amounts for the cash flow-generating entities. Value in use is determined using the discounted cash flow method. The projected cash flow is based on the business areas' budgets and long-term plans, which are approved by KONGSBERG's Board of Directors and executive management. 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, where this is 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 and 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 the estimated capital structure. The discount rates reflect the market's required rates of return at the time of the test 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 prudent and good 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)

Profit margins are based on historical levels, adjusted for expectations about the future. Earnings before depreciation and amortisation (EBITDA) are used as the basis for the calculation.

Growth rate

Growth rates in the explicit prognosis period are predicated 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 beyond 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 that operate in markets where it is relevant to measure market shares, it is expected that established positions will generally be maintained, but that there can be increases and setbacks in certain areas.

KEY ASSUMPTIONS PER CASH GENERATING UNIT

Key assumptions	*Kongsberg Maritime*	*Kongsberg Defence Systems*	*Other activities*
Discount rate before tax (%)	15.7	11.3	14.2
Discount rate after tax (%)	10.0	8.3	10.0
Long-term nominal growth rate (%)	2.0	2.0	2.0
Inflation (%)	2.0	2.0	2.0

IMPAIRMENT

There was no impairment of goodwill in 2010 (or in 2009).

SENSITIVITY ANALYSIS

There will always be uncertainty attached to the estimate of value in use. In connection with impairment tests of goodwill, sensitivity analyses are carried out for each individual cash generating unit. All entities will initially be in a depreciation situation, with relatively large changes in the key assumptions, and these changes are considered to be outside the probable corridor.

13 Financial income and financial expenses

Amounts in MNOK	*2010*	*2009*
Interest income from assets at amortised cost	30	4
Derivatives at fair value over the profit/(loss)	17	15
Other financial income	2	5
Gain on sale of shares available-for-sale	-	76
Financial income	**49**	**100**
Interest expenses from liabilities at amortised cost	41	69
Foreign currency loss	8	12
Discounting, non-current provisions	5	4
Other financial expenses	11	26
Write-down on shares available-for-sale	-	12
Write-down on assets at amortised cost	-	71
Financial expenses	**65**	**194**
Financial items, net recognised in the profit/(loss)	**(16)**	**(94)**

The gain on the sale of shares in 2009 is related to the sale of shares in Roxar ASA. The write-down on financial assets to amortised cost in 2009 was primarily associated with the writing down of a loan extended in connection with the sale of yachting activities.

14 Taxes

TAXES

Amounts in MNOK	*2010*	*2009*
Tax payable	630	561
Change in deferred tax	(33)	(220)
Taxes	**597**	**341**

RECONCILIATION FROM NOMINAL TO EFFECTIVE TAX RATE

Amounts in MNOK	*2010*	*2009*
Earnings before tax (EBT)	**2 097**	**1 169**
Estimated tax based on a tax rate of 28 per cent of the profit before tax	587	327
Effect of tax rate differences and unrecognised tax assets abroad	6	12
Tax effect of gains/losses on the sale of shares and the writing down of shares		(3)
Other permanent differences	4	5
Taxes	**597**	**341**
Effective tax rate	28.5 %	29.2 %

Income from long-term construction contracts is not recognised for tax purposes until the risk and responsibility has been transferred to the customer. As a result of this, tax payable will fluctuate over time.

▸▸

DEFERRED TAX ASSET AND DEFERRED TAX LIABILITY

Amounts in MNOK	*31 Dec 10*	*31 Dec 09*
Deferred tax asset		
Pensions	88	95
Provisions	626	477
Net derivatives	-	-
Deferred tax assets – gross	**714**	**572**
Deferred tax liabilities		
Goodwill, property, plant and equipment	267	253
Projects in progress	818	760
Net derivatives	175	149
Deferred tax liabilities – gross	**1 260**	**1 162**
Net deferred tax liabilities recognised	**(546)**	**(590)**

Change in deferred tax recognised in the statement of comprehensive income:

Amounts in MNOK	*31 Dec 10*	*31 Dec 09*
Pensions	(15)	(30)
Cash flow hedges	(17)	508
Total	**(32)**	**478**
Addition of deferred tax through acquisitions of operations	21	-

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

15 Earnings per share

Amounts in MNOK	*2010*	*2009*
Net profit for the year accruing to the shareholders		
Earnings after tax	1 500	828
Non-controlling interests' share of the profit/(loss)	5	8
Net profit/(loss) for the year/diluted profit/(loss) accruing to owners of ordinary shares	**1 495**	**820**

Average weighted number of shares outstanding at 31 Dec. in millions of shares (Note 22 "Share capital”):

Number of shares	*2010*	*2009*
Average weighted number of shares outstanding 1 Jan.	120.00	120.00
Average weighted number of shares at 31 Dec.	120.00	120.00

Amounts in NOK	*2010*	*2009*
Earnings per share for the year	12.46	6.83
Earnings per share for the year, diluted	12.46	6.83

16 Available-for-sale shares

Available-for-sale shares

Amounts in MNOK	*31 Dec 10*	*31 Dec 09*
Listed shares	77	126
Unlisted shares (OTC list)	10	5
Other shareholdings	42	40
Available-for-sale shares	**129**	**171**

Available-for-sale shares are recognised at fair value. Listed shares at 31 Dec. 2010 consisted of shares in Kitron ASA (19 per cent stake). The shares are recognised at market price on the stock exchange. KONGSBERG has a representative on the Board, but it has been concluded that this is not sufficient to demonstrate the significance of the influence.

Shares listed on the OTC list consist of Remora ASA. As a percentage of total market value, listed and unlisted OTC shares accounted for 67 per cent of the available-for-sale shares. Change in the fair value of shares, which is not a write down, is recognised in the statement of comprehensive income. Write downs are recognised in the profit/(loss). The fair value of listed shares decreased by MNOK 44 in 2010.

FAIR VALUE OF SHARES

The shares are valuated at market value on the balance sheet date. The market value is calculated as follows:

1) Last traded price on the stock exchange or last traded price on the OTC list (The Norwegian Securities Dealers Association's Over-The-Counter List)
2) The price of the last share transactions for the sale/purchase or issue of unlisted shares
3) Valuation based on the discounted cash flow
4) Cost of acquisition as an estimate of market value. This refers to investments that are not of significant value

SENSITIVITY ANALYSIS ON INVESTMENTS IN SHARES

A change in the market prices of the listed shares and the OTC-listed shares of 10 per cent would lead to an increase/decrease in the excess value of MNOK 8 which would be recognised directly in the statement of comprehensive income at 31 December 2010 (MNOK 13 based on balance sheet values at 31 Dec. 2009).

17 Other non-current assets

Amounts in MNOK	*31 Dec 10*	*31 Dec 09*
Loans to employees	32	29
Other non-current assets	69	26
Total other non-current assets	**101**	**55**

18 Receivables and credit risk

Amounts in MNOK	*31 Dec 10*	*31 Dec 09*
Gross receivables	1 516	1 637
Provision for bad debts	(165)	(209)
Net accounts receivable	**1 351**	**1 428**
Other receivables	305	186
Prepayments to suppliers	38	34
Total receivables	**1 694**	**1 648**

EXPOSURE TO CREDIT RISK

For information about Kongsberg's currency risk and how it is handled, see Note 5 "Management of capital and financial risk".

The carrying amount for financial assets represents the Group's maximum credit exposure:

Amounts in MNOK	*Note*	*31 Dec 10*	*31 Dec 09*
Gross accounts receivable	18	1 859	1 857
Other non-current assets	17	101	55
Cash and short-term deposits	21	2 660	1 463
Currency futures contracts and interest rate swaps used as hedges:	20 A	805	740
Total exposure to credit risk		**5 425**	**4 115**

Gross receivables broken down by region:

Amounts in MNOK	*31 Dec 10*	*31 Dec 09*
Norway	158	224
Rest of Europe	448	421
America	483	607
Asia	385	311
Other countries	42	74
Total	**1 516**	**1 637**

Gross receivables broken down by type of customer:

Amounts in MNOK	*31 Dec 10*	*31 Dec 09*
Public institutions	547	528
Private companies	969	1 109
Total	**1 516**	**1 637**

IMPAIRMENT

Age distribution, trade receivables and provisions for losses on trade receivables:

	31 Dec 10		*31 Dec 09*	
Amounts in MNOK	*Gross*	*Provisions for losses on trade receivables*	*Gross*	*Provisions for losses on trade receivables*
Not due	633	-	866	-
Due, 1-30 days	433	(2)	332	(1)
Due, 31-90 days	231	(1)	206	(36)
Due, 91-180 days	85	(28)	62	(53)
Due, more than 180 days	134	(134)	171	(119)
Total	**1 516**	**(165)**	**1 637**	**(209)**

Historically speaking, the Group has few losses due to bad debts, and the Group's credit risk is considered low. Unrest in the world economy has nevertheless led to an increase in the risk of bad debts. For more details about the Group's credit risk, please see Note 5 "Management of capital and financial risk".

Unrest in the world economy and the risk that customers are not able to meet their obligations may mean there is a need for further provisions.

Change in the provision for bad debts:

Amounts in MNOK	*2010*	*2009*
Provision 1 Jan.	(209)	(144)
Actual losses	10	22
Provision	(41)	(108)
Dissolved	79	29
Translation differences	(4)	(8)
Provision 31 Dec.	**(165)**	**(209)**

19 Projects in progress

The Group's main business activity is to develop and manufacture products and systems based on signed orders. The Group reports gross balance sheet values related to long-term production contracts. Gross amounts of credit from customers for contract work (projects in progress) are classified as an asset, and gross amounts due to customers for contract work (prepayments from customers) and accrued project expenses are classified as an asset or a liability.

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

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

Amounts in MNOK	*31 Dec 10*	*31 Dec 09*
Projects in progress	539	1 071
Prepayments from customers	(1 849)	(2 116)
Project accruals, assets	397	393
Project accruals, liabilities	(1 204)	(1 299)
Net projects in progress	**(2 117)**	**(1 951)**

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

Summary of important contract data below:

Amounts in MNOK	*2010*	*2009*
Total orders	27 851	29 273
Operating revenues for the year	6 205	6 091
Accumulated operating revenues	17 677	17 842
Accumulated variable expenses	12 979	12 502
Remaining operating revenues	10 173	11 430
Prepayments received	1 849	2 116
Remaining variable expenses on lossmaking projects	125	55

UNCERTAINTY ASSOCIATED WITH ESTIMATES

Income is recognised on the contracts parallel to the estimated progress. Progress is normally calculated as accrued production costs as a percentage of total expected production costs. In certain cases, progress is calculated as a function of accrued hourly costs, or milestones achieved. The contracts' revenues are agreed.

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

In 2003, KONGSBERG concluded a contract with the Hungarian armed forces for the delivery of military radios. Since the Hungarian armed forces now have less need for radios, negotiations were initiated with a view to reducing the volume of the contact. The negotiations failed, so KONGSBERG has filed an arbitration action against the Hungarian Ministry of Defence. Court proceedings were held in 2010 and there is still uncertainty associated with the outcome of the action.

Uncertainty in the shipyard industry, and the risk of cancellations and the customer's incapacity to perform the contracts' provisions, may call for further depreciation. The contracts and judicial precedent ensure that it is possible to claim any expenses incurred in the event customers choose to cancel contracts. The situation is being monitored closely, and measures have been initiated to reduce exposure to cancellations.

20 Financial instruments

A) DERIVATIVES

Amounts in MNOK	*31 Dec 10*	*31 Dec 09*
Current assets		
Excess value forward contracts, cash flow hedges	314	427
Excess value currency options, cash flow hedges	-	2
Excess value forward contracts, project hedges	483	308
Excess value, loan hedges	8	3
Total derivatives, current assets	**805**	**740**
Non-current liabilities		
Interest rate swaps related to sale and lease-back	6	9
Total derivatives, non-current liabilities	**6**	**9**
Current liabilities		
Negative value, forward contracts, cash flow hedges	45	72
Negative value, forward contracts, project hedges	120	125
Interest rate swaps and loan hedges	8	3
Total derivatives, current liabilities	**173**	**200**

B) FOREIGN CURRENCY RISK AND HEDGING OF FOREIGN CURRENCY

For information about KONGSBERG's currency risk and how it is handled, see Note 5 "Management of capital and financial risk".

KONGSBERG's exposure to currency risk related to capitalised accounts receivable and accounts payable in USD and EUR was as follows, based on nominal amounts:

	31 Dec. 10		*31 Dec. 09*	
Amounts in MNOK	*USD*	*EUR*	*USD*	*EUR*
Accounts receivable	168	55	167	77
Accounts payable	(34)	(10)	(18)	(5)
Net balance sheet exposure	**134**	**45**	**149**	**72**
Forward contracts project hedges	**801**	**305**	568	397

The specified forward currency contracts mentioned above are intended to hedge all contractual currency flows. This means that in addition to hedging capitalised trade receivables in foreign currency, the currency forwards will be used to hedge the invoicing remaining on signed contracts. KONGSBERG is also exposed to other currencies, but this is insignificant compared with its exposure in USD and EUR.

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

	Average exchange rates		Spot rates 31 Dec.	
	2010	*2009*	*2010*	*2009*
USD	5.97	6.29	5.86	5.75
EUR	8.05	8.74	7.81	8.29

Currency hedging

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

2010 *Amounts in MNOK*	*The gross value in NOK at 31 Dec. 2010, based on agreed rates*	*Net excess(+)/ negative(-) value in NOK at 31 Dec. 2010*	*Total hedged amount in USD 2010*	*Average hedged exchange rate in USD at 31 Dec. 2010*	*Total hedged amount in EUR at 31 Dec. 2010*	*Average hedged exchange rate in EUR at 31 Dec. 2010*
Hedge category						
Futures agreements, cash flow hedges [1]	3 437	269	318	6.43	162	8.60
Project hedges (fair value hedges) [3]	7 307	363	801	6.08	305	8.60
Loan hedges (fair value hedges) [3]	586	8	76	5.98	-	7.84
Total	**11 330**	**640**	**1 195**		**467**	

2009

Amounts in MNOK	*The gross value in NOK at 31 Dec. 2009, based on agreed rates*	*Net excess(+)/ negative(-) value in NOK at 31 Dec. 2009*	*Total hedged amount in USD 2009*	*Average hedged exchange rate in USD at 31 Dec. 2009*	*Total hedged amount in EUR at 31 Dec. 2009*	*Average hedged exchange rate in EUR at 31 Dec. 2009*
Hedge category						
Futures agreements, cash flow hedges [1]	6 318	355	645	6.32	259	8.63
Currency options, cash flow hedges [2]	271	2	45		-	-
Total hedges of forecasted sale	**6 589**	**357**	**690**		**259**	
Project hedges (fair value hedges) [3]	6 608	183	568	5.96	397	8.70
Loan hedges (fair value hedges) [3]	634	3	83	5.80	1	8.40
Total	**13 831**	**543**	**1 341**		**657**	

1) Excess/negative values associated with effective cash flow hedges (futures agreements and currency options) are recognised in the statement of comprehensive income. The component that is not an effective hedge is recognised over the profit/(loss).
2) The currency options in 2009 were tunnel options ("risk reversal'), whereby KONGSBERG has purchased put options in USD at an average exchange rate of NOK 5.81 = USD 1, and sold call options at an average rate of NOK 6.22 = USD 1. The total value of the options will be positive when the USD exchange rate drops and negative when it rises.
3) The figures in the table linked to values based on agreed exchange rates and net excess/ negative values also include currencies other than USD and EUR. Loan hedges are currency hedges related to foreign currency loans.

In addition to the exchange rate on 31 Dec., the fair value of forward contracts is affected by future interest points. The future interest percentage points within the various time intervals are received from Reuters which, in turn, retrieves data from a variety of market players. Reference is otherwise made to Note 4 "Fair value" and note 20 G) "Financial instruments - Assessment of fair value".

Sensitivity analysis

A strengthening of NOK against the USD and EUR at 31 Dec. 2010 of 10 per cent (20 per cent in 2009) would have added the amount mentioned below to the statement of comprehensive income. The analysis is based on the assumption that the other variables remain constant. As KONGSBERG has a hedging strategy that generally hedges all contractual currency flows and receivables in foreign currency, foreign exchange fluctuations will not fully affect the profitability of contracts signed. No changes in the value of the currency options have been taken into account in the table below.

Estimated equity effect (after tax): [1]

Amounts in MNOK	*31 Dec. 2010*	*31 Dec. 2009*
USD	134	537
EUR	91	310
Total	**225**	**847**

1) Cash flow hedges (hedges of forecasted sale) are considered to be 100 per cent effective, and all effects from a currency fluctuation will therefore be recognised on the statement of comprehensive income. For project hedges, neither the statement of comprehensive income nor the profit/(loss) will be affected as long as the hedges are 100 per cent effective.

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

C) CASH FLOW HEDGES

The periods in which cash flows associated with derivatives that are cash flow hedges (hedges of forecasted sale and interest hedges) are expected to arise:

	31 Dec. 2010					*31 Dec. 2009*				
Amounts in MNOK	*Carrying amount*	*Expected cash flow*	*2011*	*2012*	*2013*	*Carrying amount*	*Expected cash flow*	*2010*	*2011*	*2012*
Forward contracts										
Assets	314	321	262	59	-	427	440	265	175	-
Liabilities	(45)	(46)	(46)	-	-	(72)	(74)	(56)	(18)	-
Currency options										
Assets	-	-	-	-	-	2	2	2	-	-
Total	**269**	**275**	**216**	**59**	**-**	**357**	**368**	**211**	**157**	**-**

The periods in which cash flows related to derivatives that are cash flow hedges (hedges of forecasted sale and interest hedges) are expected to affect the result:

	31 Dec. 2010				*31 Dec. 2009*			
Amounts in MNOK	*Carrying amount*	*Expected cash flow*	*2011*	*2012 and later*	*Carrying amount*	*Expected cash flow*	*2010*	*2011 and later*
Forward contracts								
Assets	314	321	186	135	427	440	232	208
Liabilities	(45)	(46)	(27)	(19)	(72)	(74)	(39)	(35)
Currency options								
Assets	-	-	-	-	2	2	2	-
Total	**269**	**275**	**159**	**116**	**357**	**368**	**195**	**173**

D) INTEREST RATE RISK ON LOANS

Long-term interest-bearing loans and borrowing facilities at 31 Dec.:

	2010					*2009*				
Amounts in MNOK	*Due date*	*Nominal interest rate*	*To maturity*	*Nominal amount*	*Carrying amount*	*Due date*	*Nominal interest rate*	*To maturity*	*Nominal amount*	*Carrying amount*
Bond issue KOG 05	14 Apr.14	6.35 %	3.3	500	500	14 Apr.14	5.9 %	4.3	500	500
Bond issue KOG 04	30 Mar.12	3.10 %	1.2	300	300	30 Mar.12	2.7 %	2.2	300	300
Other loans				47	47				29	29
Total loans				**847**	**847**			**3.5**	**829**	**829**
Credit facility (undrawn borrowing limit)	1 Jul.13			1 000	-	1 Jul.13			1 000	-

At 31 Dec. 2010, the credit facility was a syndicated credit facility worth a total of MNOK 1 000. The agreement was signed with four banks: DnB NOR, Nordea, SEB and Fokus Bank. The agreement was made through Norsk Tillitsmann (Norwegian Trustee) and will run until 2013. The interest rate is the 3-month NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.20 per cent to 0.575 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 are satisfied.

The bond loans were issued in NOK and are listed on the Oslo Stock Exchange. The interest is the 3-month NIBOR + 3.75 per cent for loans with a nominal value of MNOK 500, and the 3-month NIBOR + 0.50 per cent for a bond loan with a nominal value MNOK 300. The loans are capitalised at their amortised cost using the effective interest method.

Other loans comprise minor debts incurred directly by individual subsidiaries.

Interest rate swaps (floating to fixed interest):

Amounts in MNOK	*Due date*	*Interest rate*	*Amount 2010*	*Excess (+)/ negative value (-) 31 Dec. 2010*	*Amount 2009*	*Excess (+)/ negative value (-) 31 Dec. 2009*
Interest rate swaps [1]	02.11.11	6.3 %	150	(6)	150	(9)
Total interest rate swaps			**150**	**(6)**	**150**	**(9)**

1) KONGSBERG has entered into swaps from floating to fixed interest for a nominal amount of MNOK 150. The agreements were signed in conjunction with leases signed in connection with sale and leaseback agreements as mentioned in Note 26 "Sale and leaseback". The change in value on interest rate swaps is recognised over the income statement.

Sensitivity analysis of cash flow for instruments with variable interest rates
A change in the interest rate of 50 basis points (bp) on the date of balance sheet recognition would have increased (reduced) equity and the profit/(loss) by the amounts shown below. The analysis is based on the assumption that the other variables remain constant. The analysis was performed on the same basis as for 2009.

Effect of an interest rate increase of 50 bp:

Amounts in MNOK	*31 Dec.10 Profit/(loss)*	*31 Dec.09 Profit/(loss)*
Investments with floating interest rates	7	4
Loans with variable interest rates	(4)	(4)
Interest swap agreements	3	2
Cash flow sensitivity (net)	6	2

E) LIQUIDITY RISK

The table shows due dates under the terms of contract for financial liabilities, including interest payments. Obligations such as public taxes/duties and income taxes are not financial liabilities and are therefore not included. The same applies to pre-payments from customers and the accrual of projects.

At 31 Dec. 2010

Amounts in MNOK	*Carrying amount*	*Contractual cash flows*	*2011*	*2012*	*2013*	*2014*	*2015 and later*
Financial liabilities that are not derivatives							
Unhedged bond loan	800	(916)	(41)	(334)	(32)	(509)	-
Other loans and non-current liabilities	47	(47)	(32)	(5)	(3)	(2)	(5)
Accounts payable	861	(861)	(861)	-	-	-	-
Financial obligations that are derivatives							
Currency derivatives (gross negative value)	165	(168)	(138)	(20)	(9)	-	-
Interest rate swaps	6	(6)	(6)	-	-	-	-
Total	**1 879**	**(1 998)**	**(1 078)**	**(359)**	**(44)**	**(511)**	**(5)**

At 31 Dec. 2009

Amounts in MNOK	*Carrying amount*	*Contractual cash flows*	*2010*	*2011*	*2012*	*2013*	*2014*
Financial liabilities that are not derivatives							
Unhedged bond loan	800	(945)	(38)	(38)	332	(30)	(508)
Other loans and non-current liabilities	29	(29)	(29)	-	-	-	-
Accounts payable and other current liabilities	665	(665)	(665)	-	-	-	-
Financial obligations that are derivatives							
Currency derivatives (gross negative value)	200	(206)	(123)	(83)	-	-	-
Interest rate swaps	9	(9)	(5)	(4)	-	-	-
Total	**1 703**	**(1 854)**	**(860)**	**(125)**	**332**	**(30)**	**(508)**

F) SUMMARY OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities broken down into different categories for accounting purposes at 31 Dec. 2010.

2010 *Amounts in MNOK*	*Derivatives used for hedging*	*Derivatives that do not qualify for hedging*	*Loans and receivables*	*Available-for-sale*	*Other financial liabilities*	*Total*	*Fair value*
Assets - fixed assets							
Investment in available-for-sale shares	-	-	-	129	-	129	129
Other non-current assets	-	-	101	-	-	101	101
Assets - current assets							
Derivatives	805	-	-	-	-	805	805
Receivables	-	-	1 694	-	-	1 694	1 694
Cash and short-term deposits	-	-	2 660	-	-	2 660	2 660
Financial liabilities - non-current							
Interest-bearing loans	-	-	847	-	-	847	853
Derivatives	-	6	-	-	-	6	6
Other non-current liabilities	-	-	-	-	92	92	92
Financial liabilities - current							
Derivatives	173	-	-	-	-	173	173
Accounts payable	-	-	-	-	861	861	861

▸▸ 2009

Amounts in MNOK	*Derivatives used for hedging*	*Derivatives that do not qualify for hedging*	*Loans and receivables*	*Available-for-sale*	*Other financial liabilities*	*Total*	*Fair value*
Assets – fixed assets							
Investment in available-for-sale shares	-	-	-	171	-	171	171
Other non-current assets	-	-	55	-	-	55	55
Assets – current assets							
Derivatives	740	-	-	-	-	740	740
Receivables	-	-	1 648	-	-	1 648	1 648
Cash and short-term deposits	-	-	1 463	-	-	1 463	1 463
Financial liabilities - non-current							
Interest-bearing loans	-	-	-	-	829	829	860
Derivatives	-	9	-	-	-	9	9
Other non-current liabilities	-	-	-	-	25	25	25
Financial liabilities - short-term							
Derivatives	200	-	-	-	-	200	200
Accounts payable	-	-	-	-	665	665	665

Cash flow hedges - hedge reserve

	2010	*2009*
Opening balance	343	(963)
Changes in excess/(negative) value during the period		
- Forward contracts, currency option contracts and deferred gains [1]	(25)	1 882
- Interest rate swaps	-	3
Taxes on items recognised directly in the statement of comprehensive income	16	(508)
Recognised gains/losses during the period		
- Forward contracts, currency option contracts and deferred gains [1]	(34)	(71)
Closing balance, hedge reserve [2]	**300**	**343**

1) Deferred gains on cash flow hedges added up to MNOK 133 at 31 Dec. 2010 (MNOK 161 at 31 Dec. 2009), attributed to projects. The gains arise when the due dates for hedges of forecasted sale are reached and new due dates are agreed for the projects. Any gains/losses that arise are deferred and realised at a pace commensurate with the progress of the project.

2) The net effect of cash flow hedges before tax, carried to the statement of comprehensive income, added up to MNOK 60 in 2010 (MNOK 1 814 in 2009).

G) ASSESSMENT OF FAIR VALUE

The following table illustrates the Group's assets and liabilities measured at fair value:

	2010			*2009*		
Amounts in MNOK	*Level 1*	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
Assets						
Investments in available-for-sale shares	87	-	42	131	-	40
Derivative financial assets	-	805	-	-	740	-
Total assets at fair value	**87**	**805**	**42**	**131**	**740**	**40**
Liabilities						
Derivative financial liabilities	-	179	-	-	209	-
Total liabilities at fair value	**-**	**179**	**-**	**-**	**209**	**-**

The different levels have been defined as follows:

Level 1: Fair value is measured by using quoted prices from active markets for identical financial instruments. These prices are not adjusted.

Level 2: The fair value of financial instruments that are not traded on an active market is determined using valuation methods. These valuation methods maximise the use of observable data where they are available, and depend as little as possible on the Group's own estimates. Classification at level 2 presupposes that all significant data required to ascertain fair value are observable data.

Level 3: Fair value is measured using significant data that are not based on observable market data.

21 Cash and short-term deposits

Nominal amounts in MNOK	*31 Dec. 10*	*31 Dec. 09*
Short-term investments in the money market	1 800	807
Bank deposits, operating accounts	860	656
Total	**2 660**	**1 463**

Bank deposits contain funds related to withholding tax withdrawn from employees. Bank guarantees amounting to MNOK 188 have been furnished for these funds. The Group's liquidity management is handled by the Group's corporate financial services unit.

22 Share capital

SHARE CAPITAL

At 31 December 2010, the Group's share capital consisted of 120 000 000 shares with a nominal value of NOK 1.25.

SHARE CAPITAL TRENDS

Type of expansion	*Date*	*Number of shares*	*Nominal value*	*Amounts in MNOK*	*Adjustment factor*	*Share capital in MNOK*
Stock Exchange listing	13.12.93	5 850 000	20	117		117
Private placement with employees	1996	6 000 000	20	3		120
Share split	1997	24 000 000	5		1:4	120
Share issue	1999	30 000 000	5	30		150
Share split 2009	2009	120 000 000	1.25		1:4	150

LIST OF THE LARGEST SHAREHOLDERS AT 31 DEC 2010

Shareholders	*Number of shares*	*Percentage*
The Norwegian State repr. by the Ministry of Trade and Industry	60 001 600	50.00 %
The National Insurance Fund	10 874 111	9.06 %
Arendals Fossekompani ASA	9 552 796	7.96 %
MP Pensjon	4 812 800	4.01 %
Skagen Vekst	3 238 100	2.70 %
Orkla ASA	2 700 000	2.25 %
Verdipapirfondet Odin Norge	2 288 453	1.91 %
Verdipapirfondet Odin Norden	2 143 904	1.79 %
JP Morgan Chase Bank - nominee	2 003 742	1.67 %
Odin Offshore	930 000	0.78 %
Total	**98 545 506**	**82.12 %**
Other (stake < 0.78 %)	21 454 494	17.88 %
Total number of shares	**120 000 000**	**100.00 %**

SHAREHOLDERS, BY SIZE OF HOLDING

Number of shares	*Number of owners*	*Number of shares*	*Holding %*
1 - 1 000	4 875	1 679 048	1.40 %
1 001 - 10 000	1 495	3 993 498	3.33 %
10 001 - 100 000	179	5 570 287	4.64 %
100 001 - 1 000 000	42	11 141 661	9.28 %
1 000 001 - 10 000 000	7	26 739 795	22.28 %
Over 10 000 000	2	70 875 711	59.06 %
Total	**6 600**	**120 000 000**	**100.00 %**

Of the 6 600 shareholders at 31 Dec. 2010, 585 foreign shareholders owned a total of 7.50 per cent of the shares.

TREASURY SHARES

KONGSBERG held 16 740 treasury shares at year-end 2010. The shares were purchased in accordance with the authorisation issued by the Annual General Meeting, authorising the buy-back of up to five per cent of the shares outstanding.

	Number
Our holding of treasury shares at 31 Dec. 2009	2 590
Buy-back of treasury shares	392 934
Treasury shares conveyed to employees	378 784
Our holding of treasury shares at 31 Dec. 2010	**16 740**

Sales of treasury shares were recognised at the market value on the date of the sale, while the employee discount was booked as MNOK 8.7 in wages, excluding social security, in 2010, and MNOK 8.8, excluding social security, in 2009.

Dividends	*2010*	*2009*
Dividends paid in MNOK	240	165
Dividends paid in NOK per share	2.00	1.38

The Board has proposed dividends for 2010 of MNOK 450. This is equivalent to NOK 3.75 per share.

23 Provisions

NON-CURRENT PROVISIONS

Amounts in MNOK	*Sale and lease-back*
1 Jan. 2010	128
Provision	34
Effect of discounting	(1)
Dissolved	(29)
Provision used	(15)
31 Dec. 2010	**117**

CURRENT PROVISIONS:

Amounts in MNOK	*Warranty*	*Other*	*Total*
1 Jan. 2010	514	50	564
Provision	329	383	709
Dissolved	(101)	-	(98)
Provision used	(122)	(18)	(140)
31 Dec. 2010	**620**	**415**	**1 035**

Non-current provisions

Kongsberg has, in the period from 1999 to 2007, sold properties in the Kongsberg Technology Park. The properties have been leased back on long-term leases that expire from 2014 to 2025. In connection with sale and lease-back, subleases were signed at rates lower than the total of rental, ownership and refurbishment costs for the buildings that were leased back. This net loss is considered an onerous contract pursuant to IAS 37, and the net current value of future losses has been provided for in the accounts. A provision has also been set aside for the cessation of rent. The remaining provision is subject to annual review. The discounting effect has been recognised as financial expenses.

Provisions for warranties

Provisions for warranties are provisions for warranty costs on completed deliveries. Unused provisions for warranties dissolve upon expiry of the warranty period.

Provisions for warranties are estimated on the basis of a combination of historical figures, specific calculations and best estimates. The increase in provisions for warranties is a natural consequence of the Group's growth. Warranty periods vary from one to two years for Kongsberg Maritime. For Kongsberg Defence Systems and Kongsberg Protech Systems, the warranty periods normally extend from one to five years, but for Kongsberg Defence Systems they can last for up to 30 years under certain circumstances.

Other provisions

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

Provisions refer to situations where there is disagreement between the contracting parties, uncertainty associated with product liability, or products that are early in their life cycles. The increase generally reflects the Group's growth in volume for products in an early stage of their life cycles where there is additional uncertainty associated with product liability. The evaluations are based on a combination of actual figures, technical assessments and best estimates. The estimates are checked on a quarterly basis. There is considerable uncertainty linked to these provisions with a view to amounts and time.

24 Other current liabilities

OTHER CURRENT LIABILITIES

Amounts in MNOK	*31 Dec. 2010*	*31 Dec. 2009*
Accounts payable	861	665
Public duties payable	210	263
Tax payable	598	538
Accrued holiday pay	298	281
Liabilities associated with performance-based salary component	226	172
Other items	718	621
Total	**2 911**	**2 540**

25 Assets pledged as collateral and guarantees

ASSETS PLEDGED AS COLLATERAL

The Group's loan contracts, i.e. the bond loan agreements and the agreement for syndicated overdraft facilities, are based on negative pledges.

PREPAYMENT AND COMPLETION GUARANTEES

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

Amounts in MNOK	*31 Dec. 2010*	*31 Dec. 2009*
Prepayments from and completion guarantees in respect of customers	2 600	2 307

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

26 Sale and lease-back

During the period from 1999 to 2007, KONGSBERG sold properties in Kongsberg Technology Park. The properties have been leased back on long-term leases that expire from 2014 to 2025. The leasebacks are considered operational leasing agreements.

In addition to the rent, KONGSBERG is responsible for certain expenses associated with fees on and maintenance of the properties. The leases have durations ranging from three months to 15 years. With the exception of the properties sold in 2007, the properties are mainly leased to external tenants. Provisions related to this are discussed in Note 23 "Provisions".

Amounts in MNOK	*Year of sale*	*Annual rent 2011*	*Rental 2012 - 2016*	*Rental beyond 2016*	*Remaining term of lease*	*Rental - sub-lease 2011*	*Weighted average sub-leasing period*
Contract 1 - a total of 28 000 m² industrial/ office space	1999	30	96	-	4 years	35	4 years
Contract 2 - a total of 38 000 m² industrial/ office space	2001	33	174	75	8 years	34	2 years
Contract 3 - a total of 6 000 m² industrial/ office space	2002	6	32	4	7 years	6	3 years
Contract 4 - a total of 10 000 m² industrial/ office space	2006	16	86	89	11 years	18	11 years
Contract 5 - a total of 39 000 m² industrial/ office space	2007	54	289	526	14 years	54	14 years
Total		**139**	**677**	**694**		**147**	

For agreements 1, 3 and 4, the Group has pre-emptive rights based on market conditions. The Group has the right to extend all leases for five years at a time. The rent is fixed, but has a 2.5 per cent annual adjustment for agreement 1, and a 2.25 per cent annual adjustment for agreements 2 and 3. Contracts 4 and 5 will be adjusted by 100 per cent of the change in the consumer price index, which is assumed to be 2 per cent annually. The rent for contract 1 is also influenced by the interest level, as 100 per cent is based on floating interest rates since a renegotiation in 2010. The rent is adjusted annually based on the consumer price index.

Contract 5 was signed in connection with the sale of property carried out in 2007. Kongsberg Maritime AS has signed a long-term lease for the entire term of the rental. The lease consists of two buildings and the rent is adjusted annually based on the consumer price index. The Group has the right to extend the term of the lease for five years at a time on the existing terms.

27 Related parties

Declaration on the stipulation of remuneration to executives
The Board moves that the following guidelines be applied for 2011.

The main principles of the company's salary policy for executive management
The principles that apply to salaries for executive management are adopted by the Board. Each year, the Board of Directors assesses the CEO's salary and employment package, as well as the Group's performance-linked plan for executives. The Board's Compensation Committee prepares agenda items for the Board of Directors. The CEO stipulates compensation for the other members of corporate executive management in consultation with the Chair of the Board.

Managerial salaries at Kongsberg Gruppen ASA and Group companies ('Kongsberg') are based on the following main principles:

- Managerial salaries are to be competitive, but not leading; the company aspires to attract and retain skilled leaders.
- Managerial salaries are to be motivational, i.e. they should be structured to motivate managers to strive to achieve constant improvements in operations and the company's results.
- The payroll system should be understandable and acceptable both inside and outside of Kongsberg.
- The payroll system is to be flexible and open to adaptations when needs change.

Compensation to corporate executives shall reflect their responsibility for management, performance and sustainable development at Kongsberg, and take into account the business segment's size and complexity. The schemes shall otherwise be transparent and in line with the principles for good corporate governance.

Other companies in the Group are to observe the main principles of the senior executive salary policy. One of the goals is to coordinate salary policy and the schemes used for variable benefits throughout the Group.

Elements of managerial salaries – fixed salary and variable benefits
The point of departure for wage setting is the aggregate level of a manager's regular salary and variable benefits. Fixed salary consists of a base salary plus regular benefits in kind and post-employment benefit plans. Variable benefits consist of performance-related salary as well as the share programme. Regular surveys are made of relevant markets to ensure that overall compensation packages are competitive, but not leading.

Base salary
The base salary should normally be the main element of a manager's salary. It is normally considered once each year.

Regular benefits in kind
Key management personnel will ordinarily be offered the benefits in kind that are common for comparable positions, e.g. free telephone service, free broadband service, newspapers, company car/car scheme and parking. No particular limitations have been placed on the type of benefits in kind that can be agreed.

Pension plans
Key management personnel shall normally have pension plans that guarantee them pensions that are proportional to their salary level. Generally, this is satisfied by membership in Kongsberg's collective main pension plan for salaries of up to 12G.

The Group's collective main pension plan is a defined contribution plan. The contributions are 0 per cent of salary between 0 and 1G, 5 per cent of salary from 1 to 6G and 8 per cent of salary from 6 to 12G. The assets can be invested in one of three savings portfolio options, consisting of 30, 50 or 80 per cent shares, respectively. The scheme was introduced on 1 January 2008. Employees ages 52 or older at the time of transition remained in a closed defined benefit pension plan.

Managers with a base salary in excess of 12G also earn pensions on the component of their salaries that exceeds 12G through an operations-based contribution scheme. The contribution is 18 per cent of the share of the base salary that exceeds 12G, and the investment options are the same as for the main pension plan. Employees aged 52 or older on 1 January 2008 remained in a closed defined benefit pension plan. There is a ceiling on maximum pensionable income of NOK 2 750 000, which was adjusted for inflation in line with the consumer price index at 1 January 2009 and thereafter annually on 1 January.

Two members of corporate executive management are covered by the old defined benefit plans. The CEO has a separate agreement for retirement at age 67. The combination of the National Insurance Scheme (based on full accrual) and Kongsberg's Obligatory Service Pension will provide a benefit of NOK 1 200 000 per year from age 67 to age 77 and then NOK 1 000 000 per year from age 77 and for life. The amounts are adjusted for inflation on 1 January each year, based on the consumer price index at 15 November 2007.

Early retirement agreements have been and can be signed. However, Kongsberg would like to limit the use of such agreements. As from 1 January 2009, Kongsberg introduced new rules regarding retirement with severance pay (early retirement), in line with the State's Ownership Report. The rules offer a possibility for retirement from age 65, but with a reciprocal right for Kongsberg and the corporate executive to call for retirement with severance pay from age 63. The benefit equals 65 per cent of the annual wage, based on a minimum of 15 years of accrual. If the employee resigns between ages 63 and 65, however, pension earnings will be reduced compared with the defined contribution pension that applies from age 67.

Three members of corporate executive management have older agreements that release them from the obligation to work from age 60. Providing a vested period of at least 10 years, the benefit is 90 per cent of salary from age 60, diminishing by 10 per cent per year to 60 per cent of salary from age 63 to age 67. Similarly, three other executive vice presidents have agreements that allow retirement from age 62. With a vested period of at least 15 years, the benefit will be 65 per cent of salary up to age 67. These older schemes were dismantled in 2006 and 2008, respectively.

The CEO has a contract for retirement with severance pay of NOK 1 400 000 per year from age 65 to age 67. The CEO and Kongsberg can reciprocally call for retirement with severance pay from age 63 or 64, based on compensation of NOK 1 300 000 or NOK 1 350 000 per year, respectively, up to age 65. The amounts are adjusted for inflation on 1 January each year, based on the consumer price index.

Performance-related share of salary
Kongsberg's top executives and most important decision-makers have been given direct financial incentives linked to Kongsberg's development and improvement.

For this purpose, in 2006 the Board adopted a performance-based scheme that covers roughly 90 managers. The scheme is designed so that managers who perform well over time will earn an average performance-based pay of 20-30 per cent of their regular salary. Performance-linked pay is not pensionable income. The pilot scheme will be continued in 2011.

The performance-linked plan is based on three independent components – change in EBITA, operating margin achieved (if more than 10 per cent) and personal, non-financial targets. The performance-based scheme distinguishes between accrued performance-based pay (into an account) and paid performance-based pay (out of an account). The year's accrued performance-based pay, positive or negative, will be credited to an individual's performance salary account, and then 1/3 of any positive balance in the perfomance salary account will be paid out once the accounts have received final approval from the Board.

Changes in the year's EBITA, adjusted for 10 per cent calculated interest on changed capital expenditure (adjusted EBITA) is the most significant driver of the performance-linked plan for executives. The performance-linked pay is weighted for a manager's own sphere of responsibility and higher levels. Estimated performance-linked pay is thereby favourable if the adjusted EBITA shows progress. In the event of a downturn in the adjusted EBITA, estimated performance-linked pay can be negative, reducing the balance in the performance salary account.

Annual accruals to the account cannot exceed a maximum of 75 per cent of the base salary, while annual disbursements from the account cannot exceed 50 per cent of the base salary. The account will not pay out in the event of resignation from the Group prior to retirement. The account has an equalising effect over time, encourages a long-term perspective and ensures that the participants have not only an upside, but also a downside.

The performance-linked plan for executives is assessed each year by the Compensation Committee and the Board of Directors to make sure that it works as intended and the requisite adjustments are made.

Compensation that is linked to shares or to the development of the share price
Key management personnel have an opportunity to participate fully in KONGSBERG's discounted employee share programme on the same terms as for all Group employees. KONGSBERG has no scheme for the allocation of share options or other instruments associated with the company's shares. There are no plans to introduce such schemes.

Severance plans
To satisfy KONGSBERG's need to at all times to ensure that the composition of management accords with the needs of the business segments, agreements have been and can be signed regarding severance plans, e.g. severance pay. Efforts will be made to design severance plans that are acceptable inside and outside the company.

The agreement shall not give entitlement to severance packages that exceed salary and compensation for more than 12 months beyond the period of notice. Such agreements have been signed for the corporate EVPs under the framework of the Working Environment Act. The Chief Executive Officer has an agreement that accommodates KONGSBERG's need to ask the CEO to leave immediately if that were to be in KONGSBERG's best interest. Apart from the reciprocal six-month period of notice, the CEO can receive full pay until accepting a new position, if any, limited to up to 12 months and provided it is KONGSBERG that asks for the CEO's resignation.

STATEMENT FOR FISCAL 2010
The executive compensation policy for fiscal 2010 has been implemented in accordance with the above-mentioned information and the guidelines discussed at KONGSBERG's annual general meeting in 2010.

Following the ordinary wage settlement on 1 July 2010, the CEO's base salary was adjusted up by 3.2 per cent to NOK 3 420 000 per year. In addition, there is performance-linked pay, as described above, which led to the disbursement of NOK 1 024 348 in 2010. In the consolidated accounts for 2010, estimated performance-linked pay totalled MNOK 61 (57 per cent of the wage base for the participants in the scheme), excluding social security. In 2010, MNOK 31 in performance-linked pay (34 per cent of the wage base for the participants in the scheme), excluding social security, was disbursed to executive management. No agreements have been signed or amended for compensation agreements that have important effects on KONGSBERG or the shareholders in the current accounting year.

COMPENSATION AND OTHER BENEFITS, SPECIFIED FOR THE MEMBERS OF CORPORATE EXECUTIVE MANAGEMENT, FOR 2010 OG 2009[1)]

Amounts in NOK 1 000	*Year*	*Salary, including holiday pay*	*Performance-based payment component of salary incl. holiday pay [2)]*	*Other benefits reported during the accounting year [3)]*	*Total benefits paid*	*Pension earnings for the year [4)]*	*Outstanding amount, car loans, in NOK*	*Number of shares*
Corporate management								
Walter Qvam, CEO	2010	3 397	1 024	232	4 653	1 930	-	4 566
	2009	3 326	675	145	4 146	1 894	506 825	4 240
Arne Solberg, CFO	2010	1 729	833	217	2 779	183	488 580	30 842
	2009	1 690	791	235	2 716	265	543 384	30 516
Stig Trondvold, EVP, Business Development	2010	1 747	813	393	2 953	588	501 600	14 142
	2009	1 656	758	444	2 858	784	564 300	13 816
Johnny Løcka, EVP, Corporate Functions, from 1 January 2010	2010	1 239	537	405	2 181	457	629 031	326
	2009				-	-		
Even Aas, EVP, Public Affairs	2010	1 303	633	287	2 223	355	-	10 350
	2009	1 270	597	283	2 150	249	-	10 024
Total salary and compensation to management at the parent company	**2010**	**9 415**	**3 840**	**1 534**	**14 789**	**3 513**	**1 619 211**	**60 226**
Total salary and compensation to management at the parent company	**2009**	**7 942**	**2 821**	**1 107**	**11 870**	**3 192**	**1 614 509**	**58 596**
Torfinn Kildal , President, Kongsberg Maritime, resigned on 30 September 2010	2010	1 776	1 091	207	3 074	311	-	19 282
	2009	2 362	1 049	234	3 645	394	-	33 956
Geir Håøy, President, Kongsberg Maritime, succeeded him on 1 October 2010	2010	425	-	58	483	81	-	-
Harald Ånnestad, President, Kongsberg Defence Systems	2010	1 861	723	675	3 259	816	543 400	2 942
	2009	1 770	504	528	2 802	210	606 100	2 616
Egil Haugsdal, President, Kongsberg Protech Systems	2010	1 898	878	735	3 511	904	611 330	6 958
	2009	1 807	670	617	3 094	289		6 632
Pål Helsing, President, Kongsberg Oil & Gas Technologies, from 1 November 2009	2010	1 870	-	281	2 151	493	-	-
	2009	338	-	20	358	94	-	-
Total salary and compensation to corporate management	**2010**	**17 245**	**6 532**	**3 490**	**27 267**	**6 118**	**2 773 941**	**89 408**
Total salary and compensation to corporate management	**2009**	**14 219**	**5 044**	**2 506**	**21 769**	**4 179**	**2 220 609**	**101 800**

1) Compensation and other benefits to members of corporate executive management are based on their time as part of corporate management.
2) The performance-linked pay component for 2010 accounted for 1/3 of the balance in the performance salary account, which was expensed from 2006 to 2009. The performance-linked share of pay was expensed during the year in which it was calculated and transferred to the performance salary account. The remainder of the estimated performance-linked component of salary will be paid out in subsequent years, but is contingent on continued employment with the company and is influenced by future goal achievement. The year's estimated and performance-linked pay totalled MNOK 13.0 for 2010 (MNOK 7.9 for 2009). Holiday pay paid out on performance-linked wages the previous year.
3) Benefits other than cash refer to expensed discounts on shares in connection with the employee share programme for all employees, telephone/broadband, car schemes, and the compensation for the taxable share of pensions and insurance, as well as other taxable benefits.
4) In 2010, there was a costing made of an ITP (deposit-based occupational pension scheme) scheme for all employees with salaries in excess of 12G. This has led to expensing in 2010 also for the years 2007-2009 of a collective total of MNOK 1.4. This is included in the year's pension earnings for 2010 in the table above for the individuals affected by this costing.

SHARES OWNED BY, AND COMPENSATION TO THE MEMBERS OF THE BOARD OF DIRECTORS

The Board of Directors	*Year*	*Number of shares*		*Fixed compensation to the Board of Directors*	*Compensation for committee meetings*	*Total compensation to the Board of Directors*	*Number Board meetings**
Finn Jebsen, Chair of the Board of Directors	2010	20 000	through the company Fateburet AS	359 333	20 550	379 883	8
	2009	20 000	through the company Fateburet AS	345 333	25 533	370 866	10
Benedicte Berg Schilbred, deputy chair	2010	70 000	through the company Odd Berg AS	195 333	0	195 333	8
	2009	70 000	through the company Odd Berg AS	183 500	0	183 500	10
Erik Must[1], director	2010	524 600	owned personally and through the company Must Invest AS	177 500	17 150	194 650	8
	2009	524 600	owned personally and through the company Must Invest AS	164 833	21 000	185 833	10
John Giverholt, director	2010	3 200		177 500	46 500	224 000	8
	2009	3 200		164 833	34 400	199 233	9
Anne-Lise Aukner, director from 7 May 2009	2010	-		177 500	39 700	217 200	6
	2009	-		112 333	0	112 333	5
Kai Johansen, director	2010	-		177 500	40 050	217 550	7
	2009	-		164 833	0	164 833	10
Roar Marthiniussen, director	2010	4 026		177 500	17 150	194 650	8
	2009	13 400		164 833	21 000	185 833	9
Helge Lintvedt, director from 7 May 2009	2010	-		177 500	0	177 500	8
	2009	-		112 333	0	112 333	6
Siri Beate Hatlen, director up to 7 May 2009	2010	-		0	0	0	0
	2009	-		52 500	22 050	74 550	4
Audun Solås, director up to 7 May 2009	2010	4		0	0	0	0
	2009	4		52 500	30 100	82 600	4
Total compensation to the Board	**2010**			**1 619 666**	**181 100**	**1 800 766**	
Total compensation to the Board	**2009**			**1 517 831**	**154 083**	**1 671 914**	

1) Erik Must is chair of the Board of Arendals Fossekompani ASA, which owns 9 552 796 shares in Kongsberg Gruppen ASA.

*) Eight Board meetings were held in 2010 (10 in 2009)

TRANSACTIONS BETWEEN RELATED PARTIES

The State as the largest owner

The Norwegian State as represented by the Ministry of Trade and Industry is KONGSBERG's largest owner (50.001 per cent of the shares in Kongsberg Gruppen ASA). The State as representative of 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 2010, KONGSBERG had a balance outstanding from State-owned customers of MNOK 47, while other liability items in respect of state suppliers accounted for MNOK 0.8 at 31 December 2010.

KONGSBERG invoiced state customers MNOK 803 in 2010. Goods and services acquired from state suppliers in 2010 accounted for MNOK 55. In 2010, an agreement was signed with the Ministry of Trade and Industry regarding a State guarantee in connection with building the composite plant. The guarantee has been furnished in case the Norwegian authorities decide not to procure fighter craft. The ceiling on the guarantee is for MNOK 737, with a counter-guarantee of MNOK 240 to cover any buy back of property, plant and equipment.

28 Auditor's fees

Amounts in NOK 1 000	2010				2009			
	Parent company	*Subsidiaries in Norway*	*Subsidiaries abroad*	*Total 2010*	*Parent company*	*Subsidiaries in Norway*	*Subsidiaries abroad*	*Sum 2009*
Corporate auditor Ernst & Young								
Statutory	580	4 110	895	5 585	900	5 980	1 415	8 295
Other assurance services	-	721	-	721	-	413	-	413
Tax consultancy	-	109	-	109	-	202	49	251
Services other than auditing	-	30	-	30	-	-	69	69
Total fees, Ernst & Young	**580**	**4 970**	**895**	**6 445**	**900**	**6 595**	**1 533**	**9 028**
Others auditors								
Estimated auditing fees		132	631	763		300	726	1 026

29 Acquisitions of operations

On 19 August 2010, KONGSBERG concluded an agreement to acquire 100 per cent of the shares in Odfjell Consulting AS. The company is part of the business area Kongsberg Oil & Gas Technologies, which reports under "Other activities". Odfjell Consulting AS offers services connected to integrated rig technology and consultancy. The acquisition of the company brings more strategic and operational expertise to KONGSBERG's products and services. Thanks to the acquisition, KONGSBERG will be able to offer customers a complete range of services to optimise upstream activities. Following the acquisition, the company's name was changed to Kongsberg Drilling Management Solutions AS.

The acquisition was concluded on 16 September 2010 for an estimated price of MNOK 150. The cost of the acquisition consists of a cash consideration and estimated additional remuneration triggered by the fulfilment of certain criteria associated with the company's profitability and market trends in 2011 and 2012. The maximum supplement to the estimated acquisition cost, providing all criteria are fulfilled, has a net present value of MNOK 53.

Preliminary purchase price allocation:

Amounts in MNOK	*Recognised values at take-over*	*Adjustments of fair value*	*Carrying amount prior to acquisition*
Technology	44	42	2
Customer relations	32	32	
Other assets	15		15
Borrowing	(32)	(21)	(11)
Net identifiable assets and liabilities	**59**	**53**	**6**
Goodwill upon acquisition	91		
Total remuneration including cash and estimated additional remuneration	**150**		
Estimated additional remuneration	(61)		
Cash acquired	(10)		
Net closing cash flow	**79**		

The calculation of the fair value of the technology rights is based on future earnings related to technology earnings associated with technology. The fair value of customer relations is also estimated on the basis of future earnings. Goodwill is residual, and is mainly related to competency, capacity and synergies. The projected useful life is nine years for both technology and customer relations.

Had the acquisition of the undertakings taken effect as from 1 January 2010, it would not have had a significant impact on the Group's total sales in 2010 or for the consolidated net profit for the year.

30 List of corporate companies

The following companies are consolidated

Company name	*Home country*	*Stake as a percentage 31 Dec. 2010*	*Stake as a percentage 31 Dec. 2009*
KONGSBERG GRUPPEN ASA	Norway	Parent	Parent
Kongsberg Defence & Aerospace AS	Norway	100	100
Kongsberg Spacetec AS	Norway	100	100
Kongsberg Satellite Services AS	Norway	50	50
Kongsberg Oil & Gas Technologies AS	Norway	100	100
Kongsberg Drilling Management Solutions AS	Norway	100	
Havtroll AS	Norway	Merged	100
Havtroll Teknikk AS	Norway	Merged	100
Kongsberg Teknologipark AS	Norway	100	100
Kongsberg Næringseiendom AS	Norway	100	100
Kongsberg Næringsparkutvikling AS	Norway	100	100
Kongsberg Næringsbygg 2 AS	Norway	100	100
Kongsberg Næringsbygg 3 AS	Norway	100	100
Kongsberg Næringsbygg 5 AS	Norway	100	100
Kongsberg Næringsbygg 6 AS	Norway	100	100
Kongsberg Næringsbygg 7 AS	Norway	100	100
Kongsberg Seatex AS	Norway	100	100
Vehicle Tracking and Information Systems AS	Norway	100	100
Nerion AS	Norway	100	100
Kongsberg Maritime AS	Norway	100	100
Lodic AS	Norway	55	55
Kongsberg Norcontrol IT AS	Norway	100	100
SeaFlex AS	Norway	Merged	100
Kongsberg SIM AS	Norway	Merged	100
Kongsberg Maritime Engineering AS	Norway	100	100
Portside AS	Norway	100	
Kongsberg Maritime Srl.	Italy	100	100
Simrad Srl.	Italy	100	100
Kongsberg Maritime Holland BV	Netherlands	100	100
Kongsberg Shipmedics Sp.zo.o.	Poland	100	51
Kongsberg Defence Sp.zo.o.	Poland	100	100
Simrad Spain SL	Spain	100	100
Kongsberg Maritime Sweden AB	Sweden	100	100
Kongsberg Defence Oy	Finland	100	100
Kongsberg Maritime GmbH	Germany	100	100
Kongsberg Intellifield GmbH	Austria	Wound up	100
Kongsberg Reinsurance Ltd.	Ireland	100	100
Kongsberg Norcontrol IT Ltd.	Great Britain	100	100
Seatex Ltd.	Great Britain	100	100
Kongsberg Maritime Holding Ltd.	Great Britain	100	100
Kongsberg Maritime Ltd.	Great Britain	100	100
Simrad Leasing Ltd.	Great Britain	100	100
Kongsberg Process Simulation Ltd.	Great Britain	100	100
Kongsberg Intellifield Ltd.	Great Britain	100	100
GeoAcoustics Ltd.	Great Britain	100	100
Kongsberg Hungaria Engineering Service Development and Trading Llc	Hungary	100	100
KM Tech Llc	Russia	100	-
Gallium Visual Systems Inc.	Canada	100	100
Kongsberg Maritime Simulation Ltd.	Canada	100	100
Kongsberg Maritime Canada Ltd.	Canada	100	100
Kongsberg Mesotech Ltd.	Canada	100	100
Kongsberg Defence Corporation	Canada	100	-
Gallium Visual System Corp	USA	100	100
Kongsberg Maritime Simulation Inc.	USA	100	100
Simrad North America Inc.	USA	100	100
Kongsberg Maritime Inc.	USA	100	100
Kongsberg Underwater Technology Inc.	USA	100	100
Kongsberg Defense Corporation Inc.	USA	100	100
Kongsberg Oil & Gas Technologies Inc.	USA	100	100
GeoAcoustics Inc.	USA	100	100
Seaflex Riser Technology Inc.	USA	100	100
GlobalSim Inc.	USA	100	100
Hydroid Inc.	USA	100	100
Kongsberg Maritime do Brasil S.A.	Brasil	80	80
Kongsberg Martime Training do Brasil S.A.	Brasil	100	-
Kongsberg Asia Pacific Ltd.	China	100	100
Kongsberg Maritime Hoi Tung Holding Ltd.	China	90	90
- Kongsberg Maritime China (Shanghai) Ltd.	China	100	100
- Kongsberg Maritime China (Zhenhjiang) Ltd.	China	56.2	56.2
- Kongsberg Maritime China (Jiangsu) Ltd.	China	100	100
Kongsberg Maritime Ship Systems	South Korea	100	100
Kongsberg Maritime Korea Ltd.	South Korea	96.9	96.9
Kongsberg Norcontrol IT Pte.	Singapore	100	100
Kongsberg Maritime Pte. Ltd.	Singapore	100	100
GeoAcoustics Asia Pacific Pte. Ltd.	Singapore	100	100
Kongsberg Process Simulation Pvt. Ltd.	India	100	100
GeoAcoustics India	India	100	100
Kongsberg Maritime India Pvt. Ltd.	India	70	70
SRD Engineering Pvt.	India	100	100
Kongsberg Oil & Gas Technologies Pvt. Ltd.	India	100	-
Kongsberg Defence Ltd.	Saudi Arabia	100	-
Kongsberg Maritime Middle East DMCCO	Dubai	70	-
Kongsberg Norcontrol IT Pty. Ltd.	South Afrika	100	100
Kongsberg Protech Systems Australia Pty Ltd.	Australia	100	-

Income statement and balance sheet

Kongsberg Gruppen ASA

INCOME STATEMENT 1 JAN. - 31 DEC.

Amounts in MNOK	*Note*	*2010*	*2009*
Operating revenues		177	208
Personnel expenses	4, 5	(96)	(93)
Depreciation		(2)	(2)
Other operating expenses	4	(125)	(83)
EBIT		**(46)**	**30**
Interest from Group companies		57	83
Profit/Loss on sale of shares		-	80
Write-down on shares/receivables		-	(80)
Currency trading gains/(loss)		4	4
Interest to Group companies		(26)	(29)
Other interest expenses		(26)	(54)
Other financial expenses		(2)	(3)
Group contribution received		700	400
Net financial items		**707**	**401**
Earnings before tax (EBT)		**661**	**431**
Taxes	6	(187)	(117)
Profit for the year		**474**	**314**
Distributable reserves and equity transfers:			
Proposed dividends		(450)	(240)

BALANCE SHEET AT 31 DEC.

Amounts in MNOK	*Note*	*2010*	*2009*
ASSETS			
Fixed assets			
Deferred tax asset	6	55	47
Tangible fixed assets		7	5
Shares in subsidiaries	3	2 215	2 215
Other shareholdings		79	75
Long-term receivables in subsidiaries		1 516	1 375
Other long-term receivables		45	8
Total fixed assets		**3 917**	**3 725**
Current assets			
Receivables on subsidiaries		806	596
Cash and short-term deposits		1 800	800
Total current assets		**2 606**	**1 396**
Total assets		**6 523**	**5 121**
EQUITY AND LIABILITIES			
Equity			
Share capital		150	150
Total paid-in capital		**150**	**150**
Other equity		1 103	1 084
Total retained earnings		**1 103**	**1 084**
Total equity	2	**1 253**	**1 234**
Non-current liabilities			
Pension liabilities	5	163	145
Long-term interest-bearing loans	7	800	800
Non-current debt to subsidiaries		1 891	987
Other non-current liabilities		29	22
Total non-current liabilities		**2 883**	**1 954**
Current liabilities			
Provision for dividends		450	240
Other current liabilities		273	220
Overdraft facilities		1 664	1 473
Total current liabilities		**2 387**	**1 933**
Total equity and liabilities		**6 523**	**5 121**

Cash flow statement

Kongsberg Gruppen ASA

Amounts in MNOK	2010	2009
Earnings before tax (EBT)	661	431
Dividends and gain on sale of shares	-	(80)
Depreciation	2	2
Impairment/loss, financial assets	-	80
Taxes paid	(105)	(3)
Change in accrual items, etc.	(45)	(106)
Net cash flow from operating activities	**513**	**324**
Net cash flow from investing activities		
Acquisition of tangible fixed assets	(4)	(1)
Receipts from sale of shares	-	210
Disbursements for the acquisition of shares	(4)	(196)
Net cash flows from investing activities	**(8)**	**13**
Net cash flow from financing activities		
Increase in loans	-	500
Repayment of loans	-	(1 400)
Payment of dividends	(240)	(165)
Net receipt/payment for the purchase/sale of treasury shares	(9)	11
Change, intra-Group accounts	553	310
Change, overdraft facilities	191	1 207
Net cash flows from financing activities	**495**	**463**
Net increase (decrease) in cash and short-term deposits	**1 000**	**800**
Cash and short-term deposits, beginning of year	**800**	**-**
Cash and short-term deposits, end of year	**1 800**	**800**

Notes
Kongsberg Gruppen ASA

1 Accounting policies

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

SUBSIDIARIES AND ASSOCIATES
Subsidiaries and associates have been assessed using the cost method of accounting in the consolidated accounts. The investments are valued at acquisition cost, unless impairment has been necessary. Such assets are written down to fair value when the decrease in value is for reasons which cannot be considered to be of a temporary nature and which must be deemed necessary based on generally accepted accounting principles. Write-downs are reversed when the reason for the write down no longer applies. Dividends and other disbursements are recognised as income in the same year as provisions are set aside by the subsidiary.

CLASSIFICATION AND VALUATION OF BALANCE SHEET ITEMS
Current assets and current liabilities include items that fall due for payment within one year after the date of acquisition, as well as items associated with commodity flows. Other items are classified as fixed assets/non-current liabilities. Current assets are valued at cost or fair value, whichever is lower. Current liabilities are recorded at their nominal values on the date of acquisition. Fixed assets are valued at acquisition cost less depreciation, but are written down to fair value when the decrease in value is not expected to be of a temporary nature. Non-current liabilities are recognised at their nominal values on the date on which they are incurred.

RECEIVABLES
Trade receivables and other receivables are recognised on the balance sheet at nominal amounts less deductions for anticipated losses. Provisions for losses are made on the basis of assessments of each individual receivable. In addition, a provision is made to cover unspecified potential losses on other receivables.

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

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

PENSIONS
The defined contribution plan
The Group introduced a defined contribution pension plan in 2007 for all employees under age 52 on 1 January 2008. Employees aged 52 or more at the time of the transition remained with the defined benefit plan. Premiums are expensed as they accrue.

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

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

CASH FLOW STATEMENT
The statement of cash flows has been drawn up using the indirect method. Cash and short-term deposits comprise cash reserves, bank deposits and other short-term liquid investments.

2 Reconciliation of equity

Amounts in MNOK	*Share capital*	*Share premium reserve*	*Other equity*	*Total equity*
Equity at 31 Dec. 2008	**150**	**832**	**171**	**1 153**
Net profit/(loss) for the year	-	-	314	314
Share premium reserve	-	(832)	832	-
Treasury shares	-	-	11	11
Dividends for 2009	-	-	(240)	(240)
Unrecognised actuarial gains/losses on pension expenses	-	-	(4)	(4)
Equity at 31 Dec. 2009	**150**	**-**	**1 084**	**1 234**
Net profit/(loss) for the year	-	-	474	474
Dividends for 2010	-	-	(450)	(450)
Unrecognised actuarial gains/losses on pension expenses	-	-	(5)	(5)
Equity at 31 Dec. 2010	**150**	**-**	**1 103**	**1 253**

Other information about the company's share capital is provided in Note 22 "Equity" to the consolidated accounts.

3 Shares in subsidiaries

Amounts in MNOK	*Date of acquisition*	*Registered office*	*Ownership/ share of votes %*	*Carrying amount at 31 Dec.*
Kongsberg Defence & Aerospace AS	1997	Kongsberg	100	506
Kongsberg Teknologipark AS	1987	Kongsberg	100	5
Kongsberg Holding AS	1987	Kongsberg	100	-
Kongsberg Basetec AS	1992	Kongsberg	100	106
Kongsberg Maritime AS [1)]	1992	Kongsberg	89	1 101
Kongsberg Forsvar AS	1995	Kongsberg	100	-
Norsk Forsvarsteknologi AS	1987	Kongsberg	100	-
Kongsberg Næringseiendom AS	1997	Kongsberg	100	198
Kongsberg Næringsparkutvikling AS	2005	Kongsberg	100	48
Kongsberg Næringsbygg 2 AS	2006	Kongsberg	100	25
Kongsberg Næringsbygg 3 AS	2006	Kongsberg	100	24
Kongsberg Næringsbygg 5 AS	2007	Kongsberg	100	68
Kongsberg Næringsbygg 6 AS	2007	Kongsberg	100	130
Kongsberg Næringsbygg 7 AS	2007	Kongsberg	100	-
Nerion AS	2002	Trondheim	100	-
Kongsberg Hungaria KFT [2)]	2003	Budapest	10	-
Kongsberg Reinsurance Ltd.	2001	Dublin	100	4
Total				**2 215**

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

2) The remaining shares in Kongsberg Hungaria KFT are owned by Kongsberg Defence & Aerospace AS with 90 per cent.

4 Personnel expenses and remuneration

As regards salary and compensation to corporate management and the directors, reference is made to Note 27 "Related parties" to the consolidated accounts.

AUDITOR'S FEES

Amounts in NOK 1 000	*2010*	*2009*
Corporate auditor Ernst & Young:		
Mandatory audit	580	900
Total fees, Ernst & Young	**580**	**900**

PAYROLL EXPENSES

Amounts in MNOK	*2010*	*2009*
Salaries	56	51
Social security tax	12	11
Pension	12	13
Other benefits	16	18
Total personnel expenses	**96**	**93**

5 Pensions

KONGSBERG has a service pension plan that consists of a defined contribution plan and a defined benefit plan. The service pension plan covers all Group employees in Norway.

THE DEFINED CONTRIBUTION PLAN

The Group introduced a defined contribution pension plan in 2007 for all employees under age 52 on 1 January 2008. The contribution rate is 0 per cent of the base salary up to 1G, 5 per cent of the base salary between 1 and 6G, and 8 per cent of the base salary from 6G and up to 12G. The employees can influence the way the assets are managed by choosing to invest 30, 50 or 80 per cent, respectively, of their portfolios in shares. The Group also has a collective, operations-based defined contribution scheme for salaries between 12 and 15G. The enterprise's contribution to this scheme is 18 per cent of the component of the base salary that exceeds, with a ceiling of 15G. Special terms and conditions apply for executives. This is described note 27 "Related parties". The employees have same investment options in the supplementary scheme as in the primary scheme. The premiums are expensed as they accrue.

THE DEFINED BENEFIT PLAN

In connection with the transition to the defined contribution plan in 2007, employees aged 52 or more at the time of the transition remained in the defined benefit plan. The defined benefit plan is insured through Vital - DnB NOR. Parts of pensions are covered by payments from the National Insurance Scheme. Such payments are calculated using the National Insurance Scheme's basic amount (G), stipulated annually by Stortinget (Norwegian parliament). The pension benefits from the defined benefit plan are determined by the number of years of accrual and the salary level of the individual employee. Pension costs are distributed over the employee's accrual period. Based on the current National Insurance System (at 31 Dec. 2010) and full accrual, the scheme gives entitlement to about 65 per cent of the final salary, including National Insurance benefits, until the age of 77, when the service pension level is reduced by 50 per cent. The Group also has a collective, operations-based defined benefit scheme for salaries between 12G and 15G. Special terms and conditions apply for executives. This is described note 27 "Related parties". The collective operations-based defined contribution plan is comparable to 65 per cent of the share of the base salary that exceeds 12G until age 77, and thereafter the benefits are reduced to 50 per cent of the share of the base salary that exceeds 12G. This supplementary scheme was discontinued in connection with the transition to defined contribution pension plans in 2007.

In 2008, the Board of Directors adopted new rules for retirement with severance pay, and they are in accordance with the State's Ownership Report. The new rules imply retirement with severance pay no later than at age 65, but with reciprocal rights for the company and the executive to call for retirement with severance pay from age 63. The benefit equals 65 per cent of the annual wage, based on a minimum of 15 years of accrual. If the employee resigns between ages 63 and 65, however, this will reduce pension earnings for those with a defined contribution pension plan that applies from age 67.

Pension expenses for the year are estimated 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 scheme is based on the following assumptions:

	31 Dec. 2010	*31 Dec.2009*
Discount rate	3.75 %	4.0 %
Expected rate of return	5.00 %	6.0 %
Salary adjustment	3.25 %	3.5 %
Pension base level adjustment	3.75 %	3.5 %
Pension adjustment	0.75 %	1.0 %
Voluntary attrition	4.50 %	4.5 %

The year's pension expenses were calculated as follows:

Amounts in MNOK	*2010*	*2009*
Current value of accruals for the year	4	5
Interest cost on accrued pension liabilities	4	5
Estimated return on pension plan assets	(1)	(1)
Accrued social security taxes	1	1
Total net pension expenses	**8**	**10**
Cost of defined contribution pension plans in	**4**	**3**

Change in net pension liabilities recognised on the balance sheet

Amounts in MNOK	*2010*	*2009*
Total gross pension liabilities	(175)	(153)
Gross pension plan assets	32	24
Net pension liabilities	**(143)**	**(129)**
Unrecognised plan changes	-	1
Social security	(20)	(17)
Net pension liabilities / assets recognised on the balance sheet	**(163)**	**(145)**

6 Tax

TAXES

Amounts in MNOK	*2010*	*2009*
Tax payable	193	105
Deferred taxes	(6)	12
Taxes	**187**	**117**

Amounts in MNOK	*2010*	*2009*
Earnings before tax (EBT)	**661**	**431**
Estimated tax based on a tax rate of 28 per cent of earnings before tax	185	121
Gain on disposal of operations	-	(36)
Write-down on shares	-	31
Other permanent differences	2	1
Taxes	**187**	**117**

DEFERRED TAX AND DEFERRED TAX ASSET

Amounts in MNOK	*2010*	*2009*
Pension	46	41
Other	9	6
Recognised deferred tax asset	**55**	**47**

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

Amounts in MNOK	*31 Dec. 2010*	*31 Dec. 2009*
Pension expenses	(2)	(2)
Total	**(2)**	**(2)**

7 Long-term interest-bearing loans and borrowing facilities

At 31 Dec. 2010, the Group had the following loans and credit facilities:

Amounts in MNOK	*Due date*	*Nom. interest rate 2010*	*Remaining term to maturity 2010*	*Nom. amount*	*Carrying amount*
Bond issue KOG 05	14 Apr. 14	6.35 %	3.3	500	500
Bond issue KOG 04	30 Mar.12	3.10 %	1.2	300	300
Total loans				800	800
Credit facility (undrawn borrowing limit)	1 Jul. 13			1 000	0

At 31 Dec. 2010, the credit facility was a syndicated credit facility worth a total of MNOK 1 000. The agreement was signed with four banks: DnB NOR, Nordea, SEB and Fokus Bank. The agreement was made through Norsk Tillitsmann (Norwegian Trustee) and will run until 2013.

The interest rate is the 3-month NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.20 per cent to 0.575 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 are satisfied.

The bond loans were issued in NOK and are listed on the Oslo Stock Exchange. The interest is the 3-month NIBOR + 3.75 per cent for loans with a nominal value of MNOK 500, and the 3-month NIBOR + 0.50 per cent for a bond loan with a nominal value MNOK 300. The loans are capitalised at their amortised cost using the effective interest method.

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

8 Guarantees

Kongsberg Gruppen ASA sold properties in Kongsberg Technology Park during the period from 1999 to 2007. The properties have been leased back on long-term leases that expire from 2014 to 2025. The leasebacks are considered operational leasing agreements.

In addition to the rent, Kongsberg Gruppen ASA is responsible for certain expenses associated with fees on and maintenance of the properties. The leases have durations ranging from three months to 15 years. With the exception of the properties sold in 2007, they are mainly leased to external tenants. Provisions related to this are discussed in Note 23 "Provisions" to the consolidated accounts.

The total rental amount for which the parent company has guaranteed in connection with the sale and leaseback agreements, totals NOK 1 510.

PREPAYMENT AND COMPLETION GUARANTEES

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

Amounts in MNOK	*2010*	*2009*
Prepayments from and completion guarantees to customers	2 600	2 307

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

Revisjonsberetning for 2010

ERNST & YOUNG

Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6, NO-0191 Oslo
Oslo Atrium, P.O Box 20, NO-0051 Oslo

Foretaksregisteret: NO 976 389 387 MVA
Tlf.: +47 24 00 24 00
Fax: +47 24 00 24 01
www.ey.no
Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of
Kongsberg Gruppen ASA

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of Kongsberg Gruppen ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2010, the statements of income and cash flows for the year then ended as well as a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2010, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Chief Executive Officer's responsibility for the financial statements

The Board of Directors and Chief Executive Officer are 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 the International Financial Reporting Standards as adopted by the EU for the Group, and for such internal control as the Board of Directors and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

A member firm of Ernst & Young Global Limited

Ernst & Young

2

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements for the Parent Company and the Group.

Opinion on the financial statements of the Parent Company

In our opinion, the financial statements of Kongsberg Gruppen ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as of 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the financial statements of the Group

In our opinion, the financial statements of the Group have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Group as of 31 December 2010 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards on Accounting as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report 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 the Board of Directors and Chief Executive Officer have fulfilled their duty to properly record and document the Company's accounting information as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 4 April 2011
Ernst & Young AS

Anders Gøbel
State Authorised Public Accountant (Norway)

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

Corporate Governance

Responsible interaction between owners, the Board of Directors and management

Kongsberg's paramount objective is to protect and enhance stakeholder value by engaging in profitable, growth-oriented industrial development in a long-term, international perspective. Good corporate governance should maximise added value and reduce business risk, at the same time as the company's resources are used in an efficient, sustainable manner. The Group will achieve its goals by further developing first-class hubs of expertise and supplying leading systems, products and services to its international market segments, as well as by operating in an ethically, environmentally and socially responsible manner. Kongsberg is listed on the Oslo Stock Exchange and is subject to Norwegian securities legislation and stock exchange regulations.

How we understand the concept

The Group's value platform and corporate Code of Ethics are fundamental for Kongsberg's corporate governance. 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 from a long-term, productive and sustainable perspective. It calls for effective cooperation, a defined division of responsibilities and roles between shareholders, the Board and management, respect for the Group's other stakeholders, and open and honest communication with the communities in which the Group operates.

Treatment of the topic in 2010

The topic of corporate governance is subject to annual reviews and discussions by the corporate Board of Directors. Among other things, the Group's governance documents are reviewed and revised annually and the text for this chapter of the annual report is reviewed by the Board of Directors in detail.

Kongsberg's Policy

Kongsberg observes the 'Norwegian Code of Practice for Corporate Governance' dated 7 December 2004, and most recently revised on 21 October 2010. KONGSBERG's compliance with and deviations, if any, from the Code of Practice will be commented on and made available to stakeholders.

The above decision has been adopted by the corporate Board of Directors. The Norwegian state, which owns 50.001% of the Group, also assumes that all companies in which the State has stake will comply with the Code of Practice. Since the Norwegian State owns a stake of 50.001 per cent, the Group also complies with White Paper No. 13 (2006/2007), referred to as the 'Ownership Report' and comprising the State's 10 Principles for Good Corporate Governance and the OECD's Guidelines regarding State Ownership and Corporate Governance. These guidelines are posted on the Group's website at www.kongsberg.com.

The following elements underpin 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 of Directors will be autonomous and independent of the Group's management.
- Kongsberg will attach importance to avoiding conflicts of interest between the owners, the Board and management.
- Kongsberg swill have a clear division of responsibilities between the Board and management.
- All shareholders are to be treated equally.

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

Kongsberg's model for corporate goverance

Owners		Board of Directors		Management	
	Shareholders		Board of Directors		Chief Executive Officer
	Annual General Meeting		Compensation Committee		Corporate management
	Nominating commitee		Audit Committee		

The Annual General Meeting (AGM) 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.

Ultimate responsibility for strategy and the management of the company. Provide advice and monitor management.

Strategy and operative management.

Articles of Association for Kongsberg Gruppen ASA

Most recently revised by the Annual General Meeting on 11 May 2010

§ 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 mown 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 from five to eight members (Directors). Up to five Directors and up to two Deputy Directors shall be elected by the Annual General Meeting. According to regulations laid down pursuant to the provisions of the Norwegian Companies Act regarding employee representation on the Board of Directors in 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 matter 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 of Directors.
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 Meeting shall be chaired by the Chair of the Board or, in his/her absence, by the Deputy Chair. In the absence of both, the General Meeting shall elect a moderator.

§ 9 The Nominating Committee shall consist of three members who shall be shareholders or representatives of shareholders. The members of the Nominating Committee, including the chair, shall be elected by the Annual General Meeting. The Nominating Committee shall submit its roster of candidates to the General Meeting to elect the members of the Nominating Committee. The term of office is two years. Based on a recommendation from the Board of Directors, the General Meeting shall stipulate the compensation to be paid to the Nominating Committee's members.

The Nominating Committee shall present to the Annual General Meeting its recommendations for the election of and remuneration to the Directors and Deputy Directors on the Board. The Chair of the Board shall, without being enfranchised to vote, be called in to at least one meeting of the Nominating Committee before the Nominating Committee presents its final recommendation.

The Norwegian Code of Practice

The following is a detailed discussion of each individual section of the Norwegian Code of Practice. The review takes its point of departure in the latest revision of the Code, dated 21 October 2010. For the annotated version of the Code, see the Oslo Stock Exchange's website at www.oslobors.no/ob/cg or NUES (the Norwegian Corporate Governance Committee): www.nues.no.

Departures from the code of pratice
According to the Group's own evaluation, we deviate from the code of practice on just two points: Point 6: There are two departures on this point. The entire Board has not usually attended the General Meeting. Thus far, the items on the agenda for the General Meeting have not required this. The chair of the Board is always present to respond to any questions. The other departure refers to §8 of the Articles of Association, which specifies that General Meetings are to be chaired by the Chair of the Board. This is a departure from the recommendation for independent chairing of meetings. Point 10: The point has been expanded so that internal control is also to comprise the company's work with corporate social responsibility. Our internal control includes, among other things, our anti-corruption work. However, there is still work to be done in relation to internal control and the other areas defined as parts of corporate social responsibility. Efforts have been initiated to improve these shortcomings.

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

1. Principles of corporate governance
The Group has drawn up a separate policy for corporate governance, and the Board has decided that the Group will comply with the Norwegian Code of Practice for Corporate Governance.

As of the early 2011, the Group had developed and started to use a revised set of values. A discussion and clarification of the Group's values and value platform can be found on the Group's website at www.kongsberg.com and in the Group's 2010 Report on Corporate Social Responsibility.

The Group's Code of Ethics was revised in autumn 2010. For a more detailed description, see the 2010 Report on Corporate Social Responsibility.

The Board has adopted a special Policy for Corporate Social Responsibility. This is reproduced on the Group's website and in the 2010 Report on Corporate Social Responsibility. The report discusses the areas of corporate social responsibility on which the Group focused in 2010, as well as the goals set for 2011. In 2011, we will draw up a separate strategy for corporate social responsibility linked to the Group's policy in this area.

2. Operations
Kongsberg Gruppen ASA is a company whose object is to engage in technological and industrial activities in the maritime, defence and related sectors. The company may participate in and own other companies. These sentences appear in §3 of Kongsberg's Articles of Association.

3. Share capital and dividens
Equity
At 31 December 2010, consolidated equity came to MNOK 4 881 (3 726), which was equivalent to 34.9 (30) per cent of total assets. The Board of Directors considers this satisfactory. The company's need for financial strength is considered at any given time in the light of its objectives, strategy and risk profile.

> THE NUES PRIZE. Each year, the Norwegian Corporate Governance Committee (NUES) awards a prize for the best report on corporate governance in an Annual Report. For 2009, NUES changed the criteria so that they recognise companies with good reporting on selected topics. KONGSBERG was recognised under several of the chosen topics. Kongsberg won the prize in both 2007 and 2004, which was the first time the prize was awarded.

Dividend policy
The Group will strive to achieve an annual dividend over time of approx. 30 per cent of the Group's annual profit from ordinary operations, after tax. The General Meeting stipulates the annual dividend, based on the Board's recommendation. The proposal is the ceiling for what the AGM can adopt.

A dividend of NOK 2.00 per share was paid for 2009, and the Board proposes to the AGM that a dividend of NOK 3.75 per share be paid for 2010.

Capital increase
The Board is not authorised to undertake share issues.

Purchase of treasury shares
The General Meeting can authorise the Board to buy back up to 10 per cent of its own shares. At the AGM on 11 May 2010, the Board was given authorisation to buy treasury shares for the maximum nominal

value of NOK 7 500 000. That is equivalent to 5 per cent of the share capital. The authorisation can be used several times and applies up until the next General Meeting, but not later than until 30 June 2011. The Board's acquisition of shares pursuant to this authorisation can be exercised only between a minimum price of NOK 25 per share and a maximum price of NOK 200 per share. At 31 December 2010, the Group owned a total of 16 740 (2 590) treasury shares.

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

4. Equal treatment of shareholders and transactions between realted parties

Class of shares

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

Trading in treasury shares

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

Transactions with close associates

In 2010, the Board determined that there were no transactions between the Company and shareholders, directors, executive personnel or parties closely related to such individuals that could be described as material transactions. Otherwise, see Note 27.

Guidelines for directors and executives

The corporate Code of Ethics discusses the topic under "Conflicts of interest". Similarly, this applies to Point 8 of the Board's instructions – independence and disqualification.

The State as customer and shareholder

The Norwegian state has a stake of 50.001 per cent of Kongsberg at the same time as it is a major account, especially with a view to deliveries to the Norwegian Armed Forces. Relations with the Armed Forces are purely of a commercial nature and are not affected by the ownership structure.

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

The requirement regarding equal treatment of the shareholders limits the opportunity for exchanging data between the company and the ministry. As a shareholder, the State 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 the State's participation is imperative and the Government must obtain an authorisation from the Storting, from time to time, it will be necessary to give the ministry insider information. In such case, the State 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, see Point 3. The Articles of Association place no restrictions on negotiability.

6. General meeting

By virtue of the General Meeting, shareholders are guaranteed participation in the Group's supreme governing body. The Articles of Association are adopted by this body. Shareholders representing at least 5 per cent of the shares can call for extraordinary General Meetings.

Notification

The Annual General Meeting (AGM) is ordinarily held by 1 June each year. The AGM is scheduled for 9 May in 2011. Notification is usually sent out three weeks in advance. This is one week earlier than the statutory minimum requirement (two weeks). 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 least 21 days prior to the date of the General Meeting. It is important that the documents contain all the information required for the shareholders to take a position on all items up for discussion. The company's Articles of Association stipulate that the final date for registration may 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 receive the notice and are entitled to submit motions and vote directly or by proxy. The Financial Calendar is published on the Group's website.

Participation

It is possible to register by post, telefax or the Internet. The Board of Directors would like to make it possible for as many shareholders as possible to participate. Shareholders who cannot attend the meeting are urged to authorise a proxy, and the system facilitates the use of proxies on each individual item on the agenda.

A person is appointed to vote as the shareholders' representative. 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 2010, the General Meeting was held on 11 May, and 78.2 per cent (68.1) of the aggregate share capital was represented. A total of 72 (46) shareholders were present or represented by proxies.

Agenda and execution

The agenda is set by the Board, and the main items are specified in §8 of the Articles of Association. The same section stipulates that the Chair of the Board will chair the General Meeting. The CEO reviews the status of the Group. The minutes of the AGM will be made available on the Group's website at www.kongsberg.com

7. Nominating Commitee

The Nominating Committee's duty is to nominate candidates to the General Meeting for the shareholder-elected directors' seats. The Chair of the Board of Directors is nominated separately.

The Nominating Committee consists of three 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 to the General Meeting a list of nominees for the Committee. The term of office is two years. The Nominating Committee's remuneration is stipulated by the General Meeting based on the Board's recommendation. The above-mentioned elements appear in §9 of KONGSBERG's Articles of Association. The Committee works under instructions from the General Meeting. These instructions were last revised by the Annual General Meeting on 8 May 2007.

Composition

The current committee was elected by the AGM on 11 May 2010 and consists of:

- Knut J. Utvik, deputy director general, Ministry of Trade and Industry (re-elected)
- Alexandra Morris, portfolio manager, ODIN Forvaltning (new)
- Sverre Valvik, managing director, Arendals Fossekompani ASA (re-elected). Valvik was elected chair of the Committee.

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

8. Board of directors – compositon and autonomy

Composition of the Board of Directors

The Board of Directors consists of eight members and currently has the following composition: Finn Jebsen (Chair), Benedicte Berg Schilbred (Deputy Chair), Anne-Lise Aukner, Erik Must, John Giverholt, Roar Marthiniussen, Kai Johansen and Helge Lintvedt. The three latter directors have been elected by and from among the employees. Detailed information on the individual directors can be found on the website at www.kongsberg.com.

It is essential that the Board as a whole be capable of dealing with Board work and the Group's main business activities.

In addition, the directors must 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 of Directors.

The directors are elected for two-year terms. The General Meeting elects the Chair of the Board. This is stated in the instructions for the Nominating Committee. Finn Jebsen was elected Chair of the Board.

The Board's autonomy

All shareholder-elected directors are considered autonomous and independent of the Group's corporate executive management. The same applies relative to important business associates. Arendals Fossekompani ASA, in which Erik Must directly and indirectly has a substantial stake, owned 7.96 per cent (7.96) of Kongsberg Gruppen ASA at year end. The Board of Directors is favourable to long-term shareholders being represented on the Board. There should be no conflicts of interest between owners, the Board, management and the Group's other stakeholders.

Among the shareholder-elected directors, there are three men and two women, i.e. a 40 per cent female share.

Election of the Board of Directors

The General Meeting elects the five shareholder-elected representatives to the Board. The Nominating Committee draws up a recommendation for the shareholders' nominees to the Board in advance of the election. The roster of nominees is sent to the shareholders along with the notification of the General Meeting. Board elections take place by simple majority. The Norwegian State currently owns some 50 per cent of the shares, and could, in principle, control the election of the shareholder-elected directors. Three directors are elected directly by and from among the Group's employees.

The directors are elected for two-year terms and are eligible for re-election.

The directors' shareholdings
At 31 December 2010, 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 enterprise Fateburet AS. Benedicte Berg Schilbred, Deputy Chair, owns 70 000 (70 000) shares through the company Odd Berg AS. Erik Must owns 124 600 (124 600) shares personally and 400 000 (400 000) shares through Must Invest AS. John Giverholt owner 3 200 (3 200) shares personally.

The employee-elected directors had the following holdings of KONGSBERG shares at 31 Dec. 2010. Roar Marthiniussen owned 4 026 (13 400 shares) personally.

9. BOARD WORK

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

Its main tasks are to contribute to corporate competitiveness, and to ensure the Group develops and creates value. Further, the Board of Directors is to participate in the shaping of and adopt the Group's strategy, exercising the requisite control functions and ensuring that the Group is well run and organised. 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. These tasks are not constant. The focus will depend on the Group's needs at any given time. The Board hires the CEO, defines his or her work instructions and authority, and sets his or her wages.

Rules of procedure for the Board of Directors
The Board's rules of procedure are extensive and were most recently revised on 11 February 2011. The rules cover the following points: 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, the division of work 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 takeover, confidentiality and professional secrecy, relations to legislation, regulations and rules of procedure. The Board of Directors can decide to deviate from the instructions in individual cases.

Instructions for the CEO
There is a clear division of responsibilities between the Board and executive management. The Chair is responsible for the Board's work being conducted in an efficient, correct manner and in compliance with the Board's terms of reference.

The CEO is responsible for the Group's operational management. The Board has drawn up special instructions for the CEO, which were most recently revised on 17 February 2010.

Financial reporting
The Board of Directors receives monthly financial reports and comments on the Group's economic and financial status. The report is a financial presentation that describes what has happened in the Group's operative and administrative functions during the reporting period in question. In connection with reporting on operations, the individual units should conduct meetings to review operating activities. The business areas present their reports on operations to the Group Executive Board in separate meetings once reporting has been concluded.

The financial report forms the basis for internal control and communication about status and initiatives required. The report is reviewed at Board meetings as the basis for financial reporting.

Notice of meetings and discussion of items
The Board schedules regular Board meetings each year. Ordinarily, there are eight meetings held each year. Additional meetings are convened on an ad hoc basis. In 2010, there were 8 (9) Board meetings. The Board meeting had 95 (97) per cent attendance in 2010.

All directors receive regular information about the company's operational and financial progress well in advance of the scheduled Board meetings. The directors also receive monthly operations reports. The Group's business plan, strategy and risk are regularly reviewed and evaluated by the Board. The directors are free to consult the Group's senior executives as needed. The Board draws up and establishes an annual plan, including topics for the Board meetings. Ordinarily, the CEO proposes the agenda for each Board meeting. The final agenda is decided in consultation between the CEO and the Chair of the Board.

Besides the directors, Board meetings are attended by the CEO, CFO, EVP Public Affairs, and the General Counsel (secretary of the Board). Other participants are summoned as needed.

The Board adopts decisions of particular importance to the Group, including the approval of the annual and quarterly accounts, strategies and strategic plans, the approval of significant investments (usually those in excess of MNOK 30), the approval of substantial business acquisitions and disposals.

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

Professional secrecy – communication between the Board and shareholders

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

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. In 2010, the Board visited our units in Washington, D.C., Johnstown, PA and Cape Cod, MA in the USA, and Horten in Norway.

Disqualification

The Board is bound by the rules regarding disqualification as they appear in §6-27 of the Public Limited Companies Act and in the Rules of Procedure for the Board. In 2010, a director has recused him/herself due to disqualification in connection with three items.

Use of Board Committees

The Board set up two subcommittees in 2005: An Audit Committee and a Compensation Committee.

Both committees prepare items for consideration by the Board. They are responsible only to the full corporate Board and their authority is limited to making recommendations to the Board.

The Board's Audit Committee

The Audit Committee has responsibilities related to financial reporting, the independent auditor, internal audits and risk management. In 2010, the Committee focused intently on the Group's risk management. The Committee consists of two shareholder-elected directors and one employee-elected director. The independent auditor usually attends the meetings. The CEO and the other directors are entitled to attend if they so desire. Six (eight) meetings were held in 2010.

Members: John Giverholt (Chair), Anne-Lise Aukner, Kai Johansen. The mandate for the Audit Committee is on the Group's website at www.kongsberg.com.

The Board's Compensation Committee

The Committee addresses tasks linked to the CEO's terms of employment, questions of principle related to wage levels, the bonus system, pension systems/terms, employment contracts, etc. for executives, as well as other matters related to compensation that the Committee believes to be of special importance to the Group. The Committee consists of the Chair of the Board, one shareholder-elected director and one employee-elected director. The CEO is entitled to participate in the Committee's meetings if he so desires, except when his own situation is under discussion. Three (three) meetings were held in 2010.

Members: Finn Jebsen, Erik Must, Roar Marthiniussen.

The terms of reference for the Compensation Committee are posted on the Group's website at www.kongsberg.com.

The Board's self-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. Thus far, the Board has not found it expedient to use external consultants for the Board's self-evaluation. 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 of Directors and internal control

Kongsberg's internal control and risk management system for financial reporting are based on the internationally recognised framework COSO.

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 proper internal control. A master management document has been adopted, describing how the requirements for internal control establish a framework for the units' responsibilities.

Management draws up monthly performance reports that are sent to and reviewed by the directors. In addition, quarterly financial reports are drawn up. When the Group's quarterly financial reports are to be presented, the Audit Committee reviews the reports prior to the Board meeting. The auditor takes part in the Audit Committee's meetings on an ad hoc basis, and meets with the entire Board in connection with the presentation of the annual financial statements.

The Directors' Report provides a detailed description of the company's financial position and risk factors.

The Group's model for internal control for financial reporting is reviewed on a regular basis, most recently in 2010, to ensure that it has been balanced correctly and is organised to reflect the Group's development. Risk management is an integral part of the Group's management by objectives and performance management.

Internal Control associated with our value platform, Code of Ethics and corporate social responsibility is under continuous development, and is incorporated into the Group's operations on a continuous basis. Projects were initiated on high-priority topics in this area in 2010, with the main emphasis being placed on anti-corruption and corporate social responsibility in the supplier chain.

The Group has established compliance functions at the corporate level as well as in the business areas. Like financial reporting, internal control has been set up on the basis of a decentralised management model. Kongsberg's compliance programme is coordinated and monitored from the corporate level, and reported to the Board. As from 2011, the status of the Group's work with corporate social responsibility will also be reported to the Board.

The Group has an Ethics Council whose purpose is to raise ethical awareness, promote good behaviour and ensure that Kongsberg maintains a good reputation.

The Board of Directors undertakes an annual review of general risk factors, as well as a quarterly review of risks related more to operations. The Board reviews the HSE situation on a quarterly basis. The Board also undertakes an annual review of the Group's main governance documents to ensure that they are up-to-date and cover the relevant areas.

11. Directors' fees

The Annual General Meeting stipulates the Board's compensation each year. The proposal for compensation is made by the chair of the Nominating Committee. In 2010, total remuneration to the Board came to NOK 1 619 666 (NOK 1 517 831). The remuneration breaks down as follows: Chair of the Board of Directors NOK 359 333 (NOK 345 333), deputy chair NOK 195 333 (NOK 183 500), other directors NOK 177 500 (NOK 164 833).

In addition, the members of the Audit Committee receive NOK 8 150 (NOK 7 800) per meeting, and a maximum NOK 40 750 (NOK 39 000) per year. The committee's chair receives NOK 9 300 (NOK 8 900) per meeting, and a maximum of NOK 46 500 (NOK 44 500) per year. The members of the Compensation Committee receive NOK 5 800 (NOK 5 550) per meeting, and a maximum of NOK 29 000 (NOK 27 750) per year. The committee's chair receives NOK 6 950 (NOK 6 650) per meeting, and a maximum of NOK 34 750 (NOK 33 250) per year. The directors' fees are not linked to performance, option programmes or the like. None of the Board's shareholder-elected directors work for the company outside of their directorships, and no one has any agreement regarding a pension plan or severance pay from the company.

12. Remuneration of executive managment

Guidelines

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

The structure of the incentive system for the other members of corporate management is determined by the Board and presented to the AGM for information purposes. The terms are stipulated 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, bonus, pension and severance schemes, and benefits in kind.

Performance-based compensation

In 2006, the Board introduced a new bonus system for executive management. Performance-related compensation is linked to the performance trend, profit margin and non-financial goals. For a more detailed description of the system, see Note 27 (28) in the consolidated financial statements. Altogether, the Group has 90 (82) managers who are covered by an incentive system that includes an element of individual performance.

Conditions

Compensation to executive management and the Board is described in Note 27.

13. Information and communications

The annual report and accounts – interim reporting

The Group usually presents provisional annual accounts in late February. Complete accounts, the Directors' Report and the annual report are sent to shareholders and other stakeholders in March/April. Beyond this, the Group presents its accounts on a quarterly basis. The Financial Calendar is published on the Group's website and in the annual report.

The Group's report on corporate social responsibility is posted on the Group's website (pdf version), along with other information on corporate social responsibility, as well as in a limited number of paper copies. The report is verified by a third party.

All shareholders are treated equally as a matter of course.

Other market information

Open investor presentations are conducted in connection with the Group's annual and quarterly reports. The CEO reviews the results and comments on markets and prospects for the future. The Group's CFO also participates in these presentations, as do other members of corporate management from time to time.

The annual and quarterly reports are made available on the Group's website sim-ultaneously with the presentation of the results. The annual and mid-year results are also webcast. Beyond this, the Group conducts an ongoing dialogue with and makes presentations to analysts and investors.

Keeping owners and investors informed 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 been awarded distinctions for Good Information and Good English by the Oslo Stock Exchange since 2004. The Board of Directors has drawn up guidelines for the Group's contact with shareholders outside the General Meeting.

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 State owns 50.001 per cent of the shares. The marketability of these shares is subject to parliamentary discretion. The Board's rules of procedure contain a point that refers to the guiding principles for how the Board of Directors should react in the event of any takeover bid. The Board of Directors is responsible for seeing to it that KONGSBERG's shareholders are treated equally and that operations are not disrupted unnecessarily.

Where a bid is made for the company, the Board of Directors shall draw up a statement containing a well-grounded evaluation of the bid.

The evaluation shall specify how, for example, a takeover would affect long-term value creation at KONGSBERG.

15. Auditor

The auditor's relationship to the Board

The Group's auditor is elected by the General Meeting. An outline of the work planned by the auditor shall be put before the Board 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 annual accounts and any other issues of particular concern to the auditor, including any points of disagreement between the auditor and management. The auditor also participates in the meetings of the Audit Committee.

The Board arranges annual meetings with the auditor to review 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 and the Board without the presence of the CEO or other members of executive management.

The auditor submits to the Board a written statement on compliance with the Statutory Audit Independence and Objectivity Requirement, cf. the Auditing and Auditors Act.

The auditor's relationship with the Board

The Board of Directors has discussed guidelines for the business relationship between the auditor and the Group.
The Group hired Arthur Andersen & Co. as its independent auditor upon its inception in 1987. In April 2002, Arthur Andersen & Co. in Norway merged with Ernst & Young. In addition to ordinary auditing, the company has provided consultancy services related to accounting, tax and due diligence. See Note 10 to the consolidated accounts.

The Group's auditing services were put out for tender as from fiscal 2010. The General Meeting resolved to continue cooperation with the auditing company Ernst & Young. At the same time, a different managing partner was appointed.

At regular intervals, the Board of Directors evaluates whether the auditor exercises a satisfactory level of control.

16. Managment and internal procedures

This point is not covered by the Code of Practice.

Executive management

The CEO appoints members to corporate executive management. Corporate executive management currently consists of nine individuals. In addition to the CEO, corporate executive management consists of the CFO, the presidents of the four business areas Kongsberg Maritime, Kongsberg Oil & Gas Technologies, Kongsberg Defence Systems and Kongsberg Protech Systems, the EVP Business Development, the EVP Public Affairs, and the EVP Corporate Functions.

Executive management meets regularly, and otherwise has day-to-day contact on an operational basis. The Group subscribes to the paramount principle of making binding commitments to agreed targets. Consequently, it practises a decentralised form of corporate governance that gives individual units considerable autonomy, accompanied by the responsibility that entails.

Executive management's main responsibility is the operation of the Group, and it is KONGSBERG's overall situation that governs the decisions that are made. Executive management follows up results and budgets on a monthly basis with the various performance centres in the Group.

Executive management evaluates its own work and working methods annually.

Inter-group Boards of Directors

The Group's subsidiaries have their own Boards of Directors, which are comprised of in-house managers and employees. The president of the owner enterprise or a person authorised by the president will chair the Board of the subsidiary. Appointment of the Boards and the board work in subsidiaries are handled in accordance with the Group's principles for good corporate governance.

Guidelines for share trading

The company has stipulated in-house guidelines 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 Group has in-house guidelines for primary insiders, which require internal clearance by the CEO before said insiders buy or sell KONGSBERG shares.

Corporate Code of Ethics

The Group has drawn up a Code of Ethics that applies to all employees. The Code of Ethics is also made known to the Group's business associates.

Financial calendar 2010

Annual General Meeting
Monday, 9 May 2011, at 2 p.m. in
the conference center at Kongsberg
Technology Park, Kongsberg.

Dividends will be paid on 23 May 2011

Presentation of quarterly results
Q1: 6 May
Q2: 12 August
Q3: 26 October

Ticker code: KOG (Oslo Stock Exchange)

Adresses

The Group's headquarters are located in Kongsberg, Norway.

Kongsberg Gruppen ASA
Kirkegårdsveien 45
P.O. Box 1000
3601 Kongsberg
Telephone: (+47) 32 28 82 00
Telefax: (+47) 32 28 82 01
Internet: www.kongsberg.com
Email: office@kongsberg.com

Kongsberg Maritime AS
Kirkegårdsveien 45
P.O. Box 483
3601 Kongsberg
Telephone: (+47) 32 28 50 00
Telefax: (+47) 32 28 50 10
Email: km.office@kongsberg.com

Kongsberg Oil & Gas Technologies
Hamangskogen 60
NO-1338 Sandvika
Norway
Telephone: (+47) 67 80 48 00
Telefax: +(+47) 67 80 48 30
Email: kogt.sales@kongsberg.com

Kongsberg Defence Systems
Kirkegårdsveien 45
P.O. Box 1003
3601 Kongsberg
Telephone: (+47) 32 28 82 00
Telefax: (+47) 32 28 86 20
Email: kda.office@kongsberg.com

Kongsberg Protech Systems
Kirkegårdsveien 45
P.O. Box 1003
3601 Kongsberg
Telephone: (+47) 32 28 82 00
Telefax: (+47) 32 28 86 20
Email: kps.marketing@kongsberg.com

Text
KONGSBERG
Translation to English Linda Sivesind

Photo
KONGSBERG, Vegard Kemnitz/Kongsberg Satellite Services AS,
Tor Aas-Haug/Mediafoto AS, Bård Gudim, Jørn Grønlund,
Dag Myrestrand/Statoil, Royal Norwegian Navy,
Tommy Norman Hansen.

Design
Ludens Design

Print
RK Grafisk

Design: Ludens Design Print: RK Grafisk

Kongsberg Gruppen ASA
Kirkegårdsveien 45. P.O. Box 1000. 3601 Kongsberg
Telephone: (+47) 32 28 82 00. Telefax: (+47) 32 28 82 01
Email: office@kongsberg.com
www.kongsberg.com