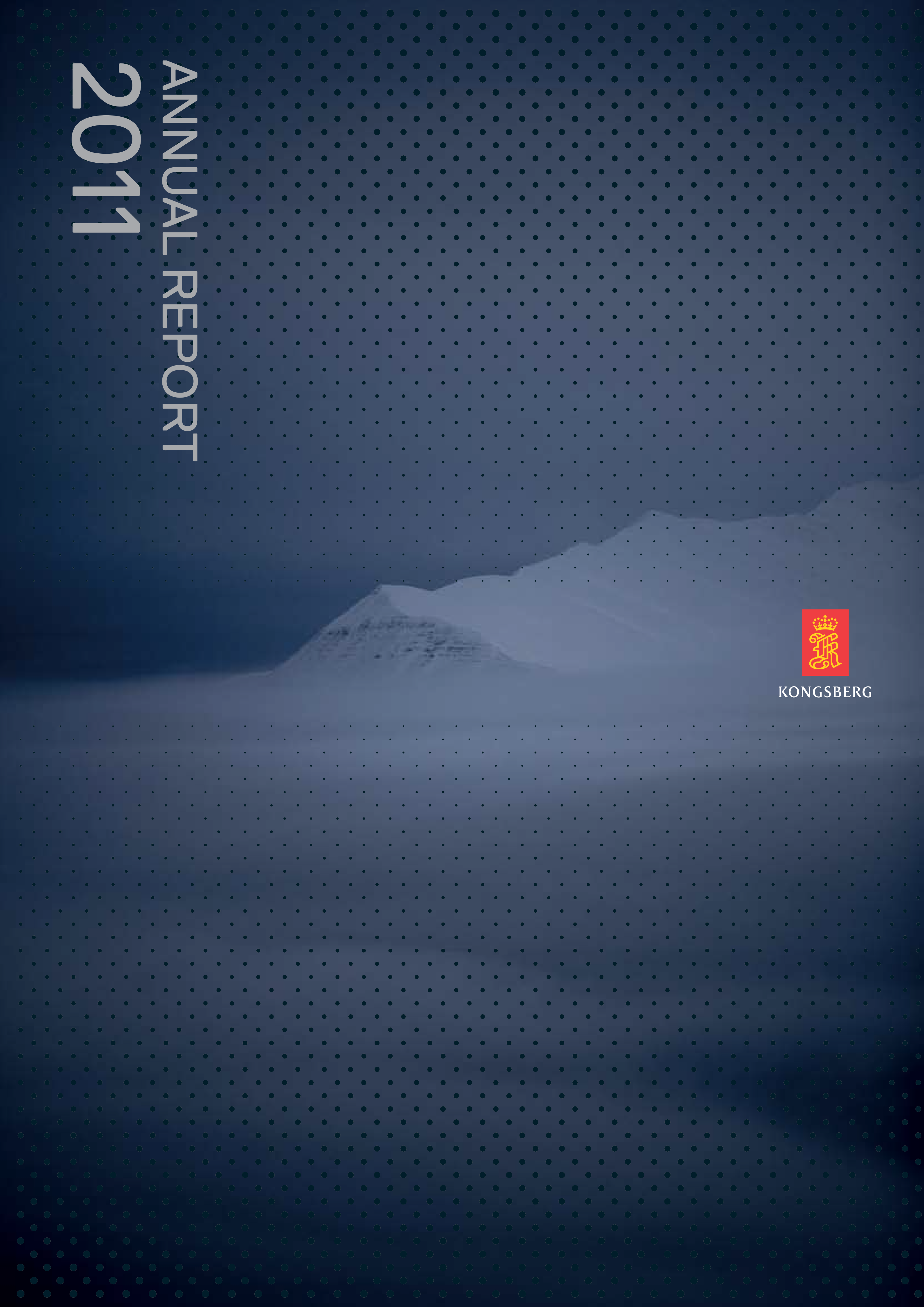
ANNUAL REPORT 2011



KONGSBERG

INTRODUCTION

Kongsberg Gruppen (KONGSBERG) is an international technology corporation that delivers advanced and reliable solutions that improve safety, security and performance in complex operations and during extreme conditions. The Group is a customer focused organization with a world-wide performance culture. KONGSBERG works with demanding customers in the global defence, maritime, oil and gas and aerospace industries.

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ORGANISATION

KONGSBERG GRUPPEN

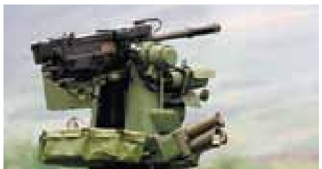
Revenues MNOK 15 128
EBITA MNOK 2 132
6 681 employees in more than 25 countries

Kongsberg Maritime
- Offshore
- Merchant Marine
- Subsea

Kongsberg Maritime has in 2011 shown a good growth in the number of new orders and a strong performance. The business area has during the year strengthened its market positions in several key segments. Expansion of the product portfolio and operations close to the customers are key elements of Kongsberg Maritime's strategy.

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

Kongsberg Defence Systems had a good year in 2011 which led to an increase in both turnover and operating profit. The business area is in the implementation phase of large projects including anti-aircraft to Finland, Norwegian NSM project and coastal artillery to Poland. All these projects are in schedule and have contributed to the positive trend.



Kongsberg Protech Systems

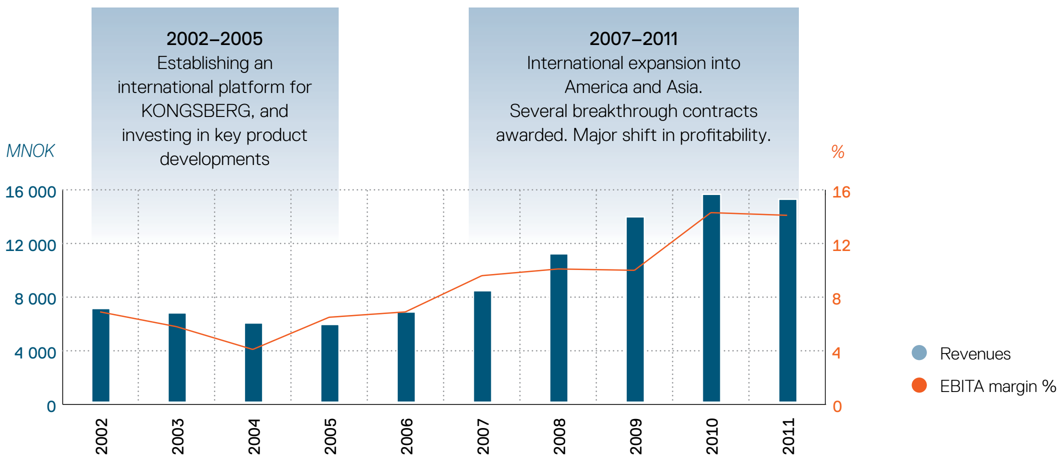
Kongsberg Protech Systems remote weapon system, Protector, confirmed its position during 2011 as world leader in this market. KONGSBERG's design was chosen continued by the U.S. Army for the next phase of the CROWS program. The business area also won a major framework contract with the Norwegian and Swedish Armed Forces.

KEY FIGURES 2011

Beløp i mill. kr		*2011*	*2010*	*2009*	*2008*	*2007*	*2006*	*2005*	*2004*	*2003*	*2002*
Operations											
Operating revenues		15 128	15 497	13 816	11 056	8 306	6 720	5 791	5 901	6 651	6 980
- operating revenues, outside Norway	%	82	84	80	77	71	72	67	69	76	72
- operating revenues, civilian	%	47	45	52	62	62	57	59	54	54	58
Earnings before interest, tax and amortisation (EBITA)		2 132	2 216	1 376	1 122	796	464	378	239	383	485
EBITA margin	%	14.1	14.3	10.0	10.1	9.6	6.9	6.5	4.1	5.8	6.9
Earnings before tax (EBT)		2 008	2 097	1 169	861	685	390	314	180	190	291
Profit for the year		1 430	1 500	828	587	490	252	262	118	125	216
Order backlog		17 839	17 759	19 892	16 692	12 646	6 472	5 416	5 425	5 913	5 143
Book-to-Bill Ratio		1.0	0.9	1.4	1.5	1.5	1.0	0.9	0.9	0.9	0.7
Net interest-bearing debt		(2 191)	(1 813)	(634)	1 439	(242)	294	282	1 101	1 164	795
Employees		6 681	5 681	5 423	5 243	4 205	3 650	3 372	3 495	4 176	4 208
Owners' value											
Market capitalisation		13 920	15 960	10 590	9 840	10 170	5 250	3 720	2 970	3 180	2 715
Earnings per share after tax in NOK		11.93	12.46	6.83	4.86	4.04	2.08	1.80	0.92	1.06	1.80
P/E in NOK		9.72	10.67	12.92	16.87	20.96	21.08	17.24	27.62	25.06	12.55
Equity		5 484	4 881	3 726	1 894	2 758	1 684	1 505	1 626	1 830	1 741
Equity ratio	%	35	35	30	15	30	23	23	26	30	31
Dividend per share in NOK		3.75	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	*2011*	*2010*	*2009*	*2011*	*2010*	*2009*
Kongsberg Maritime	6 693	6 286	6 657	1 078	991	831
Kongsberg Defence Systems	3 895	3 376	2 734	263	245	144
Kongsberg Protech Systems	4 185	5 683	4 123	755	995	442
Other/elimination	355	152	302	36	(15)	(41)
Total	**15 128**	**15 497**	**13 816**	**2 132**	**2 216**	**1 376**



VISION, OBJECTIVES AND STRATEGY

VISION

"WORLD CLASS – through people, technology and dedication"

OBJECTIVES

KONGSBERG is an international oriented technology group with headquarter in Norway. Stakeholders' values will be maintained and increased by utilizing the Group's high level of knowledge to develop attractive solutions for the market, and through continuous operational improvements. We are reliable people. We are responsible citizens.

- Continuous improvement projects will be implemented in order to increase profitability.
- Growth and profitability will be generated through organic growth, acquisitions and structural initiatives.
- The Group will be organized in a way that takes advantage of relationships and synergies.
- The business will be operated ethically, environmentally and socially responsible, and have a clear profile and a good reputation.

STRATEGY

Important initiatives for achieving the objectives are:

Culture and values

KONGSBERG has a unique and strong corporate culture that has been built up over many years. The work done is clearly characterized by our shared values. The culture and values of KONGSBERG constitute an important part of the Group's strategic platform.

The market, internationalization and growth

Over 80 percent of the Group's revenue are from countries outside Norway and a growing share of the value created takes place outside Norway. Several customers demand local presence and contents. Strategic alliances are also crucial for success in several of KONGSBERG's product areas. KONGSBERG is working continuously to develop market activities being able to satisfy customer needs. Being close to the customer is important to provide optimal service, both in terms of response time and performance.

Acquisitions in our core areas are essential to KONGSBERG's growth strategy. A continuous development of the Group's strategic market position is a key element of our acquisition strategy.

Competence

Knowledge and expertise are KONGSBERG's most important competitive parameters. Opportunities for development of expertise are important to achieve positive performance trends, making this a high priority. Emphasis is placed on offering attractive and challenging job responsibilities. The Group offers a systematic leadership development program.

Corporate Social Responsibility and Ethics

KONGSBERG has focused on implementing a corporate Code of Conduct, 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.

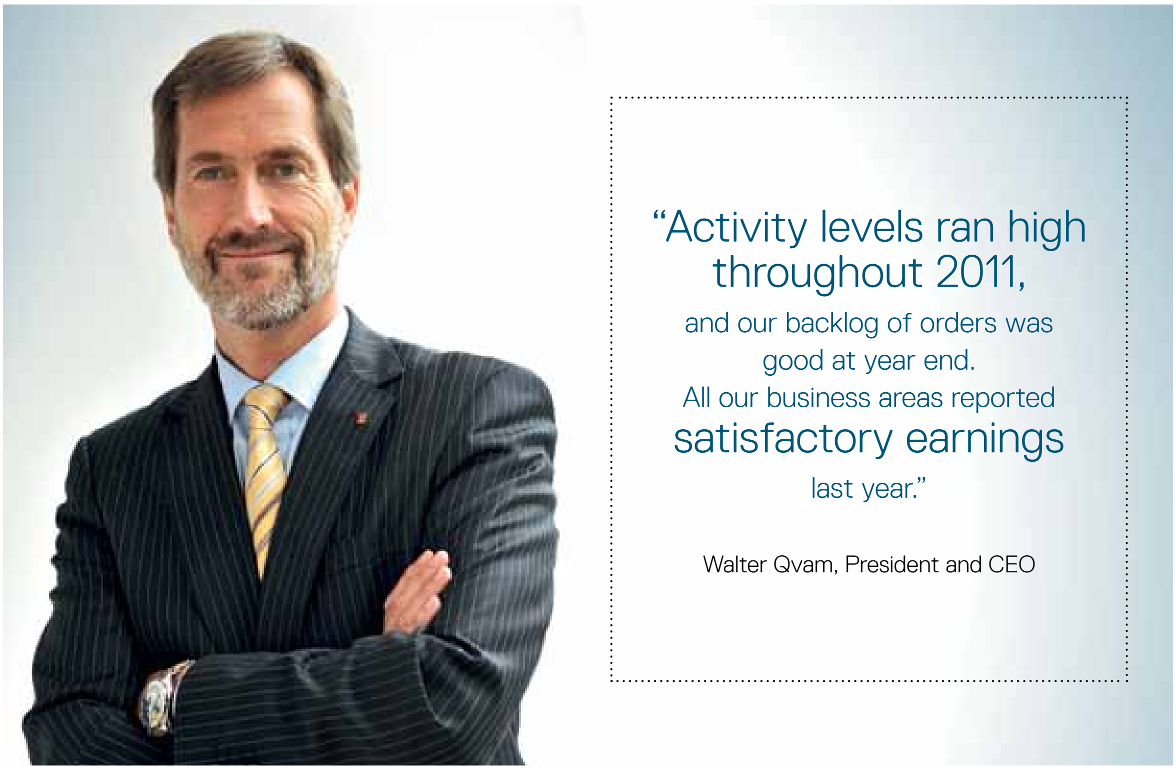
Technology

Annual costs of product development represent around 10 percent of total operating revenue. A high level of activity within this area is necessary in order to maintain a profitable organic growth. Product development is financed out of own capital and by customers. It is always the market needs that govern the direction, ambitions and solutions for product development. KONGSBERG's markets are characterized by high standards of performance, quality and operations. Collaboration with the end user is a critical success factor when developing the best solutions and to ensure that more value are created for our customers and a high utility value for their investments. KONGSBERG's products are mainly based on the following core competencies: software development, engineering cybernetics, systems integration and signal processing.

Financial strategy

The Group emphasizes the importance of a strong solidity ensuring financial flexibility. Growth is to be funded mainly by earnings and by making capital available for this purpose. External funding is always based on a long-term perspective and in accordance with the Group's business strategy. The Group's financial policy is primarily aimed at increasing predictability and reducing risk.

PRESIDENT AND CEO WALTER QVAM



KONGSBERG can look back on yet another good year. Activity levels ran high throughout 2011, and our backlog of orders was good at year end. All our business areas reported satisfactory earnings last year. We did this despite operating in a world characterised by growing financial unrest and uncertainty in 2011. Over time, public spending cuts will impact the framework conditions for some of our activities. Due to our intent focus on technology and operations and our long-term strategic efforts, many of our businesses managed to win market shares despite the market turmoil in 2011.

As an international, high-technology corporation that operates in sectors with exceptionally stringent standards for reliability and leading solutions, it is important to have a good human competence and financial platform for our activities. This platform was further strengthened in 2011 by setting up businesses in new geographical areas, through new and further developed solutions, and through more than 1 000 new co-workers, accompanied by smooth operations and project management. In 2011, KONGSBERG opened offices and production facilities in Greece, China, Mexico and Canada, among other places. Our goal is to offer even better customer service and to improve the efficiency of our maritime operations as well as in the defence sector.

Despite demanding markets, Kongsberg Maritime continued to gain market shares in 2011. We have invested heavily in product development, and that has brought results. We have established a strong position in the drilling market and for deliveries for LNG carriers. Moreover, we have strengthened our general position as a supplier to the merchant marine industries. We have built up Kongsberg Maritime Engineering and, in so doing, won turnkey EPC contracts in electrical engineering, instrumentation and telecommunications. We have acquired Evotec and thereby expanded our delivery profile to also include naval operations.

Kongsberg Oil & Gas Technologies has grown considerably over the past year, and it has signed several important contracts. Not least through the development and contract for CRIS (Capstan Reel Installation System), we make use of our specialist expertise to focus on the development of new technology. Here we are also expanding our delivery profile in the direction of naval operations.

Kongsberg Defence Systems also had a good year, with several important programmes in the start-up and production phases. We conducted important and successful test firings with the Naval Strike Missile (NSM), and the Joint Strike Missile programme is in a very important phase of development.

Kongsberg Protech Systems had an eventful year. In February, the US Army announced that it would be continuing with KONGSBERG's CROWS system for the tendering process scheduled for 2012. In December, we signed an important contract with the Norwegian and Swedish Armed Forces for delivery of the PROTECTOR weapon control system for a strategically important joint project.

During the year, we further improved the organisation of our corporate social responsibility work and devoted more attention to follow up and reporting on this work in the Group as a whole. Based on KONGSBERG's principles for supplier conduct, we have carried out audits linked to corporate social responsibility among several of our most important suppliers. Through such processes, we also transfer expertise to our chain of suppliers, not least to further promote our work with anti-corruption and workers' rights.

The year ahead shows signs of being demanding for the world economy, implying considerable uncertainty. We embark on 2012 with a very sound backlog of orders. Moreover, activity levels are high for most of our businesses, especially in the maritime offshore and oil and gas sectors, as well as for our defence activities. In other words, even though we are prepared to face challenges, we also see clear upsides for our systems and solutions in the years ahead. We will continue to build up our maritime offshore activities, our oil and gas unit and selected parts of our defence activities. We ended 2011 with the acquisition of the company Norspace, signalling that more emphasis will be placed on aerospace and surveillance.

As a leading technology group, we take responsibility for the world in which we live, not least by developing and deploying technological solutions that facilitate this. KONGSBERG's defence solutions help safeguard values and stability, our maritime solutions contribute to improving the reliability and productivity of naval operations and our oil and gas solutions contribute to the more efficient, safer production of oil and gas. Corporate social responsibility and sustainability are, in a broad sense, key elements for KONGSBERG'S business operations. 2012 will also be a year in which global financial turmoil forms the backdrop for the Group's activities. Financial market trends give cause for concern. The Group counters this uncertainty by maintaining a strong focus on healthy operations and well-considered priorities with a view to risk and financial strength.

In the years ahead, the competition for technological and engineering expertise will become even tighter. Given the rapid growth we are experiencing in the oil and gas sector, we are already seeing signs of an overheated market for expertise. This is a serious challenge for this segment of the manufacturing industry and it affects KONGSBERG across the board. KONGSBERG has always been considered highly attractive by technologists. In the years ahead, we will continue to attach great importance to offering fascinating work, an exceptionally good working environment and strong focus on values and culture. We will also will intensify our efforts to boost the percentage of women among our managers and co-workers.

We strengthened our underlying platform significantly in 2011 through new customer and contractual relationships, building up our knowledge base and capacity, increasing our international representation, improving technological solutions and, not least, by adding to our financial strength. Thus we believe that our potential for further growth is even stronger now. We have set ambitious goals for the years ahead. KONGSBERG has demonstrated that it has the ability to generate profitable growth during economic upswings and to emerge from macro-economic slumps with renewed strength. We are convinced that one critical factor underlying such progress is a strong set of common basic values that are an integral part of daily routines, regardless of where you work in the Group and what you work with.

I would like to express my gratitude to all our employees for the unstinting willingness and engagement they demonstrate every single day. I would also like to express appreciation to our customers for the confidence they place in us, and to thank our suppliers, partners and owners for excellent cooperation.

Walter Qvam

Walter Qvam
President and CEO
March 2012

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

http://www.kongsberg.com/en/kog/investorrelations/

"KONGSBERG's market position was strengthened during 2011"

DIRECTORS' REPORT 2011

2011 was a good year for Kongsberg Gruppen (KONGSBERG). The Group's market position was strengthened. Turnover and profit were maintained at about the same level as the previous year. New orders increased by over 10 per cent in a year of considerable uncertainty in the global economy. Cash flow from operations was MNOK 1,643, the Group strengthened its financial position and maintains cash substantially above interest bearing debt. The foundation for the Group's operations in 2012 is good. Earnings per share was NOK 11.93 (NOK 12.46). The Board proposes a dividend per share of NOK 3.75 (NOK 3.75) which is in line with the Group's dividend policy.

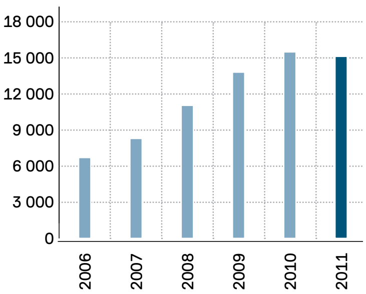
Important events in 2011

Both Kongsberg Maritime, Kongsberg Defence Systems and Kongsberg Protech Systems have shown good results and margins in 2011. The revenue increased in Kongsberg Maritime and Kongsberg Defence Systems, while they were reduced in Kongsberg Protech Systems as a result of reduced deliveries to the business area's largest customer - the U.S. Army. Total operating revenues decreased 2.4 per cent. The Group's new orders in 2011 was up 10.5 per cent compared with 2010. Kongsberg Maritime operates in a competitive market that is closely related to the development in the offshore industry and the contracting activity for traditional commercial vessels. The investments in the offshore industry have been relatively high in 2011, while the overall world economy is still characterized by high uncertainty. Despite this uncertainty, as well as lower contracting of commercial vessels, Kongsberg Maritime orders increased by about 30 per cent compared to 2010. This confirms the business area's strong market position. New orders in Kongsberg Defence Systems increased by 44 per cent compared with the previous year. The increase in new orders confirms that the business area's technologically advanced product portfolio is attractive to the defence market. Kongsberg Protech Systems had a 39 per cent decrease in new orders compared to 2010, due to a weaker overall market. The business area is in a transitional and development phase which constitutes the foundation for future growth. The Group is investing considerably in new product development while there is intense marketing activities. This year will be important for the business area

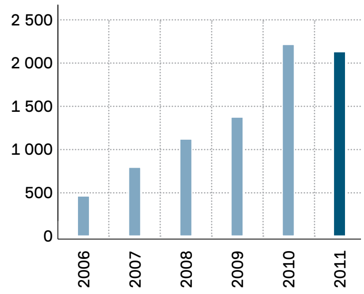
SELECTED KEY CONTRACTS AND EVENTS IN 2011

- Nordic framework contract (Norway and Sweden) on the remote-controlled weapons systems - value MNOK 960
- Multiple contracts for the remote-controlled weapons systems to the U.S. programs CROWS and Stryker
- Missile Contract with Poland - worth MNOK 712
- Development contract with the Norwegian Armed Forces for the Step II of the Joint Strike Missile
- Upgrade Contract on the NASAMS air defence system in Norway
- Multiple contracts for submarine systems, among others to Norway, the Netherlands and Italy
- Satellite Contract with the American company GeoEye - worth MNOK 330
- Large orders for several important types of vessels within Kongsberg Maritime
- Strengthened market position for the "high end" market within rig, drill ships and FPSO
- Strengthened market position in the LNG segment
- Strengthened market position in autonomous underwater vehicles (AUVs)
- Major contracts for deck management systems from Kongsberg Evotec. Important first contract for the new Capstan Reel Installation System (CRIS)
- Commercial launch of LedaFlow

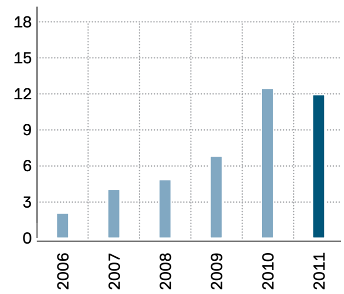
OPERATING REVENUES
MNOK



EBITA
MNOK



EARNINGS PER SHARE
NOK



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as there are several large contracts that are expected to come close to the time of contract award where Kongsberg Protech Systems will offer its products. This applies to both existing and new customers and to existing and new products.

Priorities in 2012

The Group shall in 2012 ensure further strengthened competitiveness and capital efficiency while laying the basis for further growth. Technology and management capacity and expertise will be further developed and the Group will continue an active product and technology development. The internationalization of the Group's operations will continue unabated as well as the positioning of the Group in relation to consolidation in the defence, maritime and oil and gas sector.

Priorities in the business areas in 2012
Kongsberg Maritime

- Strengthen its position in the offshore segment
- Continue the strong focus on reducing costs and implementation capacity to meet the competition in the market
- Promote further enhanced delivery against each vessel (Full Picture)
- Significant investments in after-market activities
- Further development of activities in particular in Asia and South America

Kongsberg Defence Systems

- Ensure continued good performance of the large, ongoing programs in missiles and air defence systems
- Ensure good progress in developing the Joint Strike Missile
- High market activity related to the entire product portfolio, particularly related to the newly developed missile systems and air defence systems.

Kongsberg Protech Systems

- Ensure the next phase of the CROWS program
- Increase the focus on costs to ensure margins in a period of low or no growth
- Establish a market position related to new products, especially the Medium Caliber RWS

Development in the business areas

Kongsberg Maritime

	2011	*2010*
Revenues	6 693	6 286
EBITA	1 078	991
EBITA-margin	16.1%	15.8%

Kongsberg Maritime had good operations and good results in a market characterized by high competition. New orders were MNOK 7,331 in 2011, up 30 per cent compared to 2010. Operating revenues increased by 6.5 per cent in 2011 and EBITA margin of 16.1 per cent (15.8 per cent). The order backlog at the end of 2011 was MNOK 5,134, an increase of MNOK 916 compared to the end of 2010. This provides a good basis for 2012.

Kongsberg Maritime has in 2011 maintained and strengthened its market position. New orders have been especially good within the supplies to offshore rigs, LNG vessels and FPSO vessel. There are several exciting projects aimed at the deep water offshore industry that has had a strong focus in 2011 and Kongsberg Maritime has a good position with respect to these upcoming projects.

In 2011 Kongsberg Maritime acquired the company Evotec AS. Evotec develops and delivers systems for the maritime industry, including the seismic, subsea and supply market. The acquisition of Evotec is in line with Kongsberg Maritime's "Full Picture" strategy about increasing the potential for deliveries towards, among others, the seismic and anchor handling market.

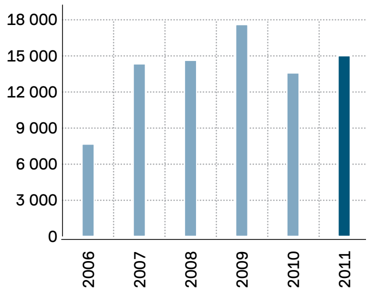
The last years have been characterized by uncertainty in the global economy, which has also affected the markets of Kongsberg Maritime. In the second half of 2010 and through 2011 the world's shipbuilding industry has had plenty of orders for offshore vessels. New orders for the merchant marine vessel have, however, been relatively low. Kongsberg Maritime's diversified product portfolio, strong order backlog and strong position in the merchant marine and offshore market has contributed to steady sale within the business area, good results and satisfactory level of

KONGSBERG GRUPPEN

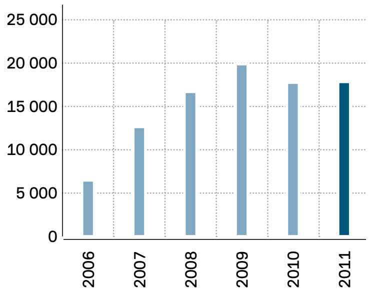
KONGSBERG is an international, knowledge-based group that supplies high-technology systems and solutions to customers in the oil and gas industry, merchant marine, defence and aerospace industries.

Headquarter	Kongsberg
Number of employees	6 681
Share of employees outside Norway	33%
Number of locations	25
Revenues outside Norway	82%

NEW ORDERS
MNOK



BACKLOG OF ORDERS
MNOK



new orders during this period. Kongsberg Maritime equipment are installed on over 14,000 sailing vessels. This has led to a continuous increase in activity related to the aftermarket and customer support. The activities within seabed mapping, inspection, oceanography and fisheries, together with the aftermarket activities, are to a limited extent affected by the level of contracting at the shipyards. Almost 60 per cent of Kongsberg Maritime's deliveries are related to the oil and offshore market. The good contracting in this segment along with the satisfactory order backlog in the business area, diversified product portfolio and growing aftermarket, provides a stable basis for the next year.

Kongsberg Maritime's business model where parts of the value creation are established close to the customers' activities and sailing pattern is a key element of the business strategy for growth and customer satisfaction. As a consequence Kongsberg Maritime has, in recent years, established new offices, including in India, China, Brazil, Greece, Mexico, Malaysia and Dubai. In 2011, a new factory in Zhenjiang, China, was opened. The factory has about 200 employees and the production includes cabinets, sensors and boards, which are important components of the deliveries of Kongsberg Maritime. Asia in general and China in particular, are important future growth area of Kongsberg Maritime. At the end of 2011 1,750 of the employees of Kongsberg Maritime worked outside Norway. The international establishments put Kongsberg Maritime in a stronger position to ensure quick and effective local support and meet the ever increasing international competition.

The Norwegian marine and offshore industry has a strong position and is important for the export industry. The Board therefore emphasizes the need for industrial politics by the government that promotes growth and development in this sector, including competitive conditions and financing solutions.

Kongsberg Defence Systems

	2011	*2010*
Revenues	3 895	3 376
EBITA	263	245
EBITA-margin	6.8%	7.3%

Kongsberg Defence Systems is in the implementation phase of large deliveries to the Poland coastal artillery, anti-aircraft to Finland and the Naval Strike Missile (NSM) to Norway. The projects have evolved as expected and have passed the important milestones in 2011. New orders were MNOK 4,061 in 2011, which is an increase of 44 per cent compared to 2010. Revenue was up 15 per cent in 2011 and EBITA margin was 6.8 per cent (7.3 per cent). The results for 2011 include MNOK 60 in negative impacts related to an arbitration proceeding in Hungary. Kongsberg Defence Systems commence 2012 with an order backlog of MNOK 7,953, which is MNOK 20 above the previous year. This provides a solid basis for the next few years.

Kongsberg Defence Systems has a modern product portfolio with several newly developed systems and systems that are at the beginning of their life cycle. These include the anti-aircraft system NASAMS, the missiles Naval Strike Missile (NSM) and the Joint Strike Missile (JSM), which all have a significant potential in the international market. The business area operates, and is well positioned within niche markets that are, to a smaller extent, expected to be affected by the reductions seen in defence budgets in many countries. This is reflected in the increased level of new orders in 2011. Among the contracts that were signed are:

- Upgrading of the NASAMS anti-aircraft systems in Norway
- Contract extension for the delivery of additional Naval Strike Missiles to Poland
- Development contract with the Norwegian Armed Forces for Step II of the Joint Strike Missile
- Several upgrade contracts for sub-marine systems
- Simulator-contract with Australia
- Contracts for additional deliveries to the F-35 program
- Deliveries of satellite ground station services to the U.S. company
- Contract for development of BarentsWatch

"The Group shall in 2012 ensure
further strengthened competitiveness
and capital efficiency
while laying the basis for further growth."

In October, KONGSBERG acquired 100 per cent of the shares in Norspace AS. Norspace AS is a world leader in its segment for delivery of high-tech components and equipment for the international aerospace industry. The Norspace equipment can be found on 140 satellites for customers worldwide. The acquisition strengthens KONGSBERG's position in space and surveillance, and the Group is now among the largest Nordic companies within this segment.

Kongsberg Defence Systems is currently in the development phase of the new missile Joint Strike Missile (JSM). JSM is planned adapted to the F-35 Lightning II (Joint Strike Fighter). The development has shown a good progress. The business area also delivers parts in composite and titanium materials to the F-35. There has been some delays in these deliveries compared the initial plans, mainly due to lower scaling rate in the total program.

The Norwegian Armed Forces has over time in cooperation with KONGSBERG developed systems that have proven to be competitive internationally. It is of great importance to the Group that this national partnership continues. The cooperation gives the Norwegian Armed Forces a possibility to develop and deploy technology that is particularly suitable for Norwegian conditions and that have a quality and cost that allows it to succeed in the international competition. The modern and technologically leading product portfolio, combined with the market opportunities identified for our products means that the basis for growth is considered to be good for years to come.

The international defence market is influenced by politics where customers of large defence systems are the defence authorities in the respective countries. These customers are considering national security and domestic economic development as a significant factor, in addition to product price and performance when purchasing defence equipment. This market is not subject to international free trade agreements and is often characterized by more national protectionism than we see in most other industries. It is important for the Norwegian defence industry that the emphasis is on securing good agreements in connection with the purchase of defence equipment from abroad - being repurchase agreements, joint development agreements and agreements that ensure market access. When the Norwegian Armed Forces make significant investments by foreign suppliers, this tie up a significant part of the defence budget and purchases from domestic suppliers may be negatively affected. To ensure military supplies that are well adapted to Norwegian conditions and a sustainable and competitive Norwegian defence industry, we emphasize the importance of Norwegian participation in such programs. Both the Government and the Parliament has underlined the importance of industrial participation for Norwegian industry and that this is in line with international practice. Such participation for KONGSBERG also means increased activities in many of the 1,500 Norwegian subcontractors of the business area. Predictability in the export regulations with respect to defence material and the application of the regulation constitutes an important framework condition for KONGSBERG.

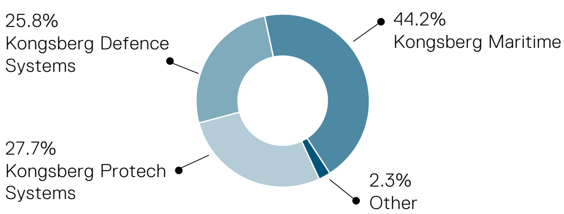
KONGSBERG will continue to emphasize partnerships with major defence contractors and a further increase the focus on supporting the local industry in our markets. Our position as an attractive defence supplier in the international market will continue to be based on close cooperation with the Norwegian Armed Forces. This cooperation is the platform to develop leading products that are necessary to a modern military defence.

Kongsberg Protech Systems

	2011	*2010*
Revenues	4 185	5 683
EBITA	755	995
EBITA-margin	18.0%	17.5%

The business area has in the recent years multiplied its turnover for the remote-controlled weapons systems (RWS), and has been built up to become the world leader in its segment. It is so far delivered about 14,000 systems to 17 countries and more countries have shown interest. The U.S. is, both directly with the U.S. Army and by vehicle suppliers, the largest customer.

DISTRIBUTION
OF REVENUES



After many years of strong growth Kongsberg Protech Systems is in 2011 in a phase with lower volume in anticipation of large future programs in several countries and the launch of new products. U.S. Army is in the process of selecting a supplier to the next phase of the CROWS program. Kongsberg Protech Systems has invested significantly in new products and new markets during 2011. New orders in 2011 were MNOK 2,900, down 39 per cent compared to 2010. Operating revenues totaled MNOK 4,185 (MNOK 5,683) and EBITA margin of 18.0 per cent (17.5 per cent). Cost reductions, both internally and related to subcontractors, productivity improvements and a favorable product and project mix have resulted in strong margins in 2011, especially for the first six month. Kongsberg Protech Systems enters 2012 with a backlog of MNOK 4,136, which is MNOK 1,286 less than at the beginning of 2011. Most of the backlog will be delivered in 2012 which means that the business area has relatively good order coverage for 2012.

The largest project within the business area is the U.S. CROWS program. KONGSBERG has so far received orders for nearly 12,000 remote weapon systems for this program. The revenues from CROWS accounted for almost 75 per cent of the 2011 revenues within the business area. U.S. Army has announced the next phase of the CROWS program. I has been decided that the competition shall be based on the design of KONGSBERG. This confirms that remote weapon systems within the business area are world leading. KONGSBERG has started work on the tender and it is expected that tender will be decided on in the second half of 2012.

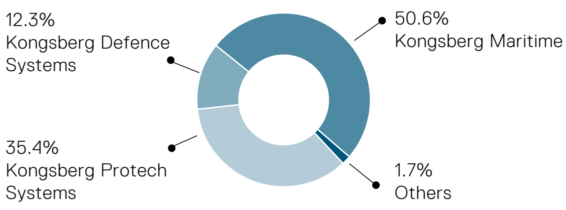
2011 was an important year in order to found the basis for future growth of Kongsberg Protech Systems remote-controlled weapons systems. New factories and sales offices in the U.S. and Canada, as well as sales offices in Australia have been opened. These countries are important markets that are already customers, but which also offers significant opportunities ahead. Substantial resources have been spent on product development. The most important development has been the Medium Caliber Remote Weapon Station (MCRWS). This is an innovative, new tower solution. The first contracts may be signed as early as 2012. The market potential for MCRWS and other new solutions are considered to be significant, both within the 17 current customer countries and within new markets.

Other Activities

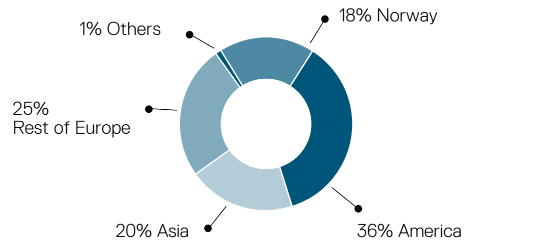
Kongsberg Oil & Gas Technologies (KOGT) is a strategic priority for KONGSBERG. The area is under development and delivers high-tech niche products for the oil and gas market. The area has since the restructuring of the operations in 2010 shown good efficiency improvements and demonstrated positive margins in 2011. Both revenue and new orders increased significantly in 2011 compared with 2010. In June 2011, the first commercial version of the simulation tool Leda Flow was launched in the market. Leda Flow is a simulation tool for transportation of oil, gas and water in the same pipeline, also known as multi-phase transport. The tool provides a basis for more accurate decisions both in the physical development phase and the production phase of a field, which in turn contribute to a better environment, increased security and lower costs. In October 2011 KOGT signed an agreement to supply installation system for flexible pipelines - Capstan Reel Installation System (CRIS). CRIS is an advanced, innovative new system of piping, where the purpose is to reduce the risk, complexity and cost of such operations. KOGT shall develop, build and deliver the system as a complete solution for installation on an offshore vessel. The future potential of CRIS system might be significant.

KOGT delivers subsea products and systems through its EPC (Engineering, Procurement and Construction) projects. The company also has a range of information technology solutions for drilling operations, production, reservoir and underwater environment. Several of the area's products are under development or in their early life cycle. There is a growing global demand for energy, with the greatest expected demand in India, China and countries in South East Asia. In 2011 Kongsberg Oil & Gas Technologies improved its position in the oil and gas market and is by the solutions for safer and more efficient operations well positioned to take further stakes in this market.

DISTRIBUTION
OF EBITA



GEOGRAPHICAL DISTRIBUTION
OF REVENUES



The KONGSBERG share and shareholders

The price of the KONGSBERG's share fell from NOK 133.00 at the end of 2010 to NOK 116.00 at the end of 2011. This provides a market capitalization at the end of 2011 at MNOK 13,920. Including the dividend of 3.75 per share in 2011 the return was minus 10 per cent. During the same period The All-Share Index (OSEBX) on the Oslo Stock Exchange had a negative trend of 12.5 per cent. As of 31 December 2011 KONGSBERG had 7,213 shareholders - an increase of 613 from the previous year. The Group had 751 foreign shareholders who collectively owned 8.69 per cent of the shares (7.50 per cent). The Norwegian State, represented by the Ministry of Trade and Industry is the largest shareholder with a 50.001 per cent of the shares. The 10 largest shareholders had at the end of the year a total of 80.93 per cent (82.12) of the shares. Number of shares outstanding is 120 million, 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 2011, it was decided to pay a dividend of NOK 3.75 per share for 2010. The Board will propose a dividend of NOK 3.75 per share for 2011 to the General Meeting on 7 May 2012.

In 2011, a total of 13.7 million (14.1 million) KONGSBERG shares were traded in 37,189 (25,829) transactions. The liquidity of the share has improved in recent years, but remains at a low level. The company works actively to promote interest in the share through activities within the investor markets. KONGSBERG is regularly represented at road shows, meetings and conferences both in Norway and abroad. The goal for 2012 is to continue the high activity against the investor market. Investor presentations are held in connection with the quarterly reports, as well as an annual Capital Markets Day. In recent years the analyst coverage of the company has been strengthened. At the end of the year 12 securities firms had active coverage of the share.

The Board believes that employee share ownership is positive. At 31 December 2011 over 2,000 employees held in total approximately 3.5 million shares in KONGSBERG. This represents approximately 3 per cent of the shares. During the spring 2011, the Group's annual share program for employees conducted for the fifth time. A total of 412,314 (378,784) shares were sold at a price of NOK 124.00 (20 per cent discount on the market price). 1,933 (1,323) employees took advantage of the offer.

Comments on the 2011 financial statements

Revenues

The Group's operating income was 2.4 per cent lower in 2011 compared to 2010. Kongsberg Maritime (KM) and Kongsberg Defence Systems (KDS) have increased the revenues while there is a reduction in Kongsberg Protech Systems (KPS). Order back-log in the KM and KDS provides a good basis for further growth while KPS is in a transitional phase between the CROWS II and the next phase of this program, together with launching of several new products in the market.

EBITA development

The good margins are a result of a favorable mix of products and projects, and continuous improvement throughout the organization related to both project execution, capital and logistics optimization, management and utilization of the Group's marketing team. The margin in 2011 was negatively impacted as a result of arbitration proceedings in Hungary. Excluding this arbitration case the margin is strengthened in all business areas.

Earning

Earnings before tax was MNOK 2,008 (MNOK 2,097). Profit for the year was MNOK 1,430 (MNOK 1,500), equivalent to NOK 11.93 (NOK 12.46) per share. The Board will on this basis, propose to the Annual General Meeting that the dividend for fiscal 2011 is 3.75 per share (3.75 per share).

Cash flow

In 2011 KONGSBERG generated a cash flow from operations MNOK 1,643 (MNOK 2,018). This primarily

	Kongsberg Gruppen ASA	*Kongsberg Maritime*	*Kongsberg Defence Systems*	*Kongsberg Protech Systems*
REVENUES				
2011	15 128	6 693	3 895	4 185
2010	15 497	6 286	3 376	5 683
Percentage change	(2.4%)	6.5%	15.4%	(26.4%)
EBITA				
2011	2 132	1 078	263	755
2010	2 216	991	245	995
Percentage change	(3.8%)	8.8%	7.3%	(24.1%)
EBITA-MARGIN				
2011	14.1%	16.1%	6.8%	18%
2010	14.3%	15.8%	7.3%	17%

consists of operating profit before depreciation and amortization (EBITDA) of MNOK 2,394 net of taxes and adjusted for changes in net current assets and accruals. MNOK 799 of the cash flow from operations was in investing activities, of which MNOK 438 is related to the purchase of property, plant and equipment. In 2011, a dividend of MNOK 450 was paid to the shareholders. Net receipts of MNOK 25 are related to financing activities. This provides a net cash flow in 2011 of MNOK 419.

Capital management

The Group's equity at 31 December 2011 was MNOK 5,484 or 35.1 per cent of total assets. Book equity increased by MNOK 603 during 2011.

The Group's cash balance (cash less interest bearing debt) at 31 December 2011 was MNOK 2,191 (MNOK 1,813). Gross interest-bearing debt mainly consists of two bond issues totaling MNOK 800. The Group has an undrawn syndicated loan facility of MNOK 1,000, which expires in July 2015. The loan facility requires that net debt does not exceed three times EBITDA, but can be up to 3.5 times EBITDA for a maximum of three quarters.

KONGSBERG's operations reflect a long-term perspective on performance and strategy. 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.

Currency

KONGSBERG's currency policy is that the contractual currency flows are mainly hedged using forward contracts (project hedges). Additionally, a portion of expected new orders is hedged in line with the currency policy (forecast hedges).

At the end of 2011 the balance of forward contracts related to the project hedges was MNOK 8,063 measured at hedged rates. At 31 December 2011 these forward contracts had a net value of MNOK 32. In addition, the Group had MNOK 3,561 in forecast hedges measured at hedged rates, consisting of forward contracts. At 31 December 2011 the forecast hedges had a total net value of MNOK 24.

Risk factors and risk management

The Group is exposed to different types of risks, and the Board monitors closely trends in the various risk areas. 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 Audit Committee will meet as a minimum, in connection with the issue of annual and interim financial statements.

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

Financial risk

KONGSBERG has a centralized financial risk management. The Board has adopted guidelines for financial risk management, which is included in the Group's financial policy. KONGSBERG aims to balance the financial risk and to establish predictability. KONGSBERG is exposed to financial risks such as credit, liquidity and refinancing, foreign exchange, interest rate and market risk associated with financial investments.

Credit risk is the risk of loss if a contract partner is not fulfilling its obligations. The customer base is diversified and consists primarily of governmental institutions and large private companies. Historically, the Group has had modest losses on receivables. The development in the global economy in general and shipbuilding and shipping industry in particular, has to some extent increased the credit risk in recent years. As a result, measures are taken to limit the risk exposure.

Liquidity and refinancing risk is the risk that KONGSBERG will be unable to meet its financial obligations as they fall due. At 31 December 2011 the Group has an undrawn syndicated loan facility of MNOK 1,000, which runs until July 2015. The Group also has two bond loans respectively MNOK 300 and MNOK 500, with maturities of 30 March 2012 and 14 April 2014. At 31 December 2011 KONGSBERG had a net cash balance of MNOK 2,191.

A large proportion of the customers of the Group are foreign, and a large portion of the revenue is in foreign currency. As a result, the Group's revenues are affected by fluctuations in the exchange ratio between the Norwegian kroner (NOK) and other currencies. The Group reduces the foreign currency risk through a firm currency policy. The currency policy of KONGSBERG means that the contractual currency cash flows are mainly hedged using forward contracts (project hedges). Additionally, the Group hedges a portion of the expected new orders according to the established policy (project hedges). The policy regulates how much of the expected order income to be hedged, depending on the timing of the expected order income and currency levels. In this way, the Group seeks to mitigate the effects of currency fluctuations of up to two years.

For further description of the Group's financial risk management, we refer to Note 5 "Financial risk management objectives and policies"

Operational risk

The Group's value creation consists primarily of systems with high technological complexity. Deliveries are generally organized as projects. Effective management of projects is a key success factor in reducing our operational risk. KONGSBERG has established goals for the project management based on internal and external "best practice". Project managers attend an internal training program.

The projects' revenues are based on contracts, and the uncertainty is mainly related to the assessment of the remaining costs and determining the percentage of completion. The Group has established principles for the categorization of projects in terms of technological complexity and development content. This forms the basis for the assessment of "profit at risk" and recognition of revenue in the projects. "Profit at risk" is the result retained in the projects until the uncertainty is resolved.

Risk related to non-compliance by non-financial factors

KONGSBERG has recently established a Corporate Compliance function. Rules and monitoring systems are established for managing risks related to non-financial issues such as anti-corruption, competition regulations, health and safety, etc. This work is further strengthened in 2011. All business areas has, during the year, established separate compliance functions and systematic reporting of the status of compliance of non-financial conditions is introduced. The key policy documents are reviewed and updated. Training in the area of ethics and compliance are implemented throughout the organization, both in Norway and abroad.

Market-specific risk

Business risk is related to market conditions, competitors and other general business conditions in the markets in which KONGSBERG operates. KONGSBERG has good positions in the shipping/offshore and defence markets and has a high order backlog. Cancellations in the shipyard industry, cutbacks in defence budgets in several countries and a general, long-term economic downturn have increased the Group's risk which may impact the Group's level of activity over time. The Group operates in several markets that are largely influenced by independent factors. General economic trends will, in varying degree and at different times, influence these markets.

Technology, Research and Development

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

Corporate Social Responsibility

KONGSBERG shall represent a sustainable development characterised by a good balance between economic performance and social responsibility. The Group's corporate social responsibility shall be in line with the general national and international development on these topics.

The Board has paid special attention to the Storting report No. 13 (2010-2012) - Active Ownership with respect to the expectations placed on KONGSBERG by the largest shareholder. In this connection, the Group's corporate social responsibility work has focused on anti-corruption, development of procedures for monitoring supplier network in relation to issues related to social responsibility, dialogue with stakeholders, preparation of a climate strategy and strategy for sustainability and social responsibility. These areas will gain a lot of attention in 2012.

Reference is made to the report for corporate responsibility for a more detailed description of the Group's corporate social responsibility work. The report has been evaluated 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 is following up the HSE work closely reviewing safety reports each quarter. During 2011 there has been a focus on HSE training, and further improvement of HSE reporting routines. The reporting routines of the foreign subsidiaries are good, and figures on sickness absence and accidents from the international offices are an obvious part of the HSE report.

During 2011 there were 87 accidents within the Group. Of these, 46 were near-accidents. The number of recorded injuries resulting in absence was 3, while 14 injuries did not lead to absence. 24 events led to treatment. There are no registered occupational diseases or work-related fatalities during 2011. Total absence due to illness was reduced from 2.5 per cent in 2010 to 2.2 per cent in 2011.

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

KONGSBERG has many employees outside Norway and the number has grown during 2011. This requires additional attention to and insight with respect to HSE issues in the countries in which we operate.

Personell and organisation

KONGSBERG is working continuously to adapt the organisation to the Group's markets. The focus is largely on developing international operations acquired by the Group. This is both cost effective and provides local presence and competitiveness. One of the Group's goals is that our international subsidiaries as far as possible should be staffed with local employees.

KONGSBERG has a unique and strong culture that has been developed over many years. In 2010 a project was completed to develop, coordinate and implement a common set of values for the entire group. This work has been continued within the organisation during 2011.

An important premise for long-term success is that KONGSBERG manages employees' competence in a good way. The goal is to develop and increase the diversity of the Group, so that different experience, culture, education and way of thinking are represented. This helps to increase the ability to renew and provides better decisions. The Group is aiming to increase the exchange of knowledge and staff between the business areas. Good work processes and development opportunities are important incentives in recruiting and keeping good employees. KONGSBERG emphasizes education, and work continuously to develop and coordinate training for our employees.

KONGSBERG invests in leadership programs. High competence and capacity among the leaders of the Group is one of the most important elements in achieving the strategy of KONGSBERG. Leadership @ KONGSBERG is developed in order to obtain clarification and quality assurance with respect to processes for goal setting, following up on goals and evaluation, and to ensure an orderly development of the Group's global management capacity.

Cooperation with employee unions and organizations through the established cooperation and representation schemes are well functioning and constitutes a valuable contribution in meeting the Group's challenges in a constructive way. The Board has decided to pay a bonus of NOK 8,000 to all employees and thank all staff for their hard work during the year.

Equal rights

KONGSBERG has a personnel policy designed to ensure equal opportunities and rights, and to prevent discrimination on the grounds of ethnicity, national origin, skin color, language, religion, philosophy of life, age or gender. 20,9 per cent of the employees are women, and two of five shareholder-elected directors on the Board are women. There is one woman in the Corporate Executive Management and another woman in a leading position that reports to the Chief Executive Officer. The Group has worked continuously in 2011 with measures to promote gender equality and to prevent discrimination in conflict with the Act relating to gender equality. The Board considers the Group to be in compliance with current regulations.

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

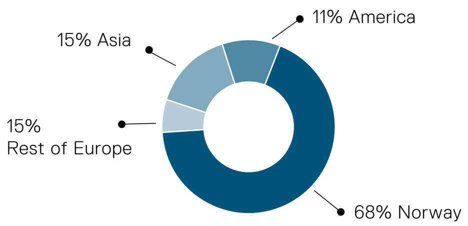
Some of KONGSBERG's operations include projects that require special security clearances for employees. In certain cases, this may place constraints on which individuals can be hired.

Corporate Governance

KONGSBERGS's 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 best possible value creation, at the same time as the Group's resources are to be used in an efficient, sustainable manner. The value creation should benefit shareholders, employees, customers and society-at-large.

The Board emphasizes the importance of reviewing and updating the Group's corporate governance documents annually to comply as far as possible with the "Norwegian Code of Practice for Corporate Governance". The description on pages 65-75 is based on the latest revised version of the Norwegian Code of Practice for Corporate Governance (21 October 2010).

GEOGRAPHICAL DISTRIBUTUTION
OF EMPLOYEES



NUMBER OF
EMPLOYEES

	31 Dec. 2011	*31 Dec. 2010*
Kongsberg Maritime	3 700	3 136
Kongsberg Defence Systems	1 705	1 496
Kongsberg Protech Systems	834	670
Kongsberg Oil & Gas Technologies	325	273
The Corporate Centre	55	47
Kongsberg Teknologipark	62	59
Total in the Group	**6 681**	**5 681**
Percentage abroad	**32%**	**30%**

Salaries and other remuneration to senior executives

The Board has a separate compensation committee which deals with all significant matters relating to wages and other remuneration to employees subject to formal discussions and decision within the Board. In line with the Norwegian Companies Act, the Board has also prepared a Statement on the Group CEO and Executive Management Remuneration, included in Note 27 of the financial statement.

Profit after tax and allocations of net profit

The parent company Kongsberg Gruppen ASA had in 2011 a net profit of MNOK 437. The Board proposes the following allocation of net profit in Kongsberg Gruppen ASA:

Dividend: MNOK 450
From other equity: MNOK 13
Total allocated: MNOK 437

The proposed dividend account for about 30 per cent of the net profit of the Group and is in line with the Group's dividend policy.

KONGSBERG had, as of 31 December 2011, an unrestricted equity of MNOK 1,002.

Prospects for 2012

Kongsberg Maritime has in the recent years built up strong market positions which are expected to be maintained. The business area's markets are strongly influenced by the development in the offshore industry and the world trade in general. New orders largely depend on the order books of the shipyards. New orders for offshore vessels remain at a relatively good level. Offshore related orders have accounted for about 60 per cent of Kongsberg Maritime's new orders in the recent years. Contracting of a new merchant marine vessels has been at a relatively low level during 2011, which may affect the Kongsberg Maritime's orders from this segment. Strengthening the global aftermarket and customer support provides good results and builds a good, stable foundation for future earnings. The business area implements continuous measures to adapt its capacity and product portfolio to the market needs. The Board considers that the activity level of the business area as total will be good in 2012.

Kongsberg Defence Systems has several large and long-term delivery programs in the implementation phase, which constitutes good prospects for earnings. The business area is working on specific new opportunities for sales and development of missiles, submarine and air defence systems. The structure of production of advanced composite components for the F35 program continues, but the program develops somewhat slower than previously assumed. The Norwegian Parliament has given its approval to the development and financing of step two of the Joint Strike Missile program (JSM), which implies that the development of the missile will continue. The Board considers that the business area will still have an increasing activity in 2012.

Kongsberg Protech Systems has developed a very strong position in the global market for vehicle-based weapons systems. KONGSBERG's design was selected to the next phase of the CROWS program in the United States, and it is expected that the production supplier will be elected in 2012. We work actively with both new and existing customers in many countries. In the United States and Europe there are large vehicle programs that are either being planned or approved for implementation. These programs represent a significant potential for several of the products within the business area. There are considerable development activities in the business area and the first contract on the new Medium Caliber Remote Weapon Station may be signed in 2012. The order backlog includes adequate margins, but the margin in 2012 are expected to be below 2011. Due to changes in delivery schedules and delays in new orders, the outlook for Kongsberg Protech Systems has become more uncertain and the Board of Directors expects a lower level of activity for this business area in 2012 than in 2011.

KONGSBERG is well-positioned in the shipping, offshore and defence markets. The Group has a solid backlog of orders, and there are good conditions for the operation although the uncertainty in the global economy is still considerable.

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 prognosis. The Group is in a healthy economic and financial position.

Kongsberg 27 March 2012

Finn Jebsen Chairman	Anne-Lise Aukner Deputy chairman	Erik Must Director	Irene Waage Basili 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*	*2011*	*2010*
Revenues	6	15 128	15 497
Total revenues		**15 128**	**15 497**
Cost of sales	7	(5 609)	(6 906)
Personnel expenses	8	(4 539)	(4 003)
Other operating expenses	28	(2 586)	(2 103)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**2 394**	**2 485**
Depreciation	10	(262)	(269)
Earnings before interest, taxes and amortisation (EBITA)		**2 132**	**2 216**
Amortisation	11	(97)	(103)
Earnings before interest and taxes (EBIT)		**2 035**	**2 113**
Financial income	13	49	49
Financial expenses	13	(76)	(65)
Earnings before taxes (EBT)		**2 008**	**2 097**
Income tax expense	14	(578)	(597)
Profit for the year		**1 430**	**1 500**
Attributable to			
Equity holders of the parent		1 431	1 495
Non-controlling interests		(1)	5
Earnings per share in NOK			
- profit for the year/profit for the year, diluted	15	11.93	12.46

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

KONGSBERG GRUPPEN (GROUP)

Amounts in MNOK	*Note*	*2011*	*2010*
Profit/loss for the year		**1 430**	**1 500**
Change in fair value			
-Cash flow hedges, currency	20F	(261)	(60)
-Available-for-sale shares	16	(12)	(44)
Actuarial gains/losses	9	(246)	(54)
Translation differences, currency		14	27
Taxes on items recognised in statement of comprehensive income	14	142	32
Comprehensive income for the period		**1 067**	**1 401**
Of which			
Equity holders of the parent		1 068	1 396
Non-controlling interests		(1)	5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

KONGSBERG GRUPPEN (GROUP)

Amounts in MNOK	*Note*	*31 Dec 11*	*31 Dec 10*
ASSETS			
Non-current assets			
Property, plant and equipment	10	2 430	2 182
Goodwill	11, 12	1 998	1 781
Other intangible assets	11	746	655
Available-for-sale shares	16	114	129
Other non-current assets	17	144	101
Total non-current assets		**5 432**	**4 848**
Current assets			
Inventories	7	3 274	3 034
Receivables	18	2 645	1 694
Construction contracts in progress, asset	19	799	936
Derivatives	20A	385	805
Cash and short-term deposits	21	3 083	2 660
Total current assets		**10 186**	**9 129**
Total assets		**15 618**	**13 977**
EQUITY, LIABILITIES AND PROVISIONS			
Equity			
Issued capital		982	982
Other capital reserves		90	276
Retained earnings		4 392	3 599
Equity attributable to owners of the parent		**5 464**	**4 857**
Non-controlling interests		20	24
Total equity	**22**	**5 484**	**4 881**
Non-current liabilities and provisions			
Long-term interest-bearing loans	20D	570	847
Pension liabilities	9	460	316
Derivatives	20A	6	6
Provisions	23	126	147
Deferred tax liability	14	609	546
Other non-current liabilities		105	62
Total non-current liabilities and provisions		**1 876**	**1 924**
Current liabilities and provisions			
Construction contracts in progress, liability	19	2 703	2 695
Derivatives	20A	330	173
Provisions	23	1 075	1 035
Short-term interest-bearing loans	20D	322	-
Other current liabilities	24	3 828	3 269
Total current liabilities and provisions		**8 258**	**7 172**
Total liabilities and provisions		**10 134**	**9 096**
Total equity, provisions and liabilities		**15 618**	**13 977**

Kongsberg, 27 March 2012

Finn Jebsen
Chairman

Anne-Lise Aukner
Deputy chairman

Erik Must
Director

Irene Waage Basili
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)

		Equity attributable to owners of the parent						Total equity attributable to owners of the parent	Non-controlling interest	Total equity
		Issued capital		*Other capital reserves*			*Retained earnings*			
Amounts in MNOK	*Note*	*Share capital*	*Other issued capital*	*Hedge reserve*	*Shares at fair value*	*Translation difference, foreign exchange*				
Equity at 1 Jan 2010		**150**	**832**	**343**	**56**	**(63)**	**2 386**	**3 704**	**22**	**3 726**
Profit for the year							**1 495**	**1 495**	**5**	**1 500**
Statement of comprehensive income		**-**	**-**	**(43)**	**(44)**	**27**	**(39)**	**(99)**		**(99)**
Dividends	22	-	-	-	-	-	(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**
Equity at 1 Jan 2011		**150**	**832**	**300**	**12**	**(36)**	**3 599**	**4 857**	**24**	**4 881**
Profit for the year							**1 431**	**1 431**	**(1)**	**1 430**
Statement of comprehensive income				**(188)**	**(12)**	**14**	**(177)**	**(363)**		**(363)**
Trading in treasury shares		-	-	-	-	-	(6)	(6)	-	(6)
Dividends	22	-	-	-	-	-	(450)	(450)	-	(450)
Purchase, non-controlling interests		-	-	-	-	-	(5)	(5)	(2)	(7)
Dividends, non-controlling interests		-	-	-	-	-	-	-	(1)	(1)
Equity at 31 Dec 2011		**150**	**832**	**112**	**-**	**(22)**	**4 392**	**5 464**	**20**	**5 484**

CONSOLIDATED CASH FLOW STATEMENT 1 JANUARY – 31 DECEMBER

KONGSBERG GRUPPEN (GROUP)

Amounts in MNOK	*Note*	*2011*	*2010*
Profit for the year		**1 430**	**1 500**
Depreciation on property, plant and equipment	10	262	269
Amortisation on intangible assets	11	97	103
Net financial income/(expenses)	13	27	16
Income tax expense	14	578	597
Earnings before tax, depreciation and amortisation		**2 394**	**2 485**
Adjusted for			
Changes in construction contracts in progress, asset		307	311
Changes in construction contracts in progress, liabilities		(52)	(362)
Changes in other current liabilities		605	455
Changes in inventories		(199)	(447)
Changes in receivables		(818)	(186)
Change in provisions and other accrual items		50	336
Income tax paid		(644)	(574)
Net cash flow from operating activities		**1 643**	**2 018**
Cash flow from investing activities			
Proceeds from sale of property, plant and equipment	10	4	10
Purchase of property, plant and equipment	10	(438)	(424)
Capitalised internally developed intangible assets (R&D)	11	(121)	(124)
Purchase of intangible assets	11	(6)	-
Net cash flow upon acquisition of subsidiaries	29	(226)	(93)
Net payment of loans and buying/selling of shares	17, 21	(12)	56
Net cash flow from investing activities		**(799)**	**(575)**
Cash flow from financing activities			
Proceeds from loans	20D	45	18
Interest received		45	69
Interest paid		(38)	(89)
Purchase of treasury shares		(19)	(9)
Transactions with non-controlling interests		(8)	(13)
Dividends paid	22	(450)	(240)
Net cash flow from financing activities		**(425)**	**(264)**
Total cash flow		**419**	**1 179**
Effect of changes in exchange rates on cash and short-term deposits		**4**	**18**
Net change, cash and short-term deposits		**423**	**1 197**
Cash and short-term deposits, beginning of year		**2 660**	**1 463**
Cash and short-term deposits, end of year	**21**	**3 083**	**2 660**

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 approved KONGSBERG's consolidated financial statements for the year ended at 31 December 2011 at its meeting on 27 March 2012. The consolidated financial statements for 2011 include the parent company and subsidiaries (collectively referred to as "KONGSBERG" or "the Group"), as well as the Group's investments in associates and jointly controlled entities.

2 BASIS FOR THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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 International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as the Norwegian disclosure requirements ensuing from the Accounting Act applicable at 31 December 2011. The IFRS, as adopted 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 financial statement if KONSBERG had used the IFRS standards issued by IASB.

The consolidated financial statements have been prepared on a 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

Significant accounting judgement, estimates and assumptions

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

For more detailed information about significant accounting estimates that could have a significant impact on the amounts recognised in the following 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 "Construction contracts in progress"
- Estimates of whether own-financed 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, including the calculation of recoverable amounts from cash-generating units, cf. Note 12 "Impairment test of goodwill"
- 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 Construction contracts, cf. Note 19 "Construction contracts in progress"
- Estimates related to future warranty commitments and other provisions, cf. Note 23 "Provisions"

In the preparation of the financial statements, management has made some significant and critical judgments relating to the application of accounting principles.

For more details about significant areas requiring critical judgments relating to the application of accounting policies 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" and Note 19 "Construction contracts in progress"
- The application of the principles for capitalising expenses related to development, cf. Note 3 F) "Summary of significant accounting policies –Intangible assets" and Note 11 "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, holds more than 50 per cent of the shares in the entity, or when the Group is able to exercise control over the entity through agreements or statutes. In assessing control, potential voting rights that can be exercised immediately or are convertible, is taken into consideration.

On initial recognition subsidiaries are measured at their fair value on the date of acquisition. Fair value is allocated to the identified assets, liabilities and contingent liabilities. The unallocated purchase price is classified as goodwill. New subsidiaries are included in the consolidated financial statements from the date of acquisition. The date of acquisition is the date where KONGSBERG obtains control of the acquired company. Normally, 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 proportionate share or to include non-controlling interests. Entities that constitute the Group are listed in Note 30 "List of Group companies".

Contingent considerations to be disbursed at a later date when certain conditions of the acquisition are met, are recognised at fair value on the date of the acquisition. Subsequent changes in the fair value of contingent consideration classified as an asset or liability are recognised according to IAS 39 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

All intra-group balances and unrealised gains and losses that arise between Group entities are eliminated in full. Unrealised losses are eliminated correspondingly, unless they are related to impairment which requires that they are included in the consolidated financial statements.

Non-controlling interests

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

B) Foreign currency

The Group`s consolidated financial statements are presented in NOK (Norwegian kroner), which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Upon initial recognition, foreign currency transactions are measured in the functional currency on the date of the transaction. Construction contracts are hedged and recognised based on the hedged exchange rate (project hedges). Trade receivables, other receivables, accounts payable and other financial liabilities in foreign currency are retranslated at the functional currency spot rate at the reporting date. All differences are taken into the income statement with the exception of all differences that arise from the restatement of cash flow hedges, and which satisfy the criteria for hedge accounting. These are recognised as other revenues and expenses in other comprehensive income (OCI). (Further information is included under F "Financial instruments").

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 of foreign operations in functional currencies other than NOK, are translated into NOK at the rate of exchange prevailing at the reporting date. Revenues and expenses in foreign currencies are translated into 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 a foreign entity, the accumulated translation differences are recognised in the income statement and reversed at the same time in the statement of OCI. Translation differences are not recognised in the income statement 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 applied the following criteria to define a construction contract:

1. A binding contract negotiated individually which takes a customer's special requirements into account
2. Construction based on the customer's specifications which entail individual design and/or development
3. The contract is enforceable and cancellation will require the customer 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

Contracts that do not meet the definition of construction contract are recognised as ordinary sale of goods at the time of delivery.

Recognition of project revenues and expected contract profit is calculated from the individual projects percentage of completion. The percentage of completion is normally set on the basis of costs incurred in relation to the total expected costs. In some cases other progress measures can be used if this provides a better estimate of the actual progress and value added in the project.

Accumulated value of contracts in progress is included in operating income. In the statement of financial position accumulated value not invoiced are reported on the balance sheet under "Construction contracts in progress, assets". Accumulated value is based on the percentage of completion and determined as incurred production costs in addition of a proportion of earned contract profit. Production costs include direct wages, direct materials and a proportionate share of the individual business areas' indirect costs, distributable by projects. General development costs, sales costs and common administrative costs are not included in production costs.

Recognised accrued contract profit shall not exceed a proportional share of the estimated total contract profit. If the profit on a contract cannot be estimated reliably, the project will be recognised without a profit until the uncertainty is sufficiently reduced. When it is probable that total contract costs will exceed total contract revenue the expected loss is recognised immediately. A construction contract is expected to be an onerous contract when the remaining estimated costs exceed the remaining revenues in the contract.

The carrying value of construction contracts are presented in the statement of financial position based on an assessment of the financial status of the individual construction contracts. Classification is done on a contract-to-contract basis unless there is an agreement regarding set-offs. If so, the contracts can be considered together. All balances are netted for each construction contract in the financial statements and presented on one line in the statement of financial position. Each contract is presented as either "Construction contracts in progress, asset" or as "Construction contracts in progress, liability". Accounts receivable related to construction contracts are netted to balance sheet items to the extent that the construction contract has recorded prepayments (billing exceeds accumulated earnings). The balance items will therefore only contain actual advances received.

Additional contractual services and estimated additional costs are included in the original project costs estimate and recognised in line with the overall project. Construction contracts that involve one or more similar deliveries are recognised with similar contract profit and at the same stage of completion if a contract has been signed, or in several contracts concluded with the same buyer at the same time, and where the deliveries not could 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 requires a high probability that the contract will be signed.

Goods/standard production/services

The ordinary sale of goods and standard production not covered by a construction contract are usually recognised on an accrual basis, which is usually upon delivery. Delivery is considered complete most significant risks and rewards for the delivered goods are transferred to the customer. 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/system deliveries".

License revenues
The Group also sells licenses for the use of software systems. License revenues are normally recognised on a systematic manner on an accrual basis, 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. 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. When combined deliveries with different recognition criteria, the various elements are identified and recognised as income separately. Regarding sale of goods with accompanying maintenance services, the goods are recognised as income upon delivery, while the maintenance services are recognised as deferred income and recognised as income over the period in which the service is performed.

When market prices can be obtained for the various elements to be delivered, the income is 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 where no market prices can be obtained, KONGSBERG has the following principles for 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
Current income tax in the financial statements includes 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 temporary differences between the values used for accounting purposes and those used for taxation purposes, adjusted for deductible temporary tax-reducing differences and tax losses carried forward if this satisfies the requirements in IAS 12.71.

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

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

E) Financial income and financial expenses
Financial income compromises interest income, dividends, foreign currency gains, changes in value of assets to fair value through the profit and loss, and gains on disposals 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 approves the dividend.

Financial expenses compromise interest expenses, foreign currency losses, impairments on available-for-sale shares, changes in the value of assets to fair value through profit and loss, and losses on sale of assets available for sale where 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 acquisition of a business (business combination) and is not depreciated. Goodwill is recognised in the statement of financial position at cost less any accumulated impairment losses. Goodwill does not generate cash flows independent of other assets or groups of assets and is allocated to the cash-generating units that are expected to gain financial benefits from the synergies that arise from the business combination from which the goodwill is derived. Cash-generating units that are allocated goodwill are tested for impairment annually at the end of the year, or more frequently if indication of impairment.

Goodwill is tested for impairment by estimating the recoverable amount for the individual cash-generating unit or group of cash-generating units that are allocated goodwill and followed up by management. The group of cash generating units is in any case no larger than an operating segment as defined by IFRS 8 Operating segments.

Impairment is calculated by comparing the recoverable amount with the individual cash-generating unit's carrying amount. The recoverable amount is the higher of value in use or net realisable value. The Group uses the value in use to determine the recoverable amount of the cash-generating units. In determining the value in use, the expected future cash flows are discounted to net present value using a discount rate before tax that reflects the market's target for a return on investments for the cash-generating unit in question. If the value in use of the cash-generating unit is less than the carrying amount, impairment reduces the carrying value of goodwill and then the carrying value of the unit's other assets on a pro rata basis, based on the carrying value of the individual assets. Impairment on goodwill is not reversed in a subsequent reporting period even if the recoverable amount of the cash-generating unit increases. Any impairment will be recognised through profit and loss in the financial statements. Impairment testing of goodwill is described in Note 12 "Impairment test of goodwill ". See also description 3 I) "Summary of significant accounting policies – Impairment of non-financial assets".

Development
Expenses related to development activities, including projects in the development phase, are recognised in the balance sheet if the development activities or project meet the defined criteria for capitalisation. Development comprises activities related to planning or designing 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 are recognised on the balance sheet. Costs include the cost of materials, direct payroll expenses and a portion of directly attributable overhead costs. 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 for the impairment testing. This is based on long-term budgets approved by the Board. For more details about estimation, see Note 11 "Intangible assets".

Assessments of the fulfillment of the criteria for capitalising development costs take place on an ongoing basis throughout the completion of the development projects. Based on technical success and market assessments, a decision is made during the development phase whether to complete development and start 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 is to be considered as development. Expenses related to maintenance are expensed as incurred.

Technology and other intangible assets

Technology and other intangible assets acquired and which have determined useful life are measured at cost less accumulated amortisation, as well as accumulated impairment losses. Amortisation is determined on expected useful life based on total production units or number of years. The expected useful life and the stipulated amortisation rate are reviewed during each period.

G) Property, plant and equipment

Property, plant and equipment are recognised at cost, net of accumulated depreciation and/or any accumulated impairment losses. Such cost includes expenses that are directly attributable to the acquisition of the assets. Property, plant and equipment are depreciated on a straight-line basis over their expected useful life. When individual parts of a property, a plant or equipment have different useful lives, and the cost is significant in relation to total cost, these are depreciated separately. 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 upon disposal 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 profit and loss. Expenses incurred after the asset is in use, e.g. day-to-day maintenance, are expensed as they are incurred. Other expenses which are expected to result in future economic 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. On initial recognition, the asset is measured at the lower of fair value and net present value of the agreed minimum rent. After initial recognition, the same accounting policies are used as 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 onerous 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 the highest of its value in use or fair value less net cost to sell. Value in use is calculated as the net present value of future cash flows. The calculation of net present value is based on a discount rate before tax and reflects current market assessments of the time value of money and the risks specific to the asset.

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 rata 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. Reversal of previous impairment is limited to the carrying value the asset would have had after depreciation and amortisation, if no impairment loss had been recognised.

J) Financial instruments

Financial assets and liabilities

Financial assets and liabilities consist of derivatives, investments in shares, accounts receivable and other receivables, cash and cash equivalents, 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 and loss, and directly attributable costs are expensed. An ordinary purchase or sale of financial assets is recognised and derecognised from the time an agreement is signed. Financial assets are derecognised when the Group's contractual rights to receive cash flows from the assets expire, or when the Group transfers the asset to another party and 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 through profit and loss
ii) Loans and receivables
iii) Available-for-sale financial assets

Financial derivatives are included in the category 'fair value through profit and 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 and provision for expected losses.

Except for investments in subsidiaries, joint ventures or associates in the statement of financial position on the date of the balance sheet, all shares are defined as financial instruments available for sale. Available-for-sale financial assets are measured at fair value on the date of reporting. Changes in the value of available-for-sale financial assets are recognised in the statement of comprehensive income (OCI), except for impairments, 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 through profit and loss.

Impairments on financial assets

When there is objective evidence that a financial asset's value is lower than its cost, the asset will be written down 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. Regarding available-for-sale assets, an asset is impaired when its present fair value is lower than its cost and the impairment is considered significant or prolonged. 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. The assessment are based on the impaired value.

Accumulated losses recognised in the statement of comprehensive income will also be transferred through profit and loss on the impaired assets. Impairment is reversed if the reversal is 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 and 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

Derivates in the Group comprise 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 through profit and loss as they incurred. Changes in the fair value of derivatives are recognised through profit and loss, unless they qualify for hedge accounting.

Hedging

KONGSBERG has as policy to limit currency risks, while taking a pro-active position on the importance of a currency as a competitive parameter. KONGSBERG's policy is to hedge all contractual foreign currency cash flows (project hedges). Additionally, parts of future projected currency cash 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 rate hedges).

At initial recognition of the hedge transaction, 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 of a recognised asset or liability, or an identified highly probable forecast transaction (prognosis hedges and interest rate hedges)

(i) Fair value hedges (project hedges)

The change in fair value of the hedged item is recognised in the income statement for the change in value that is hedged. For 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 in the statement of financial position. When it comes to construction contracts, this means that the part of the contract that is accrued is recognised at the current exchange rate, while the part of the contract that is not accrued is recognised as a gain or loss in connection with changes in the foreign exchange rate. Since the hedge instrument also is recognised at fair value, this entails symmetrical recognition of the hedged item and the hedge instrument. Overall this means that construction contracts are recognised at the hedged exchange rate.

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 recognised at amortised cost, the change in the value of the hedge instrument is amortised during the remaining period up to maturity of the hedged item.

(ii) Cash flow hedges (prognosis hedges and interest rate hedges)

By hedging highly probable 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 occurs, the accumulated change in value of the hedging instrument is transferred from the statement of comprehensive income and taken through profit and loss.

If hedging a highly probable forecast transaction subsequently leads to recognition of a asset or liability, the gain or loss will be reclassified from the statement of comprehensive income to profit and loss during the same period(s) in which the asset or liability affects profit or loss, e.g. over the period of depreciation for an asset.

In connection with hedges where the future transaction becomes a construction contract, the hedges are allocated to contracts at signing and occasionally rolled forward. Gains and losses are recognised in line with the contract`s percentage of completion. This means that construction contracts that are hedged before signing is recognised to the originally hedged exchange rate, as could be before the contract was signed. In connection with cash flow hedges of financial obligations, the change in value is transferred from the statement of comprehensive income to profit and loss during the term of the liability.

If a hedging instrument expires without being rolled forward or if the hedge relationship is discontinued, the accumulated gains and losses are recognised directly through profit and loss when the hedged transaction takes place. If the hedged transaction is no longer expected to occur, the accumulated unrealised gains or losses on the hedge instrument previously recognised in the statement of comprehensive income are recognised through profit and loss immediately.

Follow-up of hedging effectiveness

The current forward contracts are expected to be effective throughout the entire period. KONGSBERG rolls forward contracts forward from prognosis to project hedging upon signing the contracts. In addition, forward contracts (project hedges) are rolled over in cases where receipts/ payments take place later than originally anticipated. At shorter time differences between the maturity of the forward contracts and the receipts/ payments KONGSBERG uses bank accounts in foreign currency, so that the exchange of foreign currency from the foreign currency bank account falls within the same period as the final maturity of the forward contract or the receipts/ payments. Hedging effectiveness will therefore be very 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 fall due within 12 months are classified as current liabilities. Other liabilities are classified as non-current.

L) Inventories

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

M) Receivables

Trade receivables and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest method, less impairment. However, due to the brief term to maturity, accounts receivable and other receivables will in practice be recognised at their nominal values less impairment. Accounts receivable in foreign currencies are recognised at the exchange rates on the date of reporting.

N) Cash and short-term deposits

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

O) Equity

(i)Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is required in the income statement on the purchase, sale or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium.

(ii) Costs related to equity transactions

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

(iii) Hedge reserves

Hedge reserves include accumulated net changes in fair value for financial instruments used as cash flow hedges (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

Shares at fair value include the total accumulated net changes in fair value of 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. In general, provisions are based on historical data and a weighting of possible outcomes against the probability that they will occur. When historical information is not available, other sources are used to estimate the provisions. If the time value is material, provision are determined 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 that 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 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 contribution is 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 recognised as "personnel expenses". The statement of financial position shows net pension liabilities included 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 program for all employees, i.e. offering shares at a discounted price. Discounts on shares are recognised as payroll expenses.

R) Earnings per share

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

The figure for diluted earnings per share is the profit 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:

- IAS 24 – Related Party Disclosures (amended). Its effective date is 1 January 2010.
- IAS 32 – Financial Instruments: Presentation (amended). Its effective date is 1 February 2010.
- IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (amended). Its effective date 1 January 2011

None of these has caused changes in the consolidated financial statements for 2011.

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

In the financial statements for 2012 and later, the following standards, amendments and interpretations of existing standards will be mandatory. No early adoption has been chosen be The Group. The effective date is set as the EU commencement date to the extent this date differs from the effective date of IASB.

- IFRS 9 – Financial instruments (new). The effective date has not been set by the EU. (IASB 1 January 2015)
- IFRS 7 – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities. The effective date has not been set by the EU. (IASB 1 January 2013)
- IFRS 7 – Financial Instruments: Disclosures – The transfer of Financial Assets (amended). Its effective date 1 July 2011
- IFRS 10 – Consolidated Financial Statements: replaces IAS 27. The effective date has not been set by the EU. (IASB 1 January 2013).
- IFRS 11 – Joint Arrangements: replaces IAS 31. The effective date has not been set by the EU. (IASB 1 January 2013).
- IFRS 12 – Disclosure of Interests in Other Entities: replaces the disclosures part in IAS 27. The effective date has not been set by the EU. (IASB 1 January 2013).
- IFRS 13 – Fair Value Measurement. The effective date has not been set by the EU. (IASB 1 January 2013)
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments (new). Its effective date is 1 July 2011.
- IAS 12 – Income Taxes (amended). The effective date has not been set by the EU. (IASB 1 January 2012)
- IAS 19 – Employee Benefits (amended). The effective date has not been set by the EU. (IASB 1 January 2013)

- IAS 28 – Investments in Associates and Joint Ventures (revised). The effective date has not been set by the EU. (IASB 1 January 2013)

The following are comments on areas which management believes could have a significant impact on the Group's consolidated financial statements.

- IFRS 9 Financial instruments, which is expected to become mandatory at 1 January 2015 at the earliest, could change the classification and measurement of financial assets. The Group is not planning early adoption 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 certain non-financial assets and liabilities. For both measurement and disclosure purposes, fair value has been estimated as described in the disclosures below. Where relevant, further disclosures will be provided in the notes about the assumptions used to calculate fair value on the individual assets and liabilities.

Intangible assets

The fair value of intangible assets, e.g. technology, software and customer relations acquired through acquisitions, is calculated at the net present value of the estimated future cash flow from the asset, discounted by a risk-adjusted discount rate. Brand names are calculated at the net present value of the estimated savings of royalty costs by using the brand name. The fair value of customer relations is based on the discounted net excess earnings on the related asset.

Property, plant and equipment

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

Inventories

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

Investments in equity instruments

The fair value of available-for-sale financial assets is measured at the quoted price on the balance sheet date. Listed shares consist either of those listed on the Oslo Stock Exchange 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 last quoted price will be considered whether to provide a correct picture on the fair value. The alternative is to use the last traded share price and adjust it for significant events during the period from the last transaction and up to the balance sheet date. 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 to be used.

Derivatives

The fair value of forward contracts is measured on observable data. KONGSBERG uses Reuters' prices for 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 rate expected for comparable loans on the date of balance sheet recognition. The market interest rate, before the credit markup, is based on NIBOR, the money market interest rate.

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

KONGSBERG has a centralised treasury department 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 which have been included in the Group's financial policy.

Funding and capital management

KONGSBERG's operations reflect a long-term perspective, with defence contracts extending for three to five years, while the Group in all business areas has a long-term marketing strategy. This requires reliable access to capital over time, and KONGSBERG emphasises to maintain a good credit rating (investments grade) by their lenders and investors.

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 emphasises financial flexibility, and has capital structure requirements to 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 use of banks 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 rating 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 11*	*<1 year*	*2–3 years*	*3–4 years*	*4–5 years*	*>5 years*
Interest-bearing liabilities (bond loans)	800	300	500	-	-	-

At 31 December 2011, KONGSBERG had a syndicated credit facility of MNOK 1 000 which is undrawn and scheduled to mature in July 2015.

Due to covenants on existing loans, KONGSBERG will 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 has no other financial 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. The centralised treasury department bears the overall responsibility for managing the Group's liquidity risk. The Group's Financial Policy specifies requirements for liquidity reserves which guarantee that the Group 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 for 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 identify 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 (cash flow hedges) according to a matrix. The Group also has a foreign exchange policy to ensure a higher share of expected orders far in the further 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 up to two years. Forward contracts are the most commonly used hedging instruments. Options are used only to a limited extent. Currency accounts within the Group Cash Pool 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 2011, KONGSBERG had two bond loans totaling MNOK 800 and an undrawn syndicated credit facility of MNOK 1 000.

KONGSBERG has as policy of emphasising predictability with respect 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 the risk that KONGSBERG's contractual counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The business areas disclose the credit risk.

The Group is exposed to credit risk from trade receivables, forward currency contracts, interest rate contracts and monetary investments.

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

At year-end 2011, KONGSBERG had MNOK 2 815 in gross accounts receivable, of which MNOK 2 024 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 Defense Systems and Kongsberg Protech Systems mainly have government customers, and are to a small extent exposed to credit risk. Kongsberg Maritime generally serves customers from the private sector, and is more exposed to credit risk. Unrest in the global economy in general and in the shipyard and shipping industry in particular has increased the credit risk in the markets addressed by Kongsberg Maritime. Kongsberg Maritime has made 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 losses. Further, large parts of the Group operate on the basis of specially adapted credit manuals including 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 arising from 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 regularly reports on trends in the value of financial investments. See Note 16 "Available-for-sale shares" for further information.

6 SEGMENT INFORMATION

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. In Kongsberg Maritime 52% of the revenue is within Offshore, 22% by Merchant Marine and 26% by Subsea.

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. In Kongsberg Defence Systems 31% of the revenue is related to Missil Systems, 29% to Integrated Defence Systems, 26% to Naval System, 9% to Aerostructures and 6% to Defence Communications.

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. The US Army is the business area's largest customer.

The remainder of the Group's activities is included in the column "Other". 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 allocation of resources. The operating segments' performance is assessed based on operating profit (EBITA) and return on capital employed.

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

Operating segment information

Amounts in MNOK	*Kongsberg Maritime*	*Kongsberg Defence Systems*	*Kongsberg Protech Systems*	*Other*	*Elimination*	*Consolidated*
2011						
Revenues from external customers	6 639	3 638	4 167	684		15 128
Internal revenues	54	257	18	340	(669)	-
Total revenues	**6 693**	**3 895**	**4 185**	**1 024**	**(669)**	**15 128**
Earnings before interest, taxes, depreceation and amortisation (EBITDA)	**1 184**	**350**	**815**	**45**	**-**	**2 394**
Depreciations	(106)	(87)	(60)	(9)	-	(262)
Earnings before interests, taxes and amortisation (EBITA)	**1 078**	**263**	**755**	**36**	**-**	**2 132**
Amortisation	(34)	(19)	(5)	(39)	-	(97)
Earnings before interest and taxes (EBIT)	**1 044**	**244**	**750**	**(3)**	**-**	**2 035**
Segment assets	5 933	3 579	1 870	972	(122)	12 232
Segment investments	268	183	153	22	-	626
Current segment liabilities and provisions	2 798	2 758	1 845	424	(122)	7 703
2010						
Revenues from external customers	6 224	3 028	5 665	580	-	15 497
Internal revenues	62	348	18	43	(471)	-
Total revenues	**6 286**	**3 376**	**5 683**	**623**	**(471)**	**15 497**
Earnings before interest, taxes, depreceation and amortisation (EBITDA)	**1 108**	**319**	**1 064**	**(6)**	**-**	**2 485**
Depreciations	(117)	(74)	(69)	(9)	-	(269)
Earnings before interests, taxes and amortisation (EBITA)	**991**	**245**	**995**	**(15)**	**-**	**2 216**
Amortisation	(32)	(36)	(3)	(32)	-	(103)
Earnings before interest and taxes (EBIT)	**959**	**209**	**992**	**(47)**	**-**	**2 113**
Segment assets	5 063	3 390	1 625	745	(117)	10 823
Segment investments	171	243	118	16	-	548
Current segment liabilities and provisions	2 776	2 389	1 301	261	(117)	6 727

1. There are no differences between the measurement methods used at the segment level and those applied to the consolidated financial statements.
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 within 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	*2011*	*2010*
Segment assets	**12 232**	**10 823**
Available for sale shares	114	129
Other non-current assets	144	101
Derivatives	385	805
Fair value adjustments related to financial instruments	(340)	(541)
Cash and short term deposits	3 083	2 660
Total assets	**15 618**	**13 977**

Reconciliation of current liabilities and provisions

Amounts in MNOK	*2011*	*2010*
Current segments liabilities and provisions	**7 703**	**6 727**
Current liabilities	322	-
Derivatives	330	173
Fair value adjustments related to financial instruments	(441)	(326)
Tax payable	344	598
Total current liabilities and provisions	**8 258**	**7 172**

Geographical information

In presenting information by geographical segments, earnings are distributed based on the customers' geographical location, while the data on fixed assets are based on the location of the physical investment or relationship to the relevant 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).

Amounts in MNOK	*Norway*	*EU*	*Rest of Europe*	*North America*	*South America*	*Asia*	*Other*	*Total*
2011								
Revenues from external customers	2 742	3 162	579	5 142	255	3 064	184	15 128
Operating income as a % of total	18%	21%	4%	34%	2%	20%	1%	-
Fixed assets[1]	4 224	80	-	637	4	225	4	5 174
2010								
Revenues from external customers	2 415	2 765	361	6 596	187	2 899	274	15 497
Operating income as a % of total	16%	18%	2%	43%	1%	19%	2%	-
Fixed assets[1]	3 785	71	-	626	-	135	1	4 618

1) 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 11*	*31 Dec 10*
Raw materials	2 225	1 826
Work in progress	607	733
Finished products	442	475
Total	**3 274**	**3 034**
Impairment on inventories during the period	52	68
Cost of goods for the periode	5 609	6 906

8 PAYROLL EXPENSES

Salaries and other personell costs represent all cost associated with the remuneration of personell employed by the Group.

Amounts in MNOK	*Note*	*2011*	*2010*
Salaries		3 423	3 049
Performance-based salary	27	92	123
Social security tax		526	474
Pension expenses, defined benefit plans	9	88	49
Pension expenses, defined contribution Pension plans	9	218	165
Other benefits		192	143
Total payroll expenses		**4 539**	**4 003**
Average no. of FTE (full-time employees)			
Total		**6 070**	**5 436**

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 2011, there are 4 520 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 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, unfunded 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 "Related parties". 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 2011, about 3 700 employees in Norway and most of the 2 161 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 as of 1 January 2008, 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 DNB Life Insurance. 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 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 before 31 January 2011 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, unfunded contribution scheme for salaries between 12 and 15G. Special terms and conditions apply for executives. This is described in Note 27 "Related parties". The collective, unfunded benefits scheme is comparable to about 60 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 at 1 January 2008.

In 2008, the Group introduced new rules for early 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:

	31 Dec 11	*31 Dec 10*
Economic assumptions		
Discount rate	2.60%	3.75%
Asset return	4.10%	5.00%
Wage adjustment	2.75%	3.25%
Pension base-level (G) adjustment	3.25%	3.75%
Pension adjustment	0.10%	0.75%
Demographic assumptions		
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 prepared 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	
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	*2011*	*2010*
Service cost	91	92
Interest cost on accrued pension liabilities	61	59
Estimated return on pension plan assets	(70)	(80)
Previous years accrual for 12G scheme	-	6
Accrued social security expenses	12	11
	94	**88**
Settlement of old early retirement scheme	(6)	(39)
Total net pension cost for the year	**88**	**49**
Cost of defined contribution pension plans in Norway	202	146
Cost of defined contribution pension plans abroad	16	19

Change in net pension liabilities recognised on the balance sheet

	2011			2010		
Amounts in MNOK	*Funded*	*Unfunded*	*Total*	*Funded*	*Unfunded*	*Total*
Changes in gross pension liabilities						
Gross pension liabilities at 1 January	1 436	249	1 685	1 367	261	1 628
Net change in social security expenses	22	(4)	18	(2)	(1)	(3)
Aquisition	20	-	20	-	-	-
Current year service cost	84	7	91	70	27	97
Interest expenses on pension liabilities	54	7	61	54	6	60
Actuarial losses/gains	124	12	136	(4)	16	12
Settlement of old early retirement scheme	(5)	-	(5)	-	(34)	(34)
Reclassified	31	(26)	5	-	-	-
Payments of pensions/ paid-up policies	(59)	(30)	(89)	(49)	(26)	(75)
Gross pension liabilities at 31 December	**1 707**	**215**	**1 922**	**1 436**	**249**	**1 685**
Changes in gross pension fund assets						
Fair value, pension plan assets 1 January	1 369	-	1 369	1 287	-	1 287
Expected return on pension funds	70	-	70	80	-	80
Actuarial losses/ (gains)	(79)	-	(79)	(35)	-	(35)
Premium payments	147	-	147	86	-	86
Aquisition	9	-	9	-	-	-
Reclassified	5	-	5	-	-	-
Payments of pensions/ paid-up policies	(59)	-	(59)	(49)	-	(49)
Fair value, pension plan assets 31 December	**1 462**	**-**	**1 462**	**1 369**	**-**	**1 369**
Net capitalised pension liabilities at 31 December	**(245)**	**(215)**	**(460)**	**(67)**	**(249)**	**(316)**

The percentage distribution, pension plan assets by investment categories at 31 December 2011 and earlier was:

	2011	*2010*	*2009*	*2008*	*2007*
Long-term bonds	35%	33%	36%	29%	28%
Money market	23%	11%	8%	14%	7%
Short-term bonds	15%	15%	23%	30%	21%
Shares	8%	21%	14%	4%	25%
Property	18%	18%	17%	17%	16%
Other	1%	2%	2%	6%	3%
Recognised return on pension plan assets	**3.2%**	**6.2%**	**4.7%**	**1.9%**	**11.8%**

Amounts in MNOK	*2011*	*2010*	*2009*	*2008*	*2007*
Net liabilities at 1 January	(316)	(340)	(323)	(336)	(747)
Net change in social security expenses	(18)	3	(3)	2	50
Recognised pension cost	(82)	(78)	(68)	(74)	(132)
Settlement, pension plan	5	34	-	-	299
Premium payments	147	86	133	167	160
Disbursements	30	26	15	16	10
Purchase(s)/ sale(s)	(11)	-	-	-	-
Transition to proportionate consolidation method	-	-	-	-	1
Actuarial losses/gains	(215)	(47)	(94)	(98)	23
Net capitalised pension liabilities at 31 December	**(460)**	**(316)**	**(340)**	**(323)**	**(336)**

Actuarial losses/gains are recognised in the statement of comprehensive income by MNOK 246 including social sequrity expenses.

Historical information

Amounts in MNOK	*2011*	*2010*	*2009*	*2008*	*2007*
Gross pension liabilities at 31 December	1 922	1 685	1 628	1 454	1 289
Fair value, pension plan assets 31 December	1 462	1 369	1 287	1 129	950
Net pension liabilities 31 December	**(460)**	**(316)**	**(341)**	**(325)**	**(339)**
Actuarial gains/losses pension liabilities 31 Dec	136	12	98	89	8
Actuarial gains/losses pension assets 31 Dec	(79)	(35)	4	(9)	31
Accumulated actuarial gains/losses recognised in the statement of comprehensive income	**(1 145)**	**(968)**	**(929)**	**(852)**	**(771)**
Of this experience deviations	(1 053)	(968)	(929)	(852)	(771)

The old pension scheme was closed in 2010, and provided a net gain. The old contractual early retirement scheme has been replaced 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. The new scheme is a defined benefit multi-employer 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 made in the financial statements. A premium is paid to he new scheme of the total payments made between 1 G and 7.1 G to the company's employees. In 2011 the premium was 1.4 per cent, while it for 2012 is set at 1.75 per cent (estimated as MNOK 40). No fund will be built up in connection with the scheme, and the premium level is expected to increase in the coming years.

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 December 2011. The actual return on investments came to 2.1 per cent, but it will not be included in the capitalised assets until 2012.

The total pension premium payments for the defined benefit scheme for 2012 are expected to be MNOK 145.

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 return on pension fund assets, and employee turnover. These assumptions are updated annually. The discounting rate is stipulated on the basis of the long-term government bond interest rate, 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 December 2011, provided all other parameters are constant. 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%*
Defined benefit obligation (PBO)	20–22%	20–22%	10–12%	10–12%	15–17%	15–17%	2–3%	2–3%
Net pension cost for 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[1], buildings and other real property*	*Total*
Cost of acquisition				
1 Jan 2010	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**
Additions	189	159	90	438
Additions through business combinations	19	23	21	63
Disposals	(6)	(149)	(4)	(159)
Translation differences	4	7	6	17
Total acquisition cost 31 Dec 2011	**1 030**	**1 547**	**1 798**	**4 375**
Accumulated depreciation				
1 Jan 2010	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 depreciation, 31 Dec 2010	**348**	**1 036**	**450**	**1 834**
Depreciation for the year	56	145	61	262
Disposals	(6)	(148)	(1)	(155)
Translation differences	1	1	2	4
Total accumulated depreciation, 31 Dec 2011	**399**	**1 034**	**512**	**1 945**
Carrying amount 31 Dec 2010	**476**	**471**	**1 235**	**2 182**
Carrying amount 31 Dec 2011	**631**	**513**	**1 286**	**2 430**
Useful life	**3–10 years**	**3–10 years**	**10–33 years[1]**	
Annual rent paid for off-balance sheet property, plant and equipment	**7**	**-**	**42**	**49**

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

11 INTANGIBLE ASSETS

Amounts in MNOK	*Goodwill*	*Technology*	*Development costs*	*Other intangible assets*	*Total*
Cost of acquisition					
1 Jan 2010	2 084	559	206	38	2 887
Additions	-	-	124	-	124
Additions through business combination	114	45	-	32	191
Translation differences	5	11	-	-	16
Total acquisition cost 31 Dec 2010	**2 203**	**615**	**330**	**70**	**3 218**
Additions	-	4	121	6	131
Additions through business combination[1]	210	42	1	12	265
Disposals	-	-	-	(30)	(30)
Translation differences	5	5	-	-	10
Total acquisition cost 31 Dec 2011	**2 418**	**666**	**452**	**58**	**3 594**
Accumulated amortisation					
1 Jan 2010	419	185	62	12	678
Amortisation	-	61	33	9	103
Disposals	-	-	-	-	-
Translation differences	3	(2)	-	-	1
Total accumulated amortisation 31 Dec 2010	**422**	**244**	**95**	**21**	**782**
Amortisation	-	58	32	7	97
Disposals	-	-	-	(30)	(30)
Translation differences	(2)	3	-	-	1
Total accumulated amortisation 31 Dec 2011	**420**	**305**	**127**	**(2)**	**850**
	-	-	-	-	-
Carrying amount 31 Dec 2010	**1 781**	**371**	**235**	**49**	**2 436**
Carrying amount 31 Dec 2011	**1 998**	**361**	**325**	**60**	**2 744**
Useful life		**8-10 years**	**5 years**	**8-10 years**	
Remaining useful life		**1-9 years**	**3-5 years**	**4-9 years**	

1) Business combinations mainly applies to the purchase of 100 per cent of the shares in Evotec AS og i Norspace AS. For preliminary purchase price allocation, see Note 29 "Business combinations".

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.

Development cost recognised in profit and loss
The major part of the Group's development takes place through customer-financed projects.
Expenses related to own-financed development:

	2011			**2010**		
Amounts in MNOK	*Product maintenance*	*Development costs*	*Total*	*Product maintenance*	*Development costs*	*Total*
Kongsberg Maritime	117	450	567	103	384	487
Kongsberg Defence Systems	10	82	92	17	81	98
Kongsberg Protech Systems	78	47	125	79	11	90
Other	16	21	37	6	26	32
Total	**221**	**600**	**821**	**205**	**502**	**707**

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

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

At Kongsberg Protech Systems, capitalised development costs are mainly 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 be eligible for capitalisation. 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.

Significant accounting estimates

Capitalised development projects are amortised according to the estimated volume production or lifetime. Both estimated volume production or lifetime could change over time. When testing the value of capitalised developement costs the Group applies the same principles and methods as used in impairment tests conducted. To estimate the uncertainity associated to this matter, see note 12 "Impairment test of goodwill".

12 IMPAIRMENT OF GOODWILL

Goodwill

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

Goodwill is assigned to operating segments as follows:

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Kongsberg Maritime	1 476	1 314
Kongsberg Defence Systems	170	132
Other activities	352	335
Total goodwill recognised on the balance sheet	1 998	1 781

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

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

The Group has used value in use to determine recoverable amounts for the cash flow-generating entities. Value in use is determined by using the discounted cash flow method. The expected cash flow is based on the business areas' budgets and long term plans, which are approved by Kongsberg's 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 estimated capital structure. The discount rates reflect the market's required return on investment at the time of the test and in the industry to which the cash generating unit belongs. The estimated capital structure is based on the average capital structure in the industry in which the cash generating unit operates and an assessment of what is a reasonable and prudent long-term capital structure. The CAPM model is used to estimate the cost of equity. In accordance with the CAPM model, the cost of equity consists of risk-free interest as well as an individual risk premium. The risk premium is the entity's systematic risk (beta), multiplied by the market's risk premium. The risk-free interest is estimated on a 10-year Norwegian government bond interest rate and is based on all cash flows being translated to NOK. The cost of liabilities represents an expected long-term after-tax interest rate for comparable liabilities and consists of risk-free interest and an interest spread.

Profit margin (EBITD)

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 based on management's expectations of market trends in the markets in which the undertaking operates. The Group uses stable growth rates to extrapolate cash flows 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 operating in markets where it is relevant to measure market shares, it is expected that established positions will generally be maintained, but that there might occure increases and setbacks in certain areas.

Key assumptions per cash generating unit

Per cent	*Kongsberg Maritime*	*Kongsberg Defence Systems*	*Other activities*
Discount rate before tax	14.4	10.3	13.4
Discount rate after tax	10.6	8.9	10.6
Long-term nominal growth rate	2.0	2.0	2.0
Inflation	2.0	2.0	2.0

Impairment

There has not been conducted any impairment of goodwill in 2011 (or in 2010).

Sensitivity analysis

In connection with impairment tests of goodwill, sensitivity analysis are carried out for each individual cash generating unit. Kongsberg Maritime og Kongsberg Defence Systems will not be in an impairment situation before there are relatively large changes in the key assumptions, and these changes are considered to be outside the probable outcome. Kongsberg Oil & Gas Technology constitute Other activities. Sensitivity analysis provides no indications of impairment in this business area. However, the business area is still in a start-up phase and are thus more sensitive to substantial changes.

Significant accounting estimates

There will always be uncertainty related to the estimate of value in use. Assessments are based on best judgement and with the parameters used for comparable industries in the varuious cash-generating units. These calculations are based on discounted cash flows in the future. Significant changes in the cash flows will affect the value of goodwill.

13 FINANCIAL INCOME AND FINANCIAL EXPENSES

Amounts in MNOK	*Note*	*2011*	*2010*
Interest income from assets at amortised cost		31	30
Derivatives at fair value through profit/(loss)		17	17
Other financial income		1	2
Financial income		**49**	**49**
Interest expenses from liabilities at amortised cost		(35)	(41)
Foreign currency loss		(7)	(8)
Discounting, non-current provisions		(3)	(5)
Other financial expenses		(13)	(11)
Impairment on shares available-for-sale	16	(18)	-
Financial expenses		**(76)**	**(65)**
Financial items, net recognised in profit/ (loss)		**(27)**	**(16)**

14 TAXES

Taxes

Amounts in MNOK	*2011*	*2010*
Tax payable	399	630
Change in deferred tax	179	(33)
Taxes	**578**	**597**

Reconciliation from nominal to effective tax rate

Amounts in MNOK	*2011*	*2010*
Earnings before tax (EBT)	**2 008**	**2 097**
Estimated tax based on a tax rate of 28 per cent of the profit before tax	562	587
Effect of tax rate differences and unrecognised tax assets abroad	2	6
Tax effect of gains/losses on the sale of shares and impairment of shares	5	-
Other permanent differences	9	4
Taxes	**578**	**597**
Effective income tax rate	28.8%	28.5%

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 11*	*31 Dec 10*
Deferred tax asset		
Pensions	129	88
Provisions	664	626
Deferred tax assets – gross	**793**	**714**
Deferred tax liabilities		
Fixed assets	312	267
Construction contracts in progress	1 076	818
Net derivatives	14	175
Deferred tax liabilities – gross	**1 402**	**1 260**
Net deferred tax liabilities recognised	**(609)**	**(546)**

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

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Pensions	(69)	(15)
Cash flow hedges	(73)	(17)
Total	**(142)**	**(32)**
Addition of deferred tax through business combinations	27	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	*Note*	*2011*	*2010*
Net profit for the year accruing to the shareholders			
Earnings after tax		1 430	1500
Non-controlling interests' share of the profit/(loss)		(1)	5
Net profit/(loss) for the year/diluted profit/(loss) accruing to owners of ordinary shares		**1 431**	**1 495**

Number of shares	*Note*	*2011*	*2010*
Average weighted number of shares outstanding 1 Jan	22	120.00	120.00
Average weighted number of shares at 31 Dec		**120.00**	**120.00**

Amounts in NOK	*2011*	*2010*
Earnings per share for the year	11.93	12.46
Earnings per share for the year, diluted	11.93	12.46

16 AVAILABLE-FOR-SALE SHARES

Avaliable-for-sale shares

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Quoted shares	52	77
Unquoted shares (OTC list)	6	10
Other shareholdings	56	42
Avaliable-for-sale shares	**114**	**129**

Available-for-sale shares are recognised at fair value. Quoted shares at 31 December 2011 consisted of shares in Kitron ASA (19 per cent ownership). The shares are measured 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 significance of influence.

Shares listed on the OTC list consist of Remora ASA. As a percentage of total market value, quoted and unquoted OTC shares accounted for 51 per cent of the available-for-sale shares.

Change in the fair value of shares, with the exception of impairment losses, is recognised in the statement of comprehensive income. Impairments are recognised through profit/ (loss). The impairment of Kitron ASA is considered to be significant and the investment is impaired by MNOK 18, recognised through profit and loss. In additon, the added value of the total investment portfolio is decreased by MNOK 12 from 31 Decemeber 2010.

Fair value of shares

The shares are measured 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 unquoted 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 market prices of the quoted shares and the OTC-listed shares of 10 per cent would lead to an increase/decrease in the added value of MNOK 6 which would be recognised directly in the statement of comprehensive income at 31 December 2011 (MNOK 8 based on balance sheet values at 31 December 2010).

17 OTHER NON-CURRENT ASSETS

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Loans to employees	37	32
Other non-current assets	107	69
Total other non-current assets	**144**	**101**

18 RECEIVABLES

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Gross receivables	2 024	1 516
Provision for bad debts	(170)	(165)
Net accounts receivable	**1 854**	**1 351**
Other receivables	189	305
Prepayments to suppliers	602	38
Total receivables	**2 645**	**1 694**

Credit risk

Exposure to credit risk

For information about KONGSBERG's currency risk and how it is managed,see Note 5 "Financial risk management objectives and policies".

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

Amounts in MNOK	*Note*	*31 Dec 11*	*31 Dec 10*
Gross accounts receivable		2 024	1 516
Gross other receivables		791	343
Other non-current assets	17	144	101
Cash and short-term deposits	21	3 083	2 660
Currency forward contracts and interest rate swaps used as hedges	20A	385	805
Total exposure to credit risk		**6 427**	**5 425**

Gross receivables by region:

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Norway	267	158
EU	440	432
Rest of Europe	67	16
North America	631	462
South America	43	21
Asia	523	385
Other countries	53	42
Total	**2 024**	**1 516**

Gross receivables by type of customer:

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Government institutions	538	547
Private companies	1 486	969
Total	**2 024**	**1 516**

Impairment

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

	31 Dec 11		**31 Dec 10**	
Amounts in MNOK	*Gross*	*Provisions for bad debt*	*Gross*	*Provisions for bad debt*
Not due	748	-	633	-
Due, 1-30 days	610	(3)	433	(2)
Due, 31-90 days	372	(12)	231	(1)
Due, 91-180 days	147	(8)	85	(28)
Due, more than 180 days	147	(147)	134	(134)
Total	**2 024**	**(170)**	**1 516**	**(165)**

Change in the provision for bad debts

Amounts in MNOK	*2011*	*2010*
Provision at 1 January	(165)	(209)
Actual losses	11	10
Provision	(22)	(41)
Dissolved	5	79
Translation differences	1	(4)
Provision at 31 December	**(170)**	**(165)**

Significant accounting estimates

Provision for bad debts is based on the best estimate and judgement with respect to the probability of loss on a receivable or a group of receivables.

19 CONSTRUCTION CONTRACTS IN PROGRESS

The Group's main business activity is to develop and manufacture products and systems based on signed orders. For recognition and classification of construction contracts, see note 3C "Construction contracts/ system deliveries".

Projects in progress in the table below 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. Project accruals are the net amount of costs incurred based on the project's percent of completion less accumulated costs charged to the construction contract.

Net construction contracts in progress

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Projects in progress	1 239	1 783
Prepayments from customers	(2 371)	(2 096)
Project accruals, assets	663	386
Project accruals, liabilities	(1 435)	(1 832)
Net construction contracts in progress	**(1 904)**	**(1 759)**

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Construction contracts in progress, assets	799	936
Construction contracts in progress, liabilities	(2 703)	(2 695)
Net construction contracts in progress	**(1 904)**	**(1 759)**

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	*2011*	*2010*
Total orders	30 464	27 851
Operating revenues for the year	6 786	6 205
Accumulated operating revenues	19 914	17 677
Accumulated variable expenses	14 476	12 979
Remaining operating revenues	10 551	10 173
Prepayments received	2 371	2 096
Remaining variable costs on onerous contracts	113	125

Significant accounting estimates

Income related to construction contracts is recognised in line with the estimated percentage of completion. Percentage of completion 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 empirical data, systematic estimation procedures, monitoring of efficiency targets and best judgement. In general, the number of remaining manhours necessary to develop or complete a project will constitute a large part of total project 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 the content of the development. This constitutes the basis for risk assessments and recognition of project profits. The projects are reviewed on a quarterly basis at the minimum.

20 FINANCIAL INSTRUMENTS

A) Derivatives

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Current assets		
Fair value forward contracts, cash flow hedges	78	314
Fair value currency options, cash flow hedges	310	483
Less value, loan hedges	(3)	8
Total derivatives, current assets	**385**	**805**
Non-current liabilities		
Interest rate swaps related to sale and lease-back	6	6
Total derivatives, non-current liabilities	**6**	**6**
Current liabilities		
Fair value forward contracts, cash flow hedges	54	45
Fair value forward contracts, project hedges	279	120
Interest rate swaps and loan hedges	(3)	8
Total derivatives, current liabilities	**330**	**173**

B) Currency risk and hedging of currency

For information about KONGSBERG's currency risk and how it is handled, see Note 5 "Financial risk management objectives and policies".

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 11		31 Dec 10	
Amounts in MNOK	*USD*	*EUR*	*USD*	*EUR*
Accounts receivable	117	49	168	55
Accounts payable	(26)	(15)	(34)	(10)
Net balance sheet exposure	**91**	**34**	**134**	**45**
Forward contracts project hedges	1 018	312	801	305

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 financial statements during the year:

	Average exchange rates		Spot rates at 31 Dec.	
Amounts in MNOK	*2011*	*2010*	*2011*	*2010*
USD	5.57	5.97	5.99	5.86
EUR	7.78	8.05	7.76	7.81

Currency hedging

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

2011 *Amounts in MNOK*	*The gross value in NOK at 31 Dec 2011, based on hedged rates*	*Net added(+)/ less(-) value in NOK at 31 Dec 2011*	*Total hedged amount in USD 2011*	*Average hedged exchange rate in USD at 31 Dec 2011*	*Total hedged amount in EUR at 31 Dec 2011*	*Average hedged exchange rate in EUR at 31 Dec 2011*
Hedge category						
Forward contracts, cash flow hedges[1)]	3 561	24	382	6.04	156	7.98
Total hedges of forecasted sale	**3 561**	**24**	**382**		**156**	
Project hedges (fair value hedges)[2)]	8 063	32	1 018	5.81	312	8.48
Loan hedges (fair value hedges)[2)]	610	(3)	91	5.98	1	7.82
Total	**12 234**	**53**	**1 491**		**469**	

2010 *Amounts in MNOK*	*The gross value in NOK at 31 Dec 2010, based on hedged rates*	*Net added(+)/ less(-) 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						
Forward contracts, cash flow hedges[1)]	3 437	269	318	6.43	162	8.60
Total hedges of forecasted sale	**3 437**	**269**	**318**	**6**	**162**	**9**
Project hedges (fair value hedges)[2)]	7 307	363	801	6.08	305	8.60
Loan hedges (fair value hedges)[2)]	586	8	76	5.98	-	7.84
Total	**11 330**	**640**	**1 195**		**467**	

1) Change in fair values associated with effective cash flow hedges (forward contracts and currency options) are recognised in the statement of comprehensive income (OCI). The component not regarded as an effective hedge is recognised through profit and loss.

2) The figures in the table linked to values based on agreed exchange rates and net fair 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 interest yield curve. The interest yield curve within the various time intervals are received from Reuters which retrieves data from a variety of market participants. We also refer to to Note 4 "Fair value" and note 20G "Financial instruments - Assessment of fair value".

Sensitivity analysis

A strengthening of NOK against the USD and EUR at 31 December 2011 of 10 per cent (10 per cent in 2010) would have increased the statement of comprehensive income with the amounts included below. The analysis assumes 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. Any changes in the value of the currency options is not reflected in the table below.

Estimated equity effect (after tax):[1)]

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
USD	165	134
EUR	87	91
Total	**252**	**225**

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 and loss will be affected as long as the hedges are 100 per cent effective.

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

C) Cash flow hedges

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

	31 Dec 11					31 Dec 10				
Amounts in MNOK	*Carrying amount*	*Expected cash flow*	*2012*	*2013*	*2014*	*Carrying amount*	*Expected cash flow*	*2011*	*2012*	*2013*
Forward contracts										
Assets	78	79	76	3	-	314	321	262	59	-
Liabilities	(54)	(55)	(40)	(15)	-	(45)	(46)	(46)	-	-
Total	**24**	**24**	**36**	**(12)**	**-**	**269**	**275**	**216**	**59**	**-**

The periods in which cash flows related to derivatives that are cash flow hedges (hedges of forecasted sale and interest hedges) are expected to be reflected in profit and loss:

	31 Dec 11				31 Dec 10			
Amounts in MNOK	*Carrying amount*	*Expected cash flow*	*2012*	*2013 and later*	*Carrying amount*	*Expected cash flow*	*2011*	*2012 and later*
Forward contracts								
Assets	78	79	48	31	314	321	186	135
Liabilities	(54)	(55)	(33)	(22)	(45)	(46)	(27)	(19)
Total	**24**	**24**	**15**	**9**	**269**	**275**	**159**	**116**

Cash flow hedges - hedging reserve

	2011	2010
Opening balance	300	343
Changes in added/ less value during the period		
- Currency forward contracts, option contracts and deffered gain[1)]	(238)	(25)
- Interes rate swaps	-	-
Tax on items recognised directly in the statement of comprehensive income	74	16
Recognised gain/ loss during the period		
- Currency forward contracts, option contracts and deffered gain[1)]	(25)	(34)
Closing balance hedge reserve[2)]	**111**	**300**

If an expected contract becomes contractual and a project hedging is established, the recognised hedging reserve are transferred from the statement of comprehensive income to the carrying value of the hedged project. If an expected cash flow arise and does not result in a project hedging, the hedging reserve is recognised in the income statement along with the hedged transactions.

1) Deffered gains on cash flow hedges represents MNOK 131 at 31 December 2011 (MNOK 133 at 31 December 2010) allocated to projects. The gain arise when the forward contracts due to forecast hedges is realised and new forward contracts are established for the project. Any incurred gain/ loss are deferred and realised in line with the progress of the project.
2) The net effect of cash flow hedging before tax, recognised in the statements of comprehensive income, represents MNOK 261 in 2011 (MNOK 60 in 2010).

D) Interest rate risk on loans

Interest-bearing loans and borrowings at 31 December

2011	*Due date*	*Nominal interest rate*	*Years to maturity*	*Nominal amount*	*Carrying amount*
Bond issue KOG 05	14 Apr 14	6.64%	2.3	500	500
Bond issue KOG 04	30 Mar 12	3.39%	0.2	300	300
Other long-term loans				70	70
Other long-term loans				22	22
Total loans				**892**	**892**
Credit facility (undrawn borrowing limit)	12 Jul 15			1 000	-

2010	*Due date*	*Nominal interest rate*	*Years to maturity*	*Nominal amount*	*Carrying amount*
Bond issue KOG 05	14 Apr 14	6.35%	3.3	500	500
Bond issue KOG 04	30 Mar 12	3.1%	1.2	300	300
Other long-term loans				47	47
Total loans				**847**	**847**
Credit facility (undrawn borrowing limit)	1 Jul 13			1 000	-

At 31 December 2011, the credit facility was a syndicated credit facility totalling MNOK 1 000. The agreement was signed with four banks: DnB, Nordea, SEB and Fokus Bank. The agreement was made through Norsk Tillitsmann (Norwegian Trustee) and will run until 2015. The interest rate is currently 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 interestbearing 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)

	Due date	*Interest rate*	*Amount 2011*	*Added (+)/ less value (-) 31 Dec 2011*	*Amount 2010*	*Added (+)/ less value (-) 31 Dec 2010*
Interest rate swaps	2 Jan 15	3.4%	150	(4)	150	(6)
Interest rate swaps	2 Jan 15	3.2%	120	(2)		
Total interest rate swaps			**270**	**(6)**	**150**	**(6)**

KONGSBERG has entered into swap agreements from floating to fixed interest for a nominal amount of MNOK 270. The agreements were entered into in connection with the Tenancy Agreements signed in connection with the sale and leaseback agreements as mentioned in Note 26 "Sale and leaseback". The change in value on interest rate swaps is recognised in 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 the balance sheet would have increased (decreased) equity and the profit/(loss) by the amounts as shown below. The analysis assumes that other variables remain constant. The analysis was performed on the same basis in 2010.

Effect of an interest rate increase of 50 bp:

Amounts in MNOK	*31 Dec 11 Profit/(loss)*	*31 Dec 10 Profit/(loss)*
Investments with floating interest rates	8	7
Loans with variable interest rates	(4)	(4)
Interest swap agreements	(4)	3
Cash flow sensitivity (net)	**-**	**6**

E) Liquidity risk

The table shows due dates under the terms of contract for financial liabilities, including interest payments. Liabilities 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.

31 Dec 11 *Amounts in MNOK*	*Carrying amount*	*Contractual cash flows*	*2012*	*2013*	*2014*	*2015*	*2016 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	800	(878)	(336)[1)]	(33)	(509)	-	-
Other loans and non-current liabilities	70	(70)	(44)	(12)	(5)	(5)	(4)
Accounts payable	1 036	(1 036)	(1 036)	-	-	-	-
Financial obligations that are derivatives							
Currency derivatives (gross less value)	333	(339)	(258)	(77)	(4)	(1)	-
Interest rate swaps	6	(6)	(2)	(2)	(2)	-	-
Loan hedging	3	(3)	(3)	-	-	-	-
Total	**2 248**	**(2 332)**	**(1 679)**	**(124)**	**(520)**	**(6)**	**(4)**

1) Bond issue KOG 04 of MNOK 300 are due by 30 March 2012.

31 Dec 10 *Amounts in MNOK*	*Carrying amount*	*Contractual cash flows*	*2011*	*2012*	*2013*	*2014*	*2015*
Financial liabilities that are not derivatives							
Unhedged bond loans	800	(916)	(41)	(334)	(32)	(509)	-
Other loans and non-current liabilities	47	(47)	(32)	(5)	(3)	(2)	(5)
Accounts payable and other current liabilities	861	(861)	(861)	-	-	-	-
Financial obligations that are derivatives							
Currency derivatives (gross less value)	165	(168)	(138)	(20)	(9)	-	-
Interest rate swaps	6	(6)	(6)	-	-	-	-
Total	**1 879**	**(1 998)**	**(1 078)**	**(359)**	**(44)**	**(511)**	**(5)**

F) Summary of financial assets and liabilities

Financial assets and liabilities broken down into different categories for accounting purposes at 31 December 2011:

2011 *Amounts in MNOK*	*Note*	*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	16	-	-	-	114	-	114	114
Other non-current assets	17	-	-	144	-	-	144	144
Assets – current assets								
Derivatives	20A	385	-	-	-	-	385	385
Receivables	18	-	-	2 645	-	-	2 645	2 645
Cash and short-term deposits	21	-	-	3 083	-	-	3 083	3 083
Financial liabilities – non-current								
Interest-bearing loans	20D	-	-	-	-	570	570	583
Derivatives	20A	-	6	-	-	-	6	6
Other non-current liabilities		-	-	-	-	105	105	105
Financial liabilities – current								
Interest-bearing loans	20D	-	-	-	-	322	322	321
Derivatives	20A	330	-	-	-		330	330
Accounts payable	24	-	-	-	-	1 036	1 036	1 036

2010 *Amounts in MNOK*	*Note*	*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	16	-	-	-	129	-	129	129
Other non-current assets	17	-	-	101	-	-	101	101
Assets – current assets								
Derivatives	20A	805	-	-	-	-	805	805
Receivables	18	-	-	1 694	-	-	1 694	1 694
Cash and short-term deposits	21	-	-	2 660	-	-	2 660	2 660
Financial liabilities – non-current								
Interest-bearing loans	20D	-	-	-	-	847	847	853
Derivatives	20A	-	6	-	-		6	6
Other non-current liabilities		-	-	-	-	62	62	62
Financial liabilities – current								
Derivatives	20A	173	-	-	-	-	173	173
Accounts payable	24	-	-	-	-	861	861	861

G) Assessment of fair value

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

		2011			**2010**		
	Note	*Level 1*	*Level 2*	*Level 3*	*Level1*	*Level 2*	*Level 3*
Assets							
Investments in available-for-sale shares	16	58	-	56	87	-	42
Derivative financial assets	20A	-	385	-	-	805	-
Total assets at fair value		**58**	**385**	**56**	**87**	**805**	**42**
Liabilities							
Derivative financial liabilities	20A	-	336	-	-	179	-
Total liabilities at fair value		**-**	**336**	**-**	**-**	**179**	**-**

The different levels have been defined as follows

* **Level 1:** Fair value is measured by using quoted prices in active markets for identical financial instruments. No adjustments is made related to these prices.
* **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 rely as little as possible on the Group's own estimates. Classification at level 2 requires that all significant data required to determine fair value are observable data.
* **Level 3:** Fair value is measured using significant data that are not based on observable market data.

H) Significant accounting estimates

KONGSBERG has a numer of financial instruments recgonised at fair value. When market prices are not to be observed directly through quoted prices, fair value is estimated by using a various models based on internal estimates or input from banks or other market participants. Assumtions for such valuations include spot prices, forward rates and yield curves. In recent years, the market has been in situation that has required a significant degree of judgement in the valuation of certain financial instruments.

Assessments are always based on KONGSBERG's own critical judgement, but it is likely that observable market inputs and assumtions will change over time. Such changes may affect the calculated values of financial instruments significantly, and result in gains and losses with impact on the income statement in future periods. How these changes will affect the income statement depends on the type of instrument and whether it is part of a hedging relation.

21 CASH AND SHORT-TERM DEPOSITS

Nominal amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Short-term investments in the money market	1 330	1 800
Bank deposits, operating accounts	1 753	860
Total	3 083	2 660

Bank deposits contain funds related to withholding tax withdrawn from employees. Bank guaranties amounting to MNOK 207 (MNOK 188 in 2010) have been furnished for these funds.

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

22 SHARE CAPITAL

Share capital

At 31 December 2011, the Group's share capital consisted of 120 000 000 shares with a nominal value of NOK 1.25.

Changes in share capital

Type of change	*Date*	*Number of shares*	*Nominal value*	*Amounts in MNOK*	*Adjustment factor*	*Share capital in MNOK*
Stock Exchange listing	13 Dec 1993	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	120 000 000	1.25		1:4	150

List of the largest shareholders at 31 Dec 2011

Shareholders	*Number of shares*	*Percentage*
The Norwegian State repr. by the Ministry of Trade and Industry	60 001 600	50.001%
The National Insurance Fund	10 307 733	8.590%
Arendals Fossekompani ASA	9 552 796	7.961%
MP Pensjon	4 812 800	4.011%
Skagen Vekst	3 275 767	2.730%
Orkla ASA	2 680 845	2.234%
JP Morgan Chase Bank - nominee	1 985 040	1.654%
Verdipapirfondet Odin Norden	1 855 504	1.546%
Verdipapirfondet Odin Norge	1 808 032	1.507%
BNP Paribas - nominee	830 299	0.691%
Total	**97 110 416**	**80.925%**
Other (stake < 0.69%)	22 889 584	19.075%
Total number of shares	**120 000 000**	**100.000%**

Shareholders, by size of holding

Number of shares	*Number of owners*	*Number of shares*	*Holding percentage*
1–1 000	5 415	1 605 463	1.34%
1 001–10 000	1 578	4 223 061	3.52%
10 001–100 000	168	5 165 773	4.30%
100 001–1 000 000	43	12 725 586	10.60%
1 000 001–10 000 000	7	25 970 784	21.64%
Over 10 000 000	2	70 309 333	58.59%
Total	**7 213**	**120 000 000**	**100.00%**

By the 7 213 share holders at 31 December 2011, 740 foreign share-holders owned a total of 8.69 per cent of the shares.

Treasury shares

KONGSBERG held 74 955 treasury shares at year-end 2011. The shares were purchased in accordance with the authorisation granted by the Annual General Meeting, authorising the repurchase of up to five per cent of the shares outstanding.

	Number
Number of treasury shares at 31 Dec 2010	16 740
Purchase of treasury shares	470 529
Treasury shares conveyed to employees	412 314
Number of treasury shares at 31 Dec 2011	**74 955**

Disposals of treasury shares are recognised at market value on the date of the disposal, while the employee discount were expensed as salaries by MNOK 12.8 excluding social security tax in 2011 and MNOK 8.7 excluding social security tax in 2010.

Dividends

	2011	*2010*
Dividends paid in MNOK	450	240
Dividends paid in NOK per share	3.75	2.00

The Board has proposed dividends for 2011 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 2011	147
Provision	14
Effect of discounting	2
Dissolved	(25)
Provision used	(12)
31 Dec 2011	**126**

Current provisions

Amounts in MNOK	*Warranty*	*Other*	*Total*
1 Jan 2011	620	415	1 035
Provision	277	36	313
Dissolved	(119)	(47)	(166)
Provision used	(102)	(5)	(107)
31 Dec 2011	**676**	**399**	**1 075**

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 financial statements. In addition, provision has been made ralated to lease expiration. The remaining provision is subject to annual review. The effect on discounting has been recognised as financial expenses.

Provisions for warranties

Provisions for warranties are provisions for warranty costs on completed deliveries. Unused warranty provisions are dissolved upon expiry of the warranty period. Warranty provisions are estimated based on a combination of empirical data, specific calculations and best judgement. The increase in warranty provisions is a natural consequence of the Group's growth. Warranty periods vary from one to two years within 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 an obligation 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 obligation can be measured reliably. Provisions apply to circumstanses where there is a disagreement between the contracting parties, uncertainty in relation to the warranty, or products that are early in their life cycles.

Uncertainty associated with estimates

The evaluations are based on a combination of actual figures, technical assessments and best judgement. The estimates are updated on a quarterly basis. There is considerable uncertainty related to these provisions as to amount and time.

24 OTHER CURRENT LIABILITIES

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Accounts payable	1 036	861
Public duties payable	375	210
Tax payable	344	598
Accrued holiday pay	343	298
Prepayments from customers on delivery projects	502	358
Liabilities related to performance-based salary	214	226
Other	1 014	718
Total	**3 828**	**3 269**

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 on syndicated credit 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. Kongsberg Gruppen ASA står ansvarlig for alle garantiene.

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Prepayments from and completion guarantees to customers	4 026	2 600

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 lease payments, KONGSBERG is responsible for certain expenses related to taxes and maintenance of the properties. The leases have durations ranging from three months to 15 years. 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 disposal*	*Annual lease payments 2012*	*Lease payments 2013 –2017*	*Lease payments beyond 2017*	*Remaining term of lease*	*Lease payments – sublease 2012*	*Weighted average subleasing period*
Contract 1 – a total of 28 000 m² industrial/office	1999	32	67	-	3 years	36	3 years
Contract 2 – a total of 38 000 m² industrial/office	2001	33	186	39	7 years	35	4.5 years
Contract 3 – a total of 6 000 m² industrial/office	2002	6	29	-	6 years	6	4.5 years
Contract 4 – a total of 10 000 m² industrial/office	2006	16	87	70	10 years	18	10 years
Contract 5 – a total of 39 000 m² industrial/office	2007	55	293	462	13 years	55	13 years
Total		**142**	**662**	**571**		**150**	

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 lease payments are fixed by a 2.5 per cent annual adjustment for contract 1, and a 2.25 per cent annual adjustment for contracts 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 equal to 2 per cent annually. The lease payments for contract 1 is also influenced by the interest rate, as 100 per cent is based on floating interest rates since a renegotiation in 2010. The lease payment is adjusted annually based on the consumer price index.

Contract 5 was signed in connection with the disposal of property carried out in 2007. Kongsberg Maritime AS has signed a long-term lease for the entire term of the lease. The lease agreement consists of two buildings and the lease payments are 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 existing terms.

27 RELATED PARTIES

Statement on the Group CEO and Executive Management Remuneration
The Board proposes that the following guidelines are applied for 2012.

The main principles of the company's remuneration policy for the Group CEO and Executive Management
The principles that apply to remuneration of executive management are adopted by the Board. Each year, the Board of Directors assesses the CEO's remuneration and other compensation conditions, as well as the Group's performance-based salary plan for executives. The Board's Compensation Committee prepares the cases on the agenda for the Board of Directors. The CEO stipulates compensation for the other members of corporate executive management in consultation with the Chairman of the Board.

Management remuneration at Kongsberg Gruppen ASA and Group companies ("KONGSBERG") are based on the following main principles:

- Management remuneration is to be competitive, but not leading; the company aspires to attract and retain skilled leaders.
- Management remuneration is 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 remuneration system should be understandable and acceptable both inside and outside of KONGSBERG.
- The remuneration system is to be flexible and open to adaptations when needs change.

Compensation to corporate management 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 remuneration policy. One of the goals is to coordinate remuneration policy and the schemes used for variable benefits throughout the Group.

Elements of Management Remuneration –fixed salary and variable benefits

The basis for wage setting is the aggregate level of a manager's regular salary and variable benefits. Fixed salary consists of a basic salary plus regular benefits in kind and post-employment benefit plans. As of 2012 the Board proposes to introduce a long-term incentive (LTI) as part of the fixed remuneration. Variable benefits consist of performance-based salary as well as the share program. 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 the remuneration of management. It is normally considered once a year.

Regular benefits in kind

Key management personnel will normally 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 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 unfunded contribution scheme. The contribution is 18 per cent of the base salary exceeding 12G, and the investment options are the same as for the main pension plan. This scheme will continue in 2012.

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 each year from age 77 and for life. The amounts are adjusted annually in line with benefits paid from the National Insurance Scheme, i.e. to date with general salary increases less 0,75 per cent.

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 salary, based on a minimum of 15 years of accrual. If the employee resigns between ages 63 and 65, the pension earnings will be reduced compared with the defined contribution pension that applies from age 67. The company will consider a restructuring of early retirement in 2012.

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 winded up 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 annually in line with benefits paid from the National Insurance Scheme.

Long-term incentive (LTI)

From 2012, the Board proposes, as a part of the fixed remuneration, to implement a long-term incentive in the form of compensation of 25 per cent and 10-15 per cent of annual basic salary, respectively to CEO and other members of the corporate management. The reason for this is to be competitive with comparable companies. In order to be paid, KONGSBERG have to obtain a positive operating profit (EBIT) in the previous year. Participants in the scheme will be obliged to invest the net amount after tax in Kongsberg shares, purchased in the market and held in a period of three years. If participants leave the company on their own initiative, they have to repay an amount equal to equity value after tax on termination date for all shares that do not meet the three-year requirement. The scheme will not provide a basis for pension benefits. For those covered by the scheme, the annual maximum accrual of salary is reduced from 75 per cent to 60 per cent of basic salary. The scheme will subject to an evaluation annually.

Performance-based 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 for the purpose that managers who perform well over time will earn an average performance-based salary of 20-30 per cent of their regular salary. Performance-based salary is not included in pensionable salary. The scheme will be continued in 2012.

The performance-based salary 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 salary (into an account) and paid performance-based salary (out of an account). The year's accrued performance-based salary, positive or negative, will be credited to an individual's performance-based salary account, and then 1/3 of any positive balance in the performance-based 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 rate on changed capital expenditure (adjusted EBITA) is the most significant parameter of the performance-based salary for executives. The performance-based salary is weighted for a manager's own sphere of responsibility and higher levels. Estimated performance-based salary is thereby favourable if the adjusted EBITA shows progress. In the event of a decrease in the adjusted EBITA, estimated performance-based salary can be negative, reducing the balance in the performance-based salary account.

Annual accruals to the account may not exceed a maximum of 75 per cent of the basic salary, while annual disbursements from the account cannot exceed 50 per cent of the basic salary. The introduction of LTI will, as mentioned above, lead to a maximum annual performance-based salary of 60 per cent for those covered by the LTI scheme. The account will not be paid 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-based salary provides no basis for pension and is annually assessed by the Compensation Committee and the Board of Directors to make sure that it works as intended and the requisite adjustments are made.

Compensation 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 program on the same terms as 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 package schemes

To satisfy KONGSBERG's need 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 package schemes. Efforts will be made to design severance arrangements that will be perceived as 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. Beyond 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 that it is Kongsberg that asks for the CEO's resignation. From 2012, new severance agreements will as far as possible be entered into with a maximum of 6 months salary.

Statement of the fiscal year 2011

The executive compensation policy for fiscal 2011 has been implemented in accordance with the above-mentioned information and the guidelines discussed at KONGSBERG's annual general meeting in 2011.

Following the ordinary wage settlement on 1 July 2011, the CEO's basic salary was adjusted up by 4.5 per cent to NOK 3 575 000 a year. For the rest of the corporate management the basic salary was adjusted up by an average of 5.7 per cent. In addition, there is performance-based salary, as described above.

In the consolidated financial statements for 2011, there is calculated performance-based salary of MNOK 29 (25 per cent of the salary base for the participants in the scheme), excluding social security tax. During 2011 there has been salary payments related to performance-based salary of MNOK 39 (36 per cent of the salary base for the participants in the scheme) excluding social security tax, to executives. KONGSBERG has not entered into or amended any agreements for compensation with material impact on KONGSBERG or the shareholders in the previous financial year.

Compensation and other benefits, specified for the members of Corporate Executive Management for 2011 and 2010 1)

Amounts in NOK 1 000	*Year*	*Salary, including holiday pay*	*Performance-based salary incl. holiday pay*2)	*Other benefits reported during the accounting year*3)	*Total benefits paid*	*Pension earnings for the year*4)	*Balance, car loans*	*Number of shares*
Corporate management								
Walter Qvam, CEO	2011	3 525	1 531	286	5 342	1 885	-	4 808
	2010	3 397	1 024	232	4 653	1 930	-	4 566
Arne Solberg, CFO	2011	1 782	864	243	2 889	214	586	31 084
	2010	1 729	833	217	2 779	183	489	30 842
Stig Trondvold, EVP, Business Development	2011	1 823	883	443	3 149	654	440	14 384
	2010	1 747	813	393	2 953	588	502	14 142
Johnny Løcka, EVP, Corporate Functions	2011	1 581	695	663	2 939	304	562	568
	2010	1 239	537	405	2 181	457	629	326
Even Aas, EVP, Public Affairs	2011	1 354	656	306	2 316	288	-	10 592
	2010	1 303	633	287	2 223	355	-	10 350
Total salary and compensation to management at the parent company	**2011**	**10 065**	**4 629**	**1 941**	**16 635**	**3 345**	**1 588**	**61 436**
Total salary and compensation to management at the parent company	**2010**	**9 415**	**3 840**	**1 534**	**14 789**	**3 513**	**1 620**	**60 226**
Geir Håøy, President, Kongsberg Maritime, from 1 October 2010	2011	1 902	572	214	2 688	180	-	242
	2010	425	-	58	483	81	-	-
Harald Ånnestad, President, Kongsberg Defence Systems	2011	2 002	960	683	3 645	465	481	3 184
	2010	1 861	723	675	3 259	816	543	2 942
Egil Haugsdal, President, Kongsberg Protech Systems	2011	2 045	960	845	3 850	463	543	9 200
	2010	1 898	878	735	3 511	904	611	6 958
Pål Helsing, President, Kongsberg Oil & Gas Technologies	2011	2 132	347	432	2 911	471	-	-
	2010	1 870	-	281	2 151	493	-	-
Torfinn Kildal, President, Kongsberg Maritime, resigned on 30 September 2010	2010	1 776	1 091	207	3 074	311		19 282
Total salary and compensation to corporate management	**2011**	**18 146**	**7 468**	**4 115**	**29 729**	**4 924**	**2 612**	**74 062**
Total salary and compensation to corporate management	**2010**	**17 245**	**6 532**	**3 490**	**27 267**	**6 118**	**2 774**	**89 408**

1) Compensation and other benefits to members of corporate executive management are based on their time as part of corporate management.
2) The payment of performance-based part of salary in 2011 accounted for 1/3 of the balance in the performance-based salary account, which was expensed during the period 2006-2010. Performance-based salary is recognised in the same year it is calculated and transferred to performance-based salary account. The remaining part of performance-based salary is paid in the next years. However, the remaining part is contingent on continued employment and are effected by future goal achievement. Current year's estimated and expenced performance-based salary for corporate managment equals MNOK 3,9 in 2011 (MNOK 13 in 2010). Holiday pay is related to the payment of performance-based salary the previous year.
3) Benefits other than cash refers to expensed discounts on shares in connection with the employee share programme for all employees, telephone/broadband, car schemes, and compensation for the taxable share of pensions and insurance, as well as other taxable benefits.
4) In 2010, there was a post-calculation made of an ITP scheme (deposit-based occupational pension scheme) for all employees with salaries in excess of 12G. This led to an increased cost in 2010 and for the years 2007-2009 of totalling MNOK 1.4. This is included in the year's pension earnings for 2010 in the table above for the affected individuals in corporate management.

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

The Board of Directors	*Year*	*Number of shares[1)]*		*Fixed compen-sation to the Board of Directors*	*Compen-sation for committee meetings*	*Total compen-sation to the Board of Directors*	*Number of Board meetings[2)]*
Finn Jebsen, Chairman of the Board	2011	20 000	(through the company Fateburet AS)	372 667	28 550	401 217	11
	2010	20 000	(through the company Fateburet AS)	359 333	20 550	379 883	8
Erik Must[1)], member the Board	2011	524 600	(personally owned through the company Must Invest AS)	186 667	23 800	210 467	11
	2010	524 600	(personally owned through the company Must Invest AS)	177 500	17 150	194 650	8
John Giverholt, member the Board	2011	3 200		186 667	48 000	234 667	11
	2010	3 200		177 500	46 500	224 000	8
Anne-Lise Aukner, member the Board, Deputy Chariman of the Board from 1 May 2011	2011	-		198 667	42 000	240 667	8
	2010	-		177 500	39 700	217 200	6
Kai Johansen, member the Board	2011	-		186 667	42 000	228 667	11
	2010	-		177 500	40 050	217 550	7
Roar Marthiniussen, member the Board	2011	4 268		186 667	23 800	210 467	11
	2010	4 026		177 500	17 150	194 650	8
Helge Lintvedt, member the Board	2011	-		186 667	0	186 667	11
	2010	-		177 500	0	177 500	8
Irene Waage Basili, member the Board from 1 May 2011	2011	-		126 000	0	126 000	8
Benedicte Berg Schilbred, Deputy Chariman of the Board until 30 April 2011	2011	-		66 667	0	66 667	3
	2010	70 000	(through the company Odd Berg AS)	195 333	0	195 333	8
Total compensation to the Board	**2011**			**1 697 336**	**208 150**	**1 905 486**	
Total compensation to the Board	2010			1 619 666	181 100	1 800 766	

1) Erik Must is the Chairmain of the Board of Arendals Fossekompani ASA, which owns 9 552 796 shares in Kongsberg Gruppen.
2) There were held 11 Board meetings in 2011 (8 in 2010).

Transactions between related parties

The Norwegian 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 2011 KONGSBERG had an outstanding balance from State-owned customers of MNOK 46, while other liability items in respect of state suppliers accounted for MNOK 0.6 at 31 December 2011. In 2011 KONGSBERG invoiced state customers of MNOK 1 096. Goods and services acquired from state suppliers in 2011 accounted for MNOK 21.

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 aircraft. The frame of the guarantee is for MNOK 737, with a counter-guarantee of MNOK 240 to cover any repurchase of property, plant and equipment.

28 AUDITOR FEES

	2011				2010			
Amounts in TNOK	*Parent company*	*Subsidiaries in Norway*	*Subsidiaries abroad*	*Total 2011*	*Parent company*	*Subsidiaries in Norway*	*Subsidiaries abroad*	*Total 2010*
Group auditor Ernst & Young								
Statutory audit	594	4 572	951	6 117	580	4 230	895	5 705
Other assurance services	10	89	298	397	-	491	230	721
Tax consultancy	62	699	1 461	2 222	119	454	237	810
Other services	573	28	-	601	54	100	-	154
Total fees, Ernst & Young	**1 239**	**5 388**	**2 710**	**9 337**	**753**	**5 275**	**1 362**	**7 390**
Others auditors								
Estimated auditing fees		21	1 115	1 136	-	132	631	763

29 BUSINESS COMBINATIONS

Evotec AS

On 4 July 2011, KONGSBERG signed a memorandum of understanding to aquire 100 per cent of the shares in Evotec AS. The company is part of the business area Kongsberg Maritime. Evotec AS develops and delivers technology systems for the maritime industry, including the seismic, subsea and supply market, and is one of the leading suppliers on the market within these areas.

The acquisition was concluded on 30 September 2011 for an estimated cost of MNOK 208. The cost of the acquisition consists of a cash consideration and estimated additional remuneration depending on the fulfilment of certain criteria associated with the company's profitability and market trends in 2012 and 2013. The maximum increase in the estimated acquisition cost, providing all criteria are fulfilled, has a net present value of MNOK 52.

Preliminary purchase price allocation Evotec AS

Amounts in MNOK	*Recognised values at acquisition*	*Adjustments of fair value*	*Carrying amount prior to acquisition*
Intangible assets excluding goodwill	46	46	
Other Assets	57		57
Liabilities	(47)	(13)	(34)
Net identifiable assets and liabilities	**56**	**33**	**23**
Goodwill upon aquisition	152		
Total remuneration incl. cash payment and estimated additional remuneration	**208**		
Estimated additional remuneration	(76)		
Cash acquired	(16)		
Net closing cash flow	**116**		

Goodwill arising from the preliminery purcahse price allocation are mainly related to the competence, capacity, market acess, networking, synergies, distribution channels and geographic location.

It has not been prepared pro forma figures for the period from 1 January 2011 until the time of acquisition 30 September 2011 as the amounts are considered immaterial to the consolidated financial statements.

Evotec AS's contribution to the Group from the acquisition 1 October 2011 until 31 December 2011 is not material to the consolidated financial statements.

Norspace AS

On 21 September 2011, KONGSBERG signed an agreement to aquire the shares in Norspace AS in Horten. The transaction was completed on 31 October 2011. At the date of the aquisition Norspace AS having 95 emplyees, is the world leader in delivery of high-tech components and equipment for the international aerospace industry. The company is part of Kongsberg Defence System and the acquisition of Norspace AS strengths KONGSBERG`s position in deliveries to international aerospace and industrial markets. The estimated aquisition cost is MNOK 93.

Preliminary purchase price allocation Norspace AS

Amounts in MNOK	*Recognised values at acquisition*	*Adjustments of fair value*	*Carrying amount prior to acquisition*
Intangible assets excluding goodwill	11	11	
Other Assets	118	12	106
Liabilities	(73)	(6)	(67)
Net identifiable assets and liabilities	**56**	**17**	**39**
Goodwill upon aquisition	37		
Total remuneration incl. cash payment and estimated additional remuneration	**93**		
Estimated additional remuneration	(3)		
Cash acquired	**90**		
Net closing cash flow			

Goodwill arising in the preliminery purchase price allocation are mainly related to competence and capacity.

It has not been prepared pro forma figures for the period from 1 January 2011 until the time of acquisition 31 October 2011 as the amounts are considered immaterial to the consolidated financial statements.

Norspace AS`s contribution to the Group from the acquisition 1 November 2011 until 31 December 2011 is not material to the consolidated financial statements.

Specification of outgoing cash flow on acquisition in 2011

Net outgoing cash flow on acquisition of Evotec AS	116
Net outgoing cash flow on acquisition of Norspace AS	90
Outgoing cash flow on other acquisitions of smaller size	20
Net outgoning cash flow on acquisition in 2011	**226**

30 LIST OF GROUP COMPANIES

The following companies are consolidated:

Company name	Country of origin	*Stake as a percentage 31 Dec 2011*	*Stake as a percentage 31 Dec 2010*
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
Konsberg Norspace AS	Norway	100	
Kongsberg Oil & Gas Technologies AS	Norway	100	100
Kongsberg Drilling Managment Solutions AS	Norway	100	
Kongsberg Teknologipark AS	Norway	100	100
Kongsberg Næringseiendom AS	Norway	100	100
Kongsberg Næringspark-utvikling AS	Norway	100	100
Kongsberg Næringsbygg 2 AS	Norway	100	100
Kongsberg Næringsbygg 3 AS	Norway	100	100
Kongsberg Næringsbygg 5 AS	Norway	100	100
Kongsberg Næringsbygg 6 AS	Norway	100	100
Kongsberg Næringsbygg 7 AS	Norway	100	100
Kongsberg Næringsbygg 8 AS	Norway	100	
Kongsberg Næringsbygg 9 AS	Norway	100	
Kongsberg Seatex AS	Norway	100	100
Nerion As	Norway	100	100
Kongsberg Maritime AS	Norway	100	100
Lodic As	Norway	55	55
Vehicle Tracking and Information Systems AS	Norway	100	100
Kongsberg Norcontrol IT AS	Norway	100	100
Kongsberg Maritime Engineering AS	Norway	100	100
Portside AS	Norway	100	
Kongsberg Evotec AS	Norway	100	
Kongsberg Maritime Srl.	Italy	100	100
Simrad Srl	Italy	100	100
Kongsberg Maritime Holland BV	Netherlands	100	100
Kongsberg Maritime Poland Sp.z o.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

Company name	Country of origin	*Stake as a percentage 31 Dec 2011*	*Stake as a percentage 31 Dec 2010*
Kongsberg Defence Oy	Finland	100	100
Kongsberg Maritime GmbH	Germany	100	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
Simrad Leasing Ltd.	Great Britain	100	100
Kongsberg Oil & Gas Technologies Ltd. (tidligere Kongsberg Process Simulation Ltd.)	Great Britain	100	100
Kongsberg Intellifield Ltd.	Great Britain	Merged	100
GeoAcoustics Ltd.	Great Britain	100	100
Kongsberg Hungaria Engineering Service Development and Trading Llc	Hungary	100	100
KM Greece AE	Greece	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 Protech Systems Canada Corporation Inc.	Canada	100	100
Kongsberg Maritime Simulation Inc.	USA	100	100
Simrad North America Inc.	USA	100	100
Kongsberg Maritime Inc.	USA	100	100
Kongsberg Underwater Technology Inc.	USA	100	100
Kongsberg Protech Systems USA Corporation Inc.	USA	100	100
Kongsberg Oil & Gas Technologies Inc.	USA	100	100
Geo Acoustics Inc.	USA	100	100
Seaflex Riser Technology Inc.	USA	100	100

Company name	Country of origin	*Stake as a percentage 31 Dec 2011*	*Stake as a percentage 31 Dec 2010*
GlobalSim Inc.	USA	100	100
Hydroid Inc.	USA	100	100
Gallium Visual Systems Inc.	USA	100	100
Kongsberg Integrated Tactical Systems Inc.	USA	100	
Kongsberg Maritime S.A. Brasil d.o.	Brazil	80	80
KM Traning do Brasil LTDA	Brazil	100	100
KOGT do Brazil S.A.	Brazil	100	
KM Mexico S.A. de CV	Mexico	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 (Zhenjiang) Ltd.	China	56.2	56.2
Kongsberg Maritime China (Jiangsu) Ltd.	China	100	100
Kongsberg Maritime Korea Ltd.	South-Korea	100	100
Kongsberg Norcontrol IT Pte. Ltd.	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	
KM Middle East DMC	Dubai	70	
Kongsberg Norcontrol IT Pty. Ltd.	South-Africa	Wound up	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*	*2011*	*2010*
Operating revenues	9	193	177
Payroll expenses	4, 5	(117)	(96)
Depreciation		(2)	(2)
Other operating expenses	4	(123)	(125)
EBIT		**(49)**	**(46)**
Interest from Group companies		51	57
Impairment on shares		(22)	-
Currency trading gains/ (loss)		13	4
Interest to Group companies		(59)	(26)
Other interest expenses		(6)	(26)
Other finacial expenses		(2)	(2)
Group contribution received		700	700
Net financial items		**675**	**707**
Earnings before tax (EBIT)		**626**	**661**
Taxes	6	(189)	(187)
Profit for the year		**437**	**474**
Distributable and equity transfers			
Proposed dividends	2	(450)	(450)

Balance at 31 Dec

Amounts in MNOK	*Note*	*2011*	*2010*
ASSETS			
Non-current assets			
Deferred tax asset	6	65	55
Fixed assets		7	7
Shares in subsidaries	3	2 215	2 215
Other shareholdings		57	79
Long-term receivables in subsidiaries		1 525	1 516
Other long-term receivables		46	45
Total non-current assets		**3 915**	**3 917**
Current assets			
Receivables in subsidiaries		829	806
Cash and cash equivalents		1 318	1 800
Total current assets		**2 147**	**2 606**
Total assets		**6 062**	**6 523**
EQUITY AND LIABILITIES			
Equity			
Share capital		150	150
Total paid-in capital		**150**	**150**
Retained earnings		1 067	1 103
Total retained earnings		**1 067**	**1 103**
Total equity	2	**1 217**	**1 253**
Non-current liabilities			
Pension liabilites	5	189	163
Long-term interest-bearing loans	7	500	800
Non-current liabilities to subsidiaries		1 644	1 891
Other non-current liabilites		29	29
Total non-current liabilites		**2 362**	**2 883**
Current liabilities			
Dividends	2	450	450
Current financial liabilities	7	300	-
Other current liabilities		299	273
Bank overdraft facilities		1 434	1 664
Total current liabilities		**2 483**	**2 387**
Total equity and liabilites		**6 062**	**6 523**

CASH FLOW STATEMENT

KONGSBERG GRUPPEN ASA

Amounts in MNOK	*2011*	*2010*
Earnings before tax	626	661
Depreciations	2	2
Impairment of financial assets	22	-
Taxes paid	(193)	(105)
Changes in accruals, etc	41	(45)
Net cash flow from operating activities	**498**	**513**
Net cash flow from investing activies		
Purchase of fixed assets	(2)	(4)
Disbursements on purchase of shares, etc	-	(4)
Net cash flow from investing activities	**(2)**	**(8)**
Net cash flow financing activities		
Dividends paid	(450)	(240)
Net receipt/dispursement for purchase/disposal of treasury shares	(19)	(9)
Changes in intercompany balances	(279)	553
Changes in bank overdraft facilities	(230)	191
Net cash flow from financing activities	**(978)**	**495**
Net increase (decrease) in cash and cash equivalents	**(482)**	**1 000**
Cash and cash equivalents at the beginning of the period	**1 800**	**800**
Cash and cash equivalents at the end of the period	**1 318**	**1 800**

1 ACCOUNTING POLICIES

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

Subsidiaries and associates

Subsidiaries and associates are measured at cost in the statutory accounts. The investments are measured at acquisition cost, unless impairment has been necessary. Such assets are deemed to be impaired at fair value when a decrease in value cannot be considered to be of temporary nature and in accordance with generally accepted accounting principles. Impairments are reversed when the basis for the impairment no longer applies. Dividends and other disbursements are recognised in the same period as provisions are appropriated in the subsidiary.

Classification and valuation of balance sheet items

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

Receivables

Accounts receivables and other receivables are measured on the balance sheet at nominal values less provision for doubtful debts. Provision for doubtful debts is made on the basis of individual assessment of each receivable. In addition, a unspecified provision is made to cover expected losses on other receivables.

Foreign currency

Monetary items in a foreign currency are translated into NOK using the exchange rate applicable at the end of the reporting period.

Short-term investments

Short-term investments (shares and units considered to be current assets) are measured at the lower of acquisition cost and fair value at the date of the balance sheet. 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. Deposit is expensed as incurred.

The defined benefit plan

Pension expenses and pension liabilities are calculated using linear accrual based on estimated salary level at retirement and on a number of assumptions including discount rates, future salary adjustments, pensions and benefits from the National Insurance Scheme, and future interest income on pension fund assets, as well as actuarial assumptions on mortality and voluntary retirement. Pension fund assets are measured at their fair value, less net pension liabilities at date of the balance sheet.

Income tax

The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated at 28 per cent on all differences between the book value and tax value of assets and liabilities, and loss carried forward at the end of the reporting period. Taxable and deductible temporary differences that reverse or may reverse in the same period are offset. Deferred tax assets are recognised when it is probable that the company will have a sufficient profit for tax purposes in subsequent periods to utilise the tax asset. The companies recognise previously unrecognised deferred tax assets to the extent it has become probable that the company can utilise the deferred tax asset. Similarly, the company will reduce a deferred tax asset to the extent that the company no longer regards it as probable that it can utilise the deferred tax asset.

Cash flow statement

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

2 EQUITY RECONCILIATION

Amounts in MNOK	*Share capital*	*Retained earnings*	*Total equity*
Equity at 31 December 2009	**150**	**1 084**	**1 234**
Profit for the year	-	474	474
Dividends for 2010	-	(450)	(450)
Actuarial gains/loss on pension expenses	-	(5)	(5)
Equity at 31 December 2010	**150**	**1 103**	**1 253**
Profit for the year	-	437	437
Treasury shares	-	(6)	(6)
Dividends for 2011	-	(450)	(450)
Actuarial gains/loss on pension expenses	-	(17)	(17)
Equity at 31 December 2011	**150**	**1 067**	**1 217**

Other information about the company's share capital is provided in Note 22 "Share capital" to the consolidated financial statements.

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	0
Kongsberg Basetec AS	1992	Kongsberg	100	106
Kongsberg Maritime AS [1]	1992	Kongsberg	89	1 101
Kongsberg Forsvar AS	1995	Kongsberg	100	0
Norsk Forsvarsteknologi AS	1987	Kongsberg	100	0
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	100
Kongsberg Næringsbygg 8 AS	2011	Kongsberg	100	
Kongsberg Næringsbygg 9 AS	2011	Kongsberg	100	
Nerion AS	2002	Trondheim	100	0
Kongsberg Hungaria KFT [2]	2003	Budapest	10	0
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%.

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

4 PAYROLL EXPENSES

Regaring remuneration for executive management and board members refer to Note 27 “Related parties” in the consolidated financial statements.

Auditors' remuneration

Amounts in TNOK	*2011*	*2010*
Corporate auditor Ernst & Young		
Statutory audit	594	580
Other assurance services	10	-
Tax consultancy	62	119
Other services	573	54
Total fees, Ernst & Young	**1 239**	**753**

Payroll expenses

Amounts in MNOK	*2011*	*2010*
Salaries	70	56
Social security tax	12	12
Pension	15	12
Other benefits	20	16
Total payroll expenses	**117**	**96**

5 PENSIONS

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

The defined contribution plan

The Group introduced a defined contribution pensjon scheme 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 percent of basic wage between 1 and 6G, and 8 percent of the basic wage from 6G up to 12G. The employees can influence the way the funds are invested by choosing to invest either 30, 50 and 80 percent, respectively, of their portfolios in shares. The Group also has a collecive, unfunded contribution scheme for salaries between 12 and 15G. The entity's deposits in this scheme are 18 percent of the share of the basic wage in excess of 12G, up to a ceiling of 15G. Special terms and conditions apply for senior executives. This is described in note 27 “Related parties”. The employees have the same investment choises in the supplementary scheme as in the primary scheme. The contributions are expensed as they are incurred.

The defined benefit plan

In connection with the transition to the defined contribution plan 1 January 2008, employees aged 52 or more at the time of transition continued to be in the defined benefit plan. The pension plan is insured through Vital - DNB. 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 annually by the Norwegian parliament. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. Pension costs are recognised during the employee's accrual period. Based on the current National Insurance system (before 1 January 2011) and full accrual, the scheme gives entitlement to about 60 percent 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. In addition, the Group has a collective, performance-based defined benefit plan for salaries between 12G and 15G. Special terms and conditions apply for executive.This is described in note 27 "related parties". The collective performance-based defined contribution plan equals to 65 percent of the part of the salary basis that exceeds 12G until the age of 77, and thereafter the benefits are reduced to 50 percent of the share of the salary basis that exceeds 12G. This supplementary scheme was discontinued in connection with the transition to defined contribution pension plans as of 1 January 2008.

In 2008, the Board of Director's adopted a new policy for retirement with sevarance pay, which is in accordance with the State ownership report.

The policy entails retirement with severance pay at age 65 at the latest, but with reciprocal rights for the company and the employee in the corporate management to request retirement with severance pay from age 63. Benefit are equal to 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, this will neverthless reduce pension earnings for those with a defined contribution retirement that applies from age 67.

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

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

	31 Dec 11	*31 Dec 10*
Discount rate	2.60%	3.75%
Expected rate of return	4.10%	5.00%
Salary adjustment	2.75%	3.25%
Pension base level (G) regulation	3.25%	3.75%
Pensions adjustment	0.10%	0.75%
Voluntary turnover	4.50%	4.50%

The year's pension costs were calculated as follows:

Amounts in MNOK	*2011*	*2010*
Present value of accruals for the year	5	4
Interest cost on accrued pension liabilities	4	4
Estimated return on pension assets	(1)	(1)
Accrued social security expenses	1	1
Total net pension cost for the year	**9**	**8**
Cost of defined contribution pension plans	**6**	**4**

Amounts in MNOK	*2011*	*2010*
Total gross pension liabilities	(208)	(175)
Gross pension assets	42	32
Net pension liabilities	**(166)**	**(143)**
Unrecognised plan changes		
Social security expenses	(23)	(20)
Net pension liabilites/assets recognised on the balance sheet	**(189)**	**(163)**

6 INCOME TAX

Income tax expenses

Amounts in MNOK	*2011*	*2010*
Tax payable	193	193
Change in deferred taxes	(4)	(6)
Tax income/-expenses	**189**	**187**

Amounts in MNOK	*2011*	*2010*
Earnings before tax (EBT)	**626**	**661**
Calculated income tax at statutory rate 28% of earnings before tax	175	185
Impairment on share investments	6	-
Other permanent differences	8	2
Tax income/-cost	**189**	**187**

Deferred tax and deferred tax asset

Amounts in MNOK	*2011*	*2010*
Pension	53	46
Other	12	9
Recognised deferred tax asset	**65**	**55**

Change in deferred tax is recognised directly to equity as follows:

Amounts in MNOK	*31 Dec 11*	*31 Dec 10*
Pensions	(6)	(2)
Total	**(6)**	**(2)**

7 LONG-TERM INTEREST BEARING LOANS AND LOAN FACILITIES

At 31 December 2011, the Group had the following loans og credit facilities:

Amounts in MNOK	*Due date*	*Nominal interest 2011*	*Residual maturity 2011*	*Nominal amount*	*Book value*
Bond issue KOG 05	14 Apr 2014	6.64%	2.3	500	500
Bond issue KOG 04	30 Mar 2012	3.39%	0.2	300	300
Total loans				**800**	**800**
Loan facility (undrawn borrowing limit)	12 Jul 2015			1 000	0

The loan facility at 31 December 2011 is a syndicated loan facility at total MNOK 1 000. The agreement was signed with four banks: DnB NOR, Nordea, SEB og Fokus Bank. The agreement was made through Norsk Tillitsmann (Norwegian Trustee) and fall due in 2015. The interest terms is 3 months NIBOR + a margin that depends on a ratio between net interest-bearing loans/EBITD and can vary from 0.20% to 0.575%. The loan facilities require that net interest-bearing debt shall not exceed 3 times EBITDA, but it can be up to 3.5 times during the maximum of 3 quarters. The covenants in the loan agreements are met.

The bond loans were issued in NOK and are listed on The Oslo Stock Exchange. The interest terms is 3 months NIBOR + 3.75% for the MNOK 500 bond loan and 3 month NIBOR + 0.50% for the MNOK 300 bond loan. The loans are recognises at amortised cost using the effective interest method.

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

8 GUARANTEES

Kongsberg Gruppen ASA has during the periode from 1999 to 2007 sold properties in Kongsberg Teknologipark. The properties are leased back on long-term contracts that expire from 2014 to 2025. The leaseback agreements are considered as operational leasing.

In addition to lease amounts, Kongsberg Gruppen ASA is responsible for certain costs related to taxes and maintenance of the properties. The rental contracts have a durations from 3 months to 15 years. With the exception of the properties sold in 2007, the properties are primarily leased to external tenants. Further information of the provisions related to these agreements are included in note 27 "Provisions" in the consolidated financial statments.

The rental amounts that parent company has guaranteed, related to sale and leaseback agreements, are total MNOK 1,510.

Prepayment and completion guarantees

The Group companies have placed guarantees for prepayments and completion related to projects. The guarantees are issued by the Norwegian and foreign banks and insurance companies. Kongsberg Gruppen ASA is responsible for all guarantees.

Amounts in MNOK	*2011*	*2010*
Prepayments and completion guarantees to customers	4 026	2 600

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

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STATEMENT FROM THE BOARD OF DIRECTORS KONGSBERG GRUPPEN ASA

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, 27 March 2012

Finn Jebsen
Chairman

Anne-Lise Aukner
Deputy chairman

Erik Must
Director

Irene Waage Basili
Director

John Giverholt
Director

Roar Marthiniussen
Director

Helge Lintvedt
Director

Kai Johansen
Director

Walter Qvam
President and CEO

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AUDITOR'S REPORT FOR 2011

ERNST & YOUNG

State Authorised Public Accountants
Ernst & Young AS

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

Business Register: NO 976 389 387 MVA
Tel.: +47 24 00 24 00
Fax: +47 24 00 24 01
www.ey.no

Member of the Norwegian Institute of Public Accountants

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 2011, the statements of income and cash flows for the year then ended and 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 2011, 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.

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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 2011 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 2011 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and the statement on corporate governance

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report and the statement on corporate governance 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 ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 27 March 2012
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

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

CORPORATE GOVERNANCE

http://www.kongsberg.com/en/kog/aboutus/corporategovernance/

“Responsible interaction between owners, the Board of Directors and management”

REPORT ON CORPORATE GOVERNANCE

KONGSBERG's objective is to protect and enhance stakeholder value by engaging in profitable, growth-oriented industrial development in a long-term, global perspective.

Good corporate governance will maximise the value creation and reduce the 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 global 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.

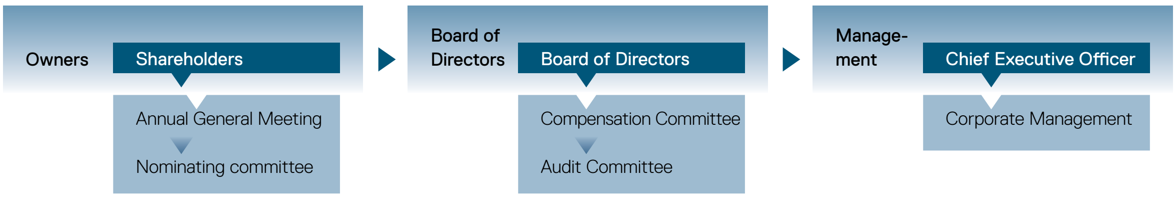
How we understand the concept

The Group's value platform and the Corporate Code of Ethics are fundamental for KONGSBERG's corporate governance. Corporate governance deals with issues and principles associated with the segregation of roles between the governing bodies in a company, and the responsibility and authority assigned to each body. Good corporate governance is characterised by responsible interaction between owners, the Board of Directors and the management, seen from a long-term, productive and sustainable perspective. This requires an effective cooperation, a defined segregation 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.

Corporate Governance in 2011

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

KONGSBERG'S MODEL FOR CORPORATE GOVERNANCE



The Annual General Meeting elects five representatives of the owners to the Board of Directors 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 operational management.

KONGSBERG'S POLICY

KONGSBERG is subject to reporting requirements for corporate governance under the Accounting Act § 3-3b as well as "the Norwegian Code of Practice for Corporate Governance", see the "Continuing obligations of stock exchange listed companies", section 7. The Accounting Act is available at www.lovdata.no. "The Norwegian Code of Practice for Corporate Governance", last revised 21 October 2011 is available at www.nues.no.

This report will, in accordance with the Public Limited Companies Act § 5-4 be subject to discussions at the Annual General Meeting of Kongsberg on 7 May 2012. 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 Board of Directors. The Norwegian government, which owns 50.001% of the Group, also assumes that all companies in which the Government has stake will comply with the Code of Practice. Since the Norwegian Government 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 Government's 10 Principles for Good Corporate Governance and the OECD's Guidelines regarding Government Ownership and Corporate Governance. These guidelines are available on the Group's website at www.kongsberg.com.

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

- KONGSBERG shall maintain open, reliable and relevant communication with the public about its business activities and factors related to corporate governance.
- KONGSBERG's Board 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 of Directors and management.
- KONGSBERG will have a clear segregation of responsibilities between the Board of Directors and management.
- All shareholders are to be treated equally.

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

ARTICLES OF ASSOCIATION
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.

§ 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 is based on the latest revision of the Code, dated 21 October 2010. For the complete 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.

The information that KONGSBERG is obliged to give according to The Accounting Act § 3-3b of report on corporate governance, is taken into account in this report and the Code of Practice is applied as far as considered appropriate. A detailed description of where the requirements according to The Accounting Act § 3-3b are included in the report are listed below:

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

Deviations from the Code of Practice

According to the Group's own evaluation, we deviate from the code of practice on three points:

Point 6 – The General Meeting

There are two deviations on this point. The entire Board of Directors has not usually attended the General Meeting. Thus far, the agenda for the General Meeting have not required the entire Board of Directors to attend. The Chairman of the Board is always present to respond to any questions. Other board members participate when needed. From the Group's perspective, this is considered to be sufficient.

The other deviation refers to §8 of the Articles of Association, which specifies that General Meetings are to be chaired by the Chairman of the Board. If the Chairman is absent, the General Meeting is chaired by the Board's Vice Chairman. In absence of both, the chair is pointed out by the General Meeting. This is a deviation from the recommendation of an independent chairman. The arrangement is adopted by the shareholders through a unanimous resolution in the General Meeting and has so far worked satisfactorily.

Point 8 – The Corporate Assembly and the Board of Directors, composition and independence

The Group does not have a Corporate Assembly. This is a deviation from the recommendation. At the Annual General Meeting in 1999 it was decided to discontinue the Corporate Assembly. The reason was an agreement between unions and the Group which meant that the number of employee representatives in the Board was increased from two to three. The agreement is seen as rational and satisfactory both from the owners, management and the employee point of view.

Point 10 – Risk Management and internal control

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. An initiative is taken to build a link between the internal control and the areas we define under corporate social responsibility. Among other things, we plan audits related to social responsibility in parts of the Group's activities. The audits will be conducted with the use of external expertise.

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 internal procedures', is not covered by the Code. It has nonetheless been included as it is considered crucial to KONGSBERG's discussion on corporate governance.

1. Report on Corporate Governance

The Group has prepared 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.

The Group's vision is "World Class - through people, technology and dedication." The values that shall support the vision are: Determined, Innovative, Collaborative and Reliable. The values are important to develop a healthy and strong corporate culture and thereby the basis of good corporate governance. Further explanation of our values can be found on the Group's website; www.kongsberg.com and the 2011 Corporate Social Responsibility Report.

The Group's ethical guidelines were last revised in autumn 2010. They are based largely on international initiatives and policies related to social responsibility, which the Group has endorsed, including the UN Global Compact, OECD Guidelines for Multinational Enterprises and the ILO Conventions. The guidelines include the topics of human rights, labor rights, climate and environment, corruption, our relationship with customers, suppliers and agents, competence to act and confidentiality. They apply to the Group's directors, leaders, employees, all contractor personnel, consultants, agents and lobbyists and others who act on behalf of KONGSBERG. See the detailed description in the Corporate Social Responsibility Report for 2011.

The Group's social responsibility policy is adopted by the Board. A new revised policy will be discussed in the Board during the first quarter of 2012, and a strategy for social responsibility is being prepared. This will be incorporated into the Group's business strategy during 2012. The Group's policy and strategy for social responsibility is discussed in the 2011 Corporate Social Responsibility Report and the Group's website.

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. The above stated is included in §3 of KONGSBERG's Articles of Association. The Articles of Association can be found on the Group's website, www.kongsberg.com

The Group's main objectives and strategies are described in the annual report and the Group's website, www.kongsberg.com.

3. Share capital and dividends

Equity

At 31 December 2011, consolidated equity is MNOK 5 484 (4 881), which is equivalent to 35.1 (34.9) per cent of total assets. The Board of Directors considers this satisfactory. The company's need for financial strength is considered at any given time in the light of its objectives, strategy and risk profile.

Dividend policy

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

A dividend of NOK 3.75 per share was paid for 2010, and the Board proposes to the Annual General Meeting that a dividend of NOK 3.75 per share be paid for 2011.

Capital increase

The Board has not been given the mandate to undertake issue of capital.

Purchase of treasury shares

The General Meeting can authorise the Board to acquire up to 10 per cent of the treasury shares. At the Annual General Meeting on 9 May 2011, the Board was given authorisation to acquire treasury shares up to a 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 2012. The Board's acquisition of shares pursuant to this authorisation can be exercised only between a minimum price of NOK 50 per share and a maximum price of NOK 300 per share. At 31 December 2011, the Group owned a total of 74 955 (16 740) treasury shares.

The shares were purchased for the employee share programme, but can also be sold in 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 related parties

Class of shares

KONGSBERG's shares are all Class A shares. Each share represents one vote. The nominal amount per share is NOK 1.25. The Articles of Association place no restrictions on voting rights. All shares have equal rights.

Trading in treasury shares

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

Transactions with related parties

In 2011, 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. If such transactions should arise, the Board will ensure that an independent valuation is made by a third party. For further information, see Note 27 in the financial statements.

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. It is emphasized that the Board shall act independently of special interests. Independence in this context, is defined by the Board as follows:
- Board members shall normally not receive any other remuneration than their directors' fee and remuneration for work in board committees. Any deviation from this general rule shall be approved by the entire Board and entered in the minutes. When significant transactions between the company and the directors or CEO take place an independent assessment by a third party will be obtained.
- Board members shall inform the Board about any relationships with or interests in the Group's significant business partners or transactions.
- The directors' fee shall not be linked to the financial performance of the Group and options shall not be assigned to board members.
- Cross relationships between directors, CEO or other management shall be avoided.
- Board members shall not have or represent significant business relationships with the Group.

If a director is in doubt about their competence to act, the question shall be discussed in the entire Board. The conclusion on the question of disqualification shall be included in the minutes.

The Government as customer and shareholder
The Norwegian Government 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 Government, 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 Government's expectations regarding investment performance and yield are also communicated. These 'one-on-one' meetings with the Government are comparable to what is customary between a private company and its principal shareholders. The meetings comply with the provisions specified in company and securities legislation, not least with a view to equal treatment of 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 Government does not usually have access to more information than available to other shareholders. However, that does not preclude discussions on matters of importance to society. Under certain circumstances, i.e. when the Government's participation is imperative and the Government must obtain an authorization from the Storting (session of the Norwegian parliament), from time to time, it will be necessary to give the ministry insider information. In such case, the Government is subject to the general rules for dealing with such information.

5. Free tradeable

The shares are freely tradable, 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

Via the General Meeting, shareholders are secured 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 is ordinarily held by 1 June each year. The Annual General Meeting is scheduled for 7 May in 2012. Notification is usually distributed 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 recommendation 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
Registration is done by post, fax 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 2011, the General Meeting was held on 9 May, and 78.68 per cent (78.2) of the aggregate share capital was represented. A total of 97 (72) 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 Chairman of the Board will chair the General Meeting. The CEO reviews the status of the Group. The minutes of the Annual General Meeting will be made available on the Group's website at www.kongsberg.com

7. Nominating committee

The nominating committee policy is defined 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.

The Nominating Committee's duty is to nominate candidates to the General Meeting for the shareholder-elected directors' seats including substitutes. The basis for the nomination shall be described and particularly with respect to the nomination of the Chairman of the Board.

In addition, the Nomination Committee shall submit proposals for remuneration of Board members and substitutes, and make an annual evaluation of the work of the Board. The Nominating Committee consists of three members who shall be shareholders or representatives of the 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 approved by the General Meeting based on the Board's recommendation.

Composition

The current committee was elected by the Annual General Meeting 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 – composition and independence

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

Composition of the Board of Directors

The Board of Directors consists of eight members and currently has the following composition: Finn Jebsen (Chair), Anne-Lise Aukner (Deputy Chair), Erik Must, John Giverholt, Irene Waage Basili, 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.

Participation on the board meetings and board committees in 2011:

Participation in meetings	*Board meetings*	*Audit commitees*	*Compensation commitee*
Finn Jebsen	11		4
Anne-Lise Aukner	8	6	
Erik Must	11		4
John Giverholt	11	6	
Irene Waage Basili	8 (new 2011)		
Roar Marthiniussen	11		4
Kai Johansen	11	6	
Helge Lintvedt	11		

It is essential that the entire Board are 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 Chairman of the Board. This is stated in the instructions for the Nominating Committee. Finn Jebsen is elected as Chairman of the Board.

The Board's independence

All shareholder-elected directors are considered autonomous and independent of the Group's corporate executive management. The same applies relative to important business associates. 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 shall 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 women.

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 prior to the election. The recommendation 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 2011, the shareholder elected directors held the following portfolios of shares in the Group: Finn Jebsen, Chairman of the Board, owns 20 000 (20 000) shares through his wholly-owned enterprise Fateburet 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 December 2011. Roar Marthiniussen owned 4 268 (4 026 shares) personally.

9. The Board's 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 the Corporate 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 that 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. In cases of substantial nature in which the chairmen and other board members have been actively engaged, this will be disclosed in the proceedings and considered by the Board in each case. These tasks are not constant and 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 items: the notification of Board meetings, notification deadlines, administrative preparations, Board meetings, Board decisions, the keeping of minutes, the Board's competency and items on the Board's agenda, segregation of duties between the Board and the CEO, relations between subsidiaries and the parent company, independence and disqualification, main principles for the work of the Board in connection with a possible corporate takeover, confidentiality and professional secrecy, relations to legislation, regulations and rules of procedure.

The Board of Directors can decide to deviate from the rules of procedures in individual cases.

Instructions for the CEO

There is a clear segregation of duties between the Board and executive management. The Chairman 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 prepared 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 connection with reporting on operations, the individual units shall held 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.

Quarterly financial reports are reviewed at board meetings, and these form the basis of the external 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 held when considered necessary. In 2011, there were 11 (9) board meetings. The Board meeting had 97 (95) per cent attendance in 2011.

All directors receive regular information about the Group's operational and financial progress well in advance of the scheduled board meetings. The directors also receive monthly operations reports. The Group's business plan, strategy and risk are regularly reviewed and evaluated by the Board. The directors are free to consult the Group's senior executives as needed. The Board prepares 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 Chairman 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 called in 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 significant contracts and the approval of substantial business acquisitions and disposals.

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

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 2011, one Board member has renounced due to disqualification in connection with two cases.

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 entire 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 external auditor, internal audits and risk management. In 2011, the Committee focused on the Group's risk management. The Committee consists of two shareholder-elected directors and one employee-elected director. The external auditor usually attends the meetings. The CEO and the other directors are entitled to attend if they so desire. Six (six) meetings were held in 2011.

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 schemes/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 Chairman 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. Four (three) meetings were held in 2011.

Members: Finn Jebsen, Erik Must, Roar Marthiniussen. The mandate for the Compensation Committee is made available 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 necessary 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 Chairman of the Board and the other directors.

10.Risk management and internal control

The Board's responsibilities and objectives of internal control

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

The Group has established a decentralized management model featuring delegated responsibility for profits. As a result, the control function parallels the Group's management model, and 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 prepares monthly financial reports that are sent to and reviewed by the directors. In addition, quarterly financial reports are prepared. 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 and meets with the entire Board in connection with the presentation of the interim annual financial statements, and when required.

The Board's annual review and reporting
Annual review of the strategic plans of the Board is the basis for the Board's discussions and decisions through the year. Review of the Group's risks is part of this annual review. In addition, it is conducted a quarterly review of the operative risks. Health and safety matters are reviewed quarterly by the Board. The Board conducts an annual review of key policy documents in the Group to ensure that these are updated and cover the relevant topics.

Status of the Group's work on social responsibility is reported annually to the Board.

The Group's financial position and risks are described in a thorough manner in the annual report.

Compliance with our values, ethics and social responsibility
In 2011, our revised values was introduced together with the revision of KONGSBERG's ethical guidelines. Sustainable value creation requires a high ethical standard. In KONGSBERG, we emphasize that our values and ethical guidelines shall be an integrated part of business. We expect our employees and partners to demonstrate high ethical standards and compliance with applicable regulations.

In 2011 we have been focusing on developing our anti-corruption program for use by third-parties, and procedures for monitoring compliance with social responsibility in the supply chain.

The Group has compliance functions at Group level and in business areas. In the same way as for financial reporting, internal control has been established in accordance with a decentralized management model. KONGSBERG's compliance program is coordinated and monitored from the Group level. The status of compliance and corporate responsibility is reported annually to the Board.

KONGSBERG has established procedures for notification and follow-up on any alleged misconduct.

The Group has an ethics committee whose purpose is to promote high ethical standards, good behavior and to ensure that KONGSBERG maintains a good reputation.

11. Directors' fees

The Annual General Meeting approves the Board's compensation each year. The proposal for compensation is made by the chair of the Nominating Committee. In 2011, total remuneration to the Board came to NOK 1 697 336 (NOK 1 619 666). The remuneration breaks down as follows: Chairman of the Board of Directors NOK 372 667 (NOK 359 333), deputy chair NOK 198 667 (NOK 195 333), other directors NOK 186 667 (NOK 177 500). In addition, the members of the Audit Committee receive NOK 8 400 (NOK 8 150) per meeting, and a maximum NOK 42 000 (NOK 40 750) per year. The committee's chair receives NOK 9 600 (NOK 9 300) per meeting, and a maximum of NOK 48 000 (NOK 46 500) per year. The members of the Compensation Committee receive NOK 6 000 (NOK 5 800) per meeting, and a maximum of NOK 30 000 (NOK 29 000) per year. The committee's chair receives NOK 7 200 (NOK 6 950) per meeting, and a maximum of NOK 36 000 (NOK 34 750) per year.

The directors' fees are not related to financial performance, option programs 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 Management

Guidelines
The Board has prepared 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 Annual General Meeting for information purposes. The terms are stipulated by the CEO in consultation with the Chairman of the Board.

The Board's attitude to executive management's salaries is that they shall 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 other benefits.

Performance-based compensation
In 2006, the Board introduced a new bonus system for executive management. Performance-based compensation is linked to the performance trend, profit margin and non-financial goals. For a more detailed description of the system, see Note 27 in the 2011 financial statements. Altogether, the Group has 92 (90) managers who are covered by an incentive plan that includes an element of individual performance.

Conditions
Remuneration to executive management and the Board is described in Note 27 in the 2011 financial statement.

13.Information and communications

The annual report and accounts – interim reporting
The Group usually presents preliminary 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 made available 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 simultaneously with the presentation of the results. The annual and mid-year results are also presented on webcast. Beyond this, the Group conducts an ongoing dialogue with and makes presentations to analysts and investors.

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

The Group has a separate directive for investor relations, which includes sections on communication with investors and how price-sensitive information shall be treated. The Group has been awarded the Information Symbol and the English Symbol by the Oslo Stock Exchange since 2004. The Board of Directors has prepared 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 Government owns 50.001 per cent of the shares. The marketability of these shares is subject to parliamentary discretion. The Board's rules of procedures contain an item that refers to the guiding principles for how the Board of Directors shall react in the event of any takeover bid. The Board of Directors is responsible for ensuring that KONGSBERG's shareholders are treated equally and that operations are not disrupted unnecessarily.

Where a bid is made for the company, the Board of Directors shall draw up a statement containing a well-grounded evaluation of the bid and, if required, an independent assessment.

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 summary of the work planned by the auditor shall be presented to the Audit Committee once a year.

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

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

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

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

The Board of Directors has discussed guidelines for the business relationship between the auditor and the Group.

The Group's auditing services were put out for tender as from fiscal 2010. The General Meeting decided to continue cooperation with the auditing company Ernst & Young. At the same time, a new engagement audit partner was appointed. In addition to ordinary auditing, the auditing company has provided consultancy services related to accounting, tax and due diligence. For further information, see Note 10 in the 2011 financial statements.

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

16. Management and internal procedures

This point is not covered by the Code of Practice.

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

Executive management
The CEO appoints members to corporate executive management. Corporate executive management currently consists of ten 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, EVP Strategy and Analysis 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 general 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 KONGSBERG's overall situation is essential the decisions to be 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 internal managers and employees. The president of the holding company 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 internal guidelines for primary insiders, which require internal clearance by the CEO before primary insiders can buy or sell shares in KONGSBERG.

FINANCIAL CALENDAR

Presentation of quarterly results
Q1: 4 May
Q2: 16 August
Q3: 1 November

Annual General Meeting: 7 May 2012
Capital Markets Day: 8 November 2012

Ticker code: KOG (Oslo Stock Exchange)

INVESTOR RELATIONS CONTACTS

Jan Erik Hoff
Vice President Investor Relations and Reporting
Telephone: (+47) 32 28 83 30
Mobile phone: (+47) 99 11 19 16
Email: jan.erik.hoff@kongsberg.com

Tor Egil Kili
Manager Investor Relations
Telephone: (+47) 32 28 90 29
Mobile phone: (+47) 98 21 40 19
Email: tor.egil.kili@kongsberg.com

ADDRESSES

The Group is headquartered in Kongsberg, Norway

Kongsberg Gruppen ASA
Kirkegårdsveien 45
P.O. Box 1000
3601 Kongsberg
Norway
Telephone: (+47) 32 28 82 00
Telefax: (+47) 32 28 82 01
Email: office@kongsberg.com
Org. no. 943 753 709

www.kongsberg.com

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

Kongsberg Oil & Gas Technologies
Hamangskogen 60
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
Norway
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
Norway
Telephone: (+47) 32 28 82 00
Telefax: (+47) 32 28 86 20
Email: kps.marketing@kongsberg.com

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

www.kongsberg.com