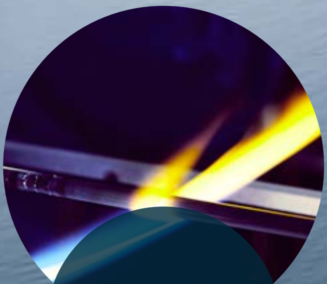
KONGSBERG

# ANNUAL REPORT AND SUSTAINABILITY REPORT 2015



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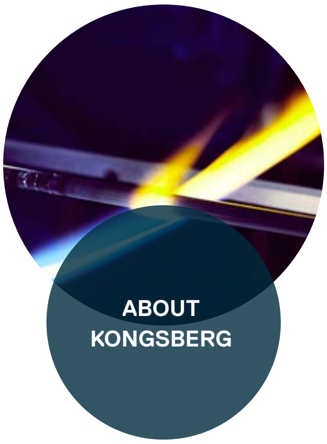







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# Kongsberg Gruppen

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. KONGSBERG works with demanding customers in the global defence, maritime, oil and gas and aerospace industries.

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

**Kongsberg Maritime**
Offshore
Merchant Marine
Subsea
Emerging Business

- Develops and delivers positioning, surveillance, navigation and automation systems for merchant vessels and the offshore industry.
- Is a market leader in dynamic positioning, automation and surveillance systems, process automation, fisheries, satellite navigation and hydroacoustics, as well as back-deck handling equipment for use on offshore vessels.

**Kongsberg Defence Systems**
Missile Systems
Naval Systems
Integrated Defence Systems
Aerostructures
Defence Communications
Space & Surveillance

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

**Kongsberg Protech Systems**

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

**Kongsberg Oil & Gas Technologies**

- Delivers innovative solutions for oil and gas operations, including drilling, production and subsea development projects.
- Integrates software and services with products for increased oil production, efficiency, safety and environmental protection.

**Organization**
The Group is divided into four business areas and a Corporate Centre. The four business areas are Kongsberg Maritime, Kongsberg Defence Systems, Kongsberg Protech Systems and Kongsberg Oil & Gas Technologies. The Corporate Centre provides staff and support functions to the business areas. The corporate staff have expertise in financial affairs, business development, investor relations, corporate law, corporate social responsibility, communication and HR.

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

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

**Sustainability and Corporate Social Responsibility**
Sustainability and corporate social responsibility are important topics for KONGSBERG and will be key to our strategy.
The perspective of opportunities is based on sustainable innovation and business opportunities related to global mega trends and climate change. This perspective will be given considerable attention. The perspective of risk consists of keeping our “licence to operate”, i.e. to operate in accordance with international guidelines related to corporate social responsibility and equivalent expectations from our key stakeholders. We are an important player in many local communities around the world. That implies an obligation. Companies that engage in international activities have a special duty to ensure responsible operation. We live in an era in which climate change, shortages of clean water and poverty are formidable global challenges. In addition, several countries are experiencing debt crises, refugee crisis and instability. These challenges also affect KONGSBERG's activities, directly or indirectly.

## KONGSBERG's global presence

# Vision, goals and values

## Extreme performance for extreme conditions

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

## Vision

**WORLD CLASS – through people, technology and dedication**

We have a strong, value based culture that drives our business performance. Our corporate vision reminds us where we are heading and what we are striving to achieve.

## Ambitions

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

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

- We aim for annual average growth of 10 per cent over the next five years, about half of which is organic. Organic growth is expected to increase gradually throughout the period.
- We shall be a "double digit" EBITA-margin business.
- We are on schedule to achieve an annual cost improvement of NOK 1 billion through our DeltaOne programme. Further cost reductions have been implemented.
- New projects and initiatives will be evaluated against a 10–15 per cent requirement on capital employed dependent upon project risk.

## Our values





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

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

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

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

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

**We collaborate as individuals and as an organization.**

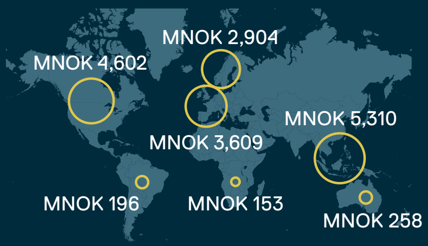
**Reliable**
*(dependable, trustworthy)*
Our customers and partners can trust KONGSBERG to deliver, always. Dealing with KONGSBERG means dealing with reliable people, a reliable corporation and reliable products. KONGSBERG is a responsible organization characterized by integrity and concern for health,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

**We are reliable people. We are responsible citizens.**

# Key figures 2015

| MNOK | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sales** | | | | | | | | | | |
| Revenues | **17 032** | 16 613 | 16 323 | 15 652 | 15 128 | 15 497 | 13 816 | 11 056 | 8 306 | 6 720 |
| New orders | **15 238** | 22 097 | 15 043 | 14 605 | 15 016 | 13 584 | 17 605 | 14 635 | 14 338 | 7 672 |
| Order backlog | **19 597** | 21 020 | 15 687 | 16 523 | 17 839 | 17 759 | 19 892 | 16 692 | 12 646 | 6 472 |
| Book-to-Bill Ratio | **0.9** | 1.3 | 0.9 | 0.9 | 1.0 | 0.9 | 1.4 | 1.5 | 1.5 | 1.0 |
| **Performance** | | | | | | | | | | |
| Earnings before interest, taxes, depreciation and amortisation (EBITDA) | **1 784** | 2 060 | 2 142 | 2 294 | 2 385 | 2 485 | 1 619 | 1 319 | 1 560 | 627 |
| Earnings before interest, taxes and amortisation (EBITA) | **1 405** | 1 718 | 1 797 | 1 971 | 2 123 | 2 216 | 1 376 | 1 122 | 796 | 464 |
| Earnings before interest and taxes (EBIT) | **944** | 1 258 | 1 659 | 1 840 | 2 026 | 2 113 | 1 263 | 1 038 | 1 346 | 448 |
| Earnings before taxes (EBT) | **944** | 1 285 | 1 644 | 1 809 | 1 991 | 2 097 | 1 169 | 861 | 685 | 390 |
| Profit for the year | **755** | 880 | 1 225 | 1 304 | 1 418 | 1 500 | 828 | 587 | 490 | 252 |
| **Profitability** | | | | | | | | | | |
| EBITDA% | **10.5%** | 12.4% | 13.1% | 14.7% | 15.8% | 16.0% | 11.7% | 11.9% | 18.8% | 9.3% |
| EBITA % | **8.2%** | 10.3% | 11.0% | 12.6% | 14.0% | 14.3% | 10.0% | 10.1% | 9.6% | 6.9% |
| EBIT % | **5.5%** | 7.6% | 10.2% | 11.8% | 13.4% | 13.6% | 9.1% | 9.4% | 16.2% | 6.7% |
| **Balance sheet** | | | | | | | | | | |
| Equity | **6 127** | 6 282 | 6 657 | 6 274 | 5 484 | 4 881 | 3 726 | 1 894 | 2 758 | 1 684 |
| Equity ratio % | **32.0** | 31.0 | 38.2 | 38.6 | 35.1 | 35.0 | 30.0 | 15.0 | 30.0 | 23.0 |
| Net interest-bearing debt | **(941)** | (3 551) | (1 935) | (1 198) | (2 191) | (1 813) | (634) | 1 439 | (242) | 294 |
| Working capital | **2 749** | 3 274 | 3 319 | 3 528 | 2 250 | 1 957 | 1 183 | (217) | 1 425 | 1 249 |
| **Employees** | | | | | | | | | | |
| Number of employees, total | **7 688** | 7 664 | 7 493 | 7 259 | 6 681 | 5 681 | 5 423 | 5 243 | 4 205 | 3 650 |
| Number of recordable injuries per million hours (TRI) | **4.1** | 4.7 | 3.7 | 1.5 | 1.7 | 6.3 | 5.5 | 3.5 | | |
| Injury severity rate (number of days lost per one million man hours worked) (ISR) | **14.2** | 45.3 | 15.6 | 13.6 | 1.1 | 22.3 | 58.2 | 5.6 | | |
| **The environment** | | | | | | | | | | |
| Energy consumption (GWh) | **119.35** | 123.7 | 127.0 | 114.7 | 108.9 | 103.2 | 100.0 | 74.4 | | |
| $CO_2$ emissions (metric tonnes) | **39 268** | 26 006 | 25 294 | 19 579 | 22 747 | 20 005 | 12 980 | 7 801 | | |
| Waste (metric tonnes) | **2 368** | 1 788 | 1 935 | 1 784 | 1 622 | 1 772 | 1 473 | 1 256 | | |
| Total water consumption ($m^3$) | **180 741** | 176 743 | 115 968 | | | | | | | |
| **Owners' value** | | | | | | | | | | |
| Market capitalisation | **17 400** | 14 760 | 15 300 | 14 940 | 13 920 | 15 960 | 10 590 | 9 840 | 10 170 | 5 250 |
| Earnings per share after tax (EPS) in NOK | **6.23** | 7.28 | 10.24 | 10.91 | 11.83 | 12.46 | 6.83 | 4.86 | 4.04 | 2.08 |
| P/E in NOK | **23.05** | 16.77 | 12.49 | 11.46 | 9.82 | 10.64 | 12.92 | 16.87 | 20.96 | 21.08 |
| Dividend per share in NOK | **4.25** | 9.25 | 5.25 | 3.75 | 3.75 | 3.75 | 2.00 | 1.38 | 1.25 | 0.63 |

# Key figures 2015



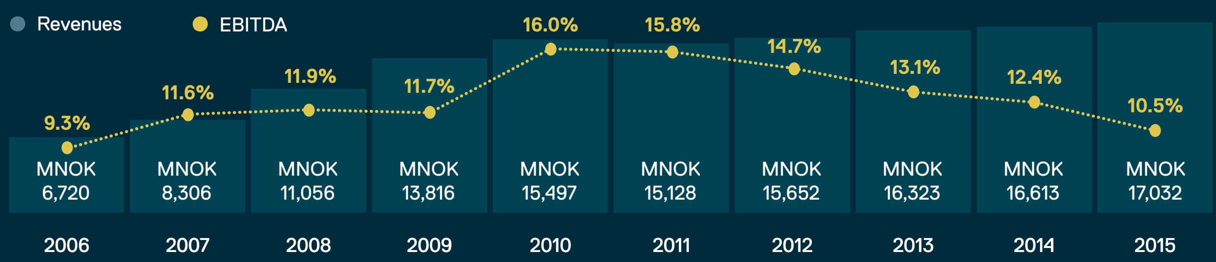

Revenues
**MNOK 17,032**

| | |
|---|---|
| Kongsberg Maritime | 61% |
| Kongsberg Defence Systems | 24% |
| Kongsberg Protech Systems | 10% |
| Kongsberg Oil & Gas Technologies | 5% |
| Other | -1% |

EBIT
**MNOK 944**

EBITDA
**MNOK 1,784**

Profit for the year
**MNOK 755**




Number of employees 2015

| Norway | Europe | America | South America | Asia | Australia |
|---|---|---|---|---|---|
| 4,773 | 614 | 772 | 137 | 1,380 | 12 |

Earnings per share after tax
**NOK 6.23**

Dividend per share
**NOK 4.25**

Market capitalisation
**MNOK 17,400**

# Key figures business areas

| | Kongsberg Maritime | Kongsberg Defence Systems | Kongsberg Protech Systems | Kongsberg Oil & Gas Technologies |
|---|---|---|---|---|
| Revenues | MNOK 10,438<br>+7.6% from 2014 | MNOK 4,149<br>-3.0% from 2014 | MNOK 1,777<br>+13.5% from 2014 | MNOK 777<br>-23.6% from 2014 |
| EBITDA | MNOK 1,116<br>-22.6% from 2014 | MNOK 695<br>+31.1% from 2014 | MNOK 227<br>-10.6% from 2014 | MNOK -203<br>-105.1% from 2014 |
| New orders | MNOK 9,756<br>-2.8% from 2014 | MNOK 3,310<br>-63.3% from 2014 | MNOK 1,576<br>-29.6% from 2014 | MNOK 642<br>-20% from 2014 |
| Number of employees | 4,726 | 1,729 | 663 | 435 |

## CEO Walter Qvam

# Leading in a changing world

Dear co-shareholder! 2015 was a good year for the Group, one where we reached several important milestones and won some very important contracts. We experienced great opportunities, but also had to deal with challenging markets in a strategic way. KONGSBERG handled both the challenges and opportunities well. With our financial solidity, market position, products, solutions and expertise, we are well equipped for the future.

Our world as a technology group is changing ever faster. Changes have of course always been a part of KONGSBERG. As a group that values innovation, we see considerable opportunities in all our markets. We see KONGSBERG's diversified portfolio as a strength. The group is diversified geographically, technologically and industrially, and this makes us somewhat less vulnerable to fluctuations in individual segments. It also means that we are capable of innovating across the group in ways that few others can. We are aware of this and are continually working to ensure that we exploit the potential synergies.

A specific example of how KONGSBERG, as a technology group, can come up with unique solutions is the agreement we signed with Avinor in autumn 2015. It included delivery of technology for remote tower solutions to airports, where advanced and proven technology from several of our defence systems is used. This provides a number of opportunities and gains for Avinor. The solution will initially be implemented at 15 smaller airports in Northern Norway that are to be operated from Bodø as soon as 2017. This is another example of KONGSBERG going into new market segments using our existing expertise and technology, and we see substantial international potential for this new technology.

In general, it was a good year for the defence segment, and KONGSBERG reached several important milestones. Our defence operations have a very modern and competitive product portfolio that is well positioned regarding future needs and the current defence plans of several countries.

At the end of 2015, we announced that our PROTECTOR MCT-30 (Medium Caliber Remote Weapon Station) had been chosen by General Dynamics for delivery to the US Army.

This is a very important milestone that will contribute to making our investment in developing this tower solution profitable. This first step will open up new opportunities for KONGSBERG, and we look forward to developing these opportunities in what is a significant and, for us, a new market segment.

KONGSBERG's strong international position, with the Naval Strike Missile (NSM) and multirole Joint Strike Missile (JSM), continues to be enhanced. In 2015, we signed an agreement for on-board equipment for NSM to the Royal Malaysian Navy's new Gowind frigates. NSM, which is in operational use both in Norway and Poland, is also being considered by several other countries.

The development programme for JSM is on schedule, and several successful verification tests were completed in 2015, on the way to final qualification in 2017. In February 2015, Australia announced a collaboration with Norway for developing the missile and providing it with more advanced capabilities, something that will further strengthen the missile's opportunities and position in the market. As with the NSM, several countries are to decide in the near future which systems to use to equip the F-35. JSM has a unique position as it is the only fifth-generation missile that fits into the bomb room of the fighter. Moreover, JSM has completed successful "fit checks" for several other types of aircraft. We estimate a potential NOK 25 billion for JSM over the missile's lifetime.

KONGSBERG is the largest aerospace industry company in the Nordic region, an industry that is undergoing rapid development.

The Aerostructures division delivered a very strong 2015 with excellent results and good order intake. We won F-35 contracts amounting to over MNOK 700, and we estimate potential deliveries to the programme to be approximately NOK 16 billion over the lifetime of the aviation programme. In addition, we have a strong position in several other segments, including deliveries to aerospace and helicopter maintenance.

KONGSBERG is the largest aerospace industry company in the Nordic region, an industry that is undergoing rapid development. As with many of the group's other areas, the aerospace business is facing exciting times. We deliver individual items for the entire cycle, from space rocket launches to downloading satellite data. In the course of the year, we signed two contracts with Copernicus, the European Space Agency (ESA) programme for earth observation. We also signed a number of other contracts and this provides good predictability going forward.

Group operations related to offshore vessels and oil and gas have had high levels of activity in 2015. However, some units have also experienced gradually lower activity, increased margin pressure, increased uncertainty and more demanding market conditions. KONGSBERG is coping well with the current situation, and our diversified maritime business, including fisheries, subsea technology, control and navigation systems, simulator services and a number of other areas, means that we are less vulnerable in the maritime segment. At the outset of 2016, however, we see that the very low level of investment in the oil and gas industry will lead to additional adjustments of our capacity and portfolio for the affected group units.

In 2015, we worked closely with Ocean Farming AS, a subsidiary of SalMar, working to develop offshore fish farms. These netpens will be a lot bigger than the traditional ones, and moving them out to sea will resolve a number of challenges associated with today's fish farms located in fjords. In this project we have applied several of our core technologies, especially from offshore and fisheries, and we deliver sensor systems for monitoring fish and environment, automation, navigation systems and communication solutions. In March 2016, the project was approved for development by the Norwegian Ministry of Trade, Industry and Fisheries, and we are now looking forward to seeing the first netpens off the coast of Trøndelag in 2017. This is an exciting pioneer project for KONGSBERG, and for Norway, and it could represent a new market segment for the group's technology deliveries.

KONGSBERG's subsea technology has a very strong global position, with a technology portfolio that is under constant development for segments such as fisheries, research, production of natural resources and environmental monitoring. In 2015, we signed several agreements for deliveries of our underwater vehicles, and a growing number of customers now see what opportunities underwater vehicles provide for more efficient subsea mapping and monitoring. In particular, this applies to the more demanding subsea operations that can be performed with these types of autonomous systems.

There is increasing demand for green solutions that reduce both greenhouse gas emissions and operating costs, and we have systems that contribute to solving these challenges.

There is high demand for KONGSBERG's solutions in the merchant marine segment. There is increasing demand for green solutions that reduce both greenhouse gas emissions and operating costs, and we have systems that contribute to solving these challenges. However, prognoses for new projects within sea transport are somewhat uncertain, in a market where the level of contracting has been very high for a number years. Our way of dealing with this uncertainty is through new and more effective solutions and a larger delivery range per vessel.

In 2015, KONGSBERG reached out to the Norwegian business sector and political authorities in order to put the coming industrial digitalization on the national agenda. This topic, unlike in other countries, was not a part of the Norwegian debate. We called this initiative "Norway version 6.0" to visualize the job that lies in front of us. The business sector needs to enter a phase where it is able to take advantage of the significant opportunities offered by the new technologies, especially for our country. In collaboration with others we have in the course of the year succeeded in placing this topic firmly on the agenda, and we are now trying to reach consensus on joint measures and a centre for digital competence and facilities called "The top industrial centre".

Going forward, we at KONGSBERG, our partners and our customers will notice significant changes in how we develop new products, services and solutions and not least how these will be produced. Technologies such as the Internet of Things, Big Data, automation and robots will involve significant changes and create new competitive conditions internationally. KONGSBERG is already a digital group with world-leading products within the sensor technology, electronics, software development and processing of Big Data. As a technology company we see great opportunities, and we have several initiatives underway for addressing and indeed leading the way in this development.

In February 2016, based on this development and these opportunities, we established a new group subsidiary, "Kongsberg Digital", which will consist of some 450 software experts. This subsidiary will be a hub for the development of digital products and solutions, and an important driver for the entire group's digitalization. We have high hopes for this. Kongsberg Digital will be an important and advanced software company with well-established market and customer relations. Just as important is the part the company has in our strategy to find the next generation of digital solutions. This will be done in close cooperation with the group's other business areas as well as our external partners and customers.

Our software-related products and services for the oil and gas segment will become part of Kongsberg Digital, together with the simulation teams from Kongsberg Maritime.

As a result of the challenging market situation, among other things, we decided to reorganize the oil and gas related engineering services in February 2016 and further develop them alongside the rest of the oil and gas services in Kongsberg Maritime. These measures will ensure strong engineering disciplines in a time where the activity level is low and make them more robust in the current market situation. KONGSBERG's solutions can contribute to making oil companies more efficient in many areas and thus help to reduce the costs of development, production and operation. This is highly relevant for the challenges facing the industry today.

In 2014, we identified two main focus areas for our long-term innovation strategy: "Ocean Space" and "Smart Communities". There is increased focus on the oceans as an important resource for sustainable production of natural resources such as energy, minerals and food. With a digitalized infrastructure, both public and private, it is becoming more important to be at the forefront of digital solutions. We are therefore committed to further developing our existing solutions in these areas and taking our core technologies into new areas.

By the end of 2016, the group level efficiency programme DeltaOne, which aims to reduce operational costs by NOK 1 billion, will be fully implemented. 2015 has therefore been a key year for the programme, and it has delivered on schedule to achieve the improvement goals we set ourselves in the autumn of 2013. Sourcing, competence and resource sharing, technology transfer and several other measures have given the targeted effects, and the programme has also led to permanent changes in our way of working. Of course, it is always important to improve our competitive position in current market conditions. We will therefore use the knowledge we have gathered through DeltaOne and take new measures to improve our competitive position.

> We continue to climb the rankings for most attractive employers in Norway.

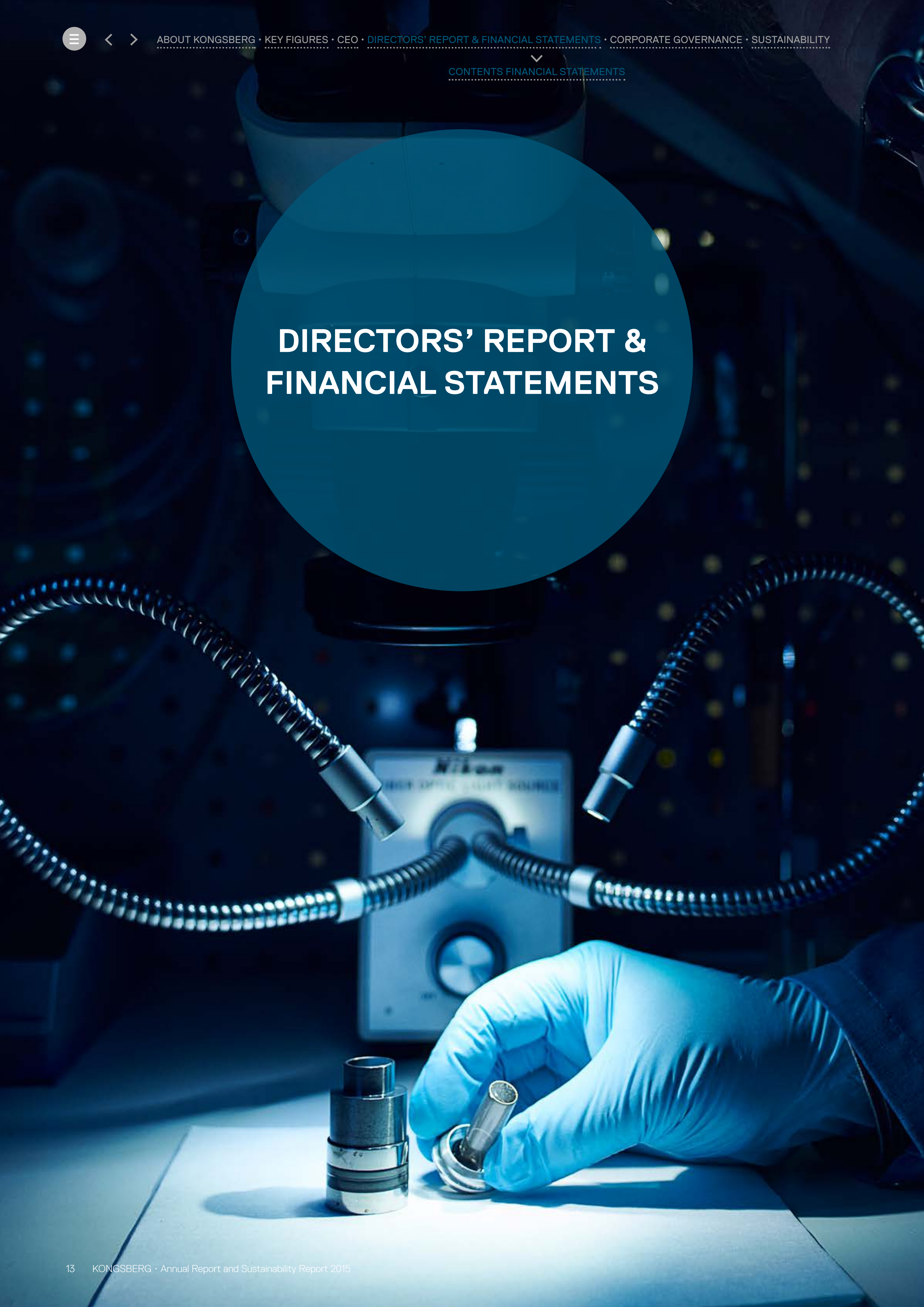
We continue to climb the rankings for most attractive employers in Norway. Our employees are our most important resource, and their continual development is a clear priority for us. We also aim to attract the best students, established talent and senior professionals. Our culture and values make us unique and attractive as an employer, especially in terms of exciting projects, customer relations and work tasks.

After more than eight years as CEO of this fantastic group, I will be resigning in June this year. I therefore want to take this opportunity to thank my more than 7,700 colleagues as well as our customers, partners, suppliers, "Team Norway", our owners and all the others who have supported us on this amazing journey. The main goal for any CEO of KONGSBERG is to develop and pass on a group that is a little better and stronger than the one you took over. I sincerely hope you too find this to be the case.

Walter Qvam

**Walter Qvam**
Chief Executive Officer
March 2016

# DIRECTORS' REPORT & FINANCIAL STATEMENTS



# Directors' Report 2015

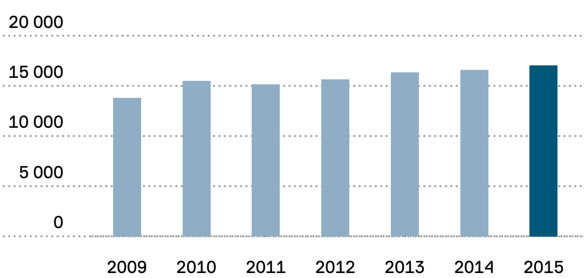
2015 has been a year with both positive developments and challenges for KONGSBERG. Operating revenues amounted to MNOK 17,032, an increase of 2.5 per cent compared with 2014. The Group had good order intake in 2015, but somewhat lower than in 2014. Kongsberg Maritime (KM)'s sales set an all-time record, but profitability was lower in a market that is challenging for parts of the organisation. Kongsberg Defence Systems (KDS)' activity was stable and showed a significant improvement in profitability. Kongsberg Protech Systems (KPS) increased its sales compared to 2014. Kongsberg Oil & Gas Technologies (KOGT) had a challenging year in a weak oil and gas market, and the year was characterised by capacity adjustments and restructuring. The Group's oil and gas activities are being restructured and will be consolidated during the first half of 2016 in KM and the new Kongsberg Digital. As a result, KOGT will no longer be a separate business area. The Group continues to invest major resources in the development of new and existing products, and in 2015 over MNOK 1,000 was spent in self-financed product development and maintenance.

EBITDA for the Group in 2015 amounted to MNOK 1,784, compared to MNOK 2,060 in 2014. The Board decided to write down goodwill and intangible assets in KOGT by totally MNOK 300 at the end of 2015. Profit for the year after tax amounted to MNOK 755 (MNOK 880), corresponding to NOK 6.23 per share (NOK 7.28). On this basis, the Board proposes to the General Meeting a dividend for the accounting year 2015 of NOK 4.25 per share (NOK 4.25).
An extraordinary dividend of NOK 5.00 was paid for 2014, giving a total dividend of NOK 9.25 per share. The dividend represents 68.2 per cent (127.1 per cent) of the ordinary annual results, and 50.0 per cent (93.0 per cent) of ordinary results before impairment. The Group had a negative cash flow of MNOK 2,725 in 2015.

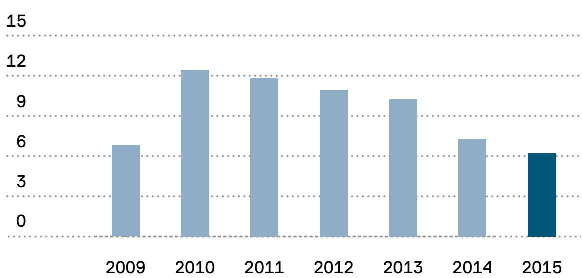
## Important events in 2015

2015 was an eventful, although challenging, year for KONGSBERG. KM has had a high level of activity, with a growth in operating revenues of 7.6 per cent, divided across all of the divisions. The EBITDA margin was affected by several non-recurring effects, at the same time as a gradual change in project mix towards contracts with lower margins. Overall, this gives a reduction in EBITDA margin compared with the last years. In 2015, order intake amounted to more than MNOK 9,700 for KM. KDS achieved a record high EBITDA margin of 16.8 per cent and has won several important contracts during the year. KPS reported an increase in operating revenues of 13.5 per cent compared with 2014,

**Revenues**
MNOK




**Earnings per share**
NOK



but the underlying EBITDA is still weak, and is affected by the intensive market activity that has taken place throughout the year. The market related efforts gave results in December, when the PROTECTOR Medium Caliber Remote Weapon Station (MCT-30) was chosen by General Dynamics Land Systems (GDLS) for one brigade of Stryker vehicles. KOGT had a very challenging year characterised by restructuring and a significant decline in the oil and gas market. This has given negative results, and led to impairment of goodwill and other intangible assets of MNOK 300 in 2015.

The defence market has exhibited positive trends through the year and KONGSBERG's position in the market has strengthened. Through 2015, KDS increased its scope of delivery to the F-35 programme and the total potential, including JSM, is estimated to be in excess of NOK 40 billion for KONGSBERG. KDS has also signed a contract with Avinor for delivery of a complete solution for remote operation of the control tower services at several Norwegian airports from a single control centre. This contract represents the most extensive involvement in remote-controlled tower services ever in the international aviation sector. The international potential for the solution is considered to be significant. In 2015 a contract for delivery of equipment for the Naval Strike Missile (NSM) to Malaysia was signed, the contract is considered to form the foundation for future NSM deliveries to the Royal Malaysian Navy. This confirms NSM's strong position on the international market. For KPS the most significant event in 2015 was GDLS choosing the PROTECTOR MCT-30 for one brigade of Stryker vehicles. There is significant potential in the market for such systems, and KPS' début in the market is considered to be important for further development of the business area. Contracts have also been signed for deliveries of traditional Remote Weapon Stations (RWS) throughout the year, including a production contract with General Dynamics UK for deliveries to the Scout SV vehicle programme.

The offshore-, and oil & gas markets are still very challenging, mainly as a result of the huge decline in oil prices that started in the second half of 2014 and which has continued throughout 2015. This development has presented major challenges for KOGT, while KM has, in total, maintained a high level of activity and has had a good order intake in 2015. KM has a significant activity in the merchant marine market and parts of the subsea market that are less dependent on the oil price, and these markets have, overall, developed well in 2015. Through 2015, the offshore activities in KM had an increasing share of deliveries on EIT/EPC contracts. These are contracts in which KM takes greater overall responsibility for the delivery, and where the proportion of third-party equipment is higher than for the traditional "Full Picture" deliveries. Consequently, margin levels in these contracts are lower than traditional KM deliveries. KM has confirmed its solid position within topside automation for offshore oil and gas units through a contract for the delivery of security and automation systems (SAS), lifecycle simulators and SAS Information Management System to the field centre for Johan Sverdrup's four platforms.

### KONGSBERG buys 49,9 per cent of Patria Oyj

On March 17th 2016, KONGSBERG entered into an agreement with the Finnish state for the purchase of 49.9 per cent of the shares in Patria for EUR 272 million. Patria is Finland's leading defence supplier and also owns 50 per cent of the shares in the Norwegian company Nammo. The partnership will be a leading defence supplier in the Nordics, and a considerable supplier on the European defence market, with total gross revenues of NOK 13.4 billion in 2015.

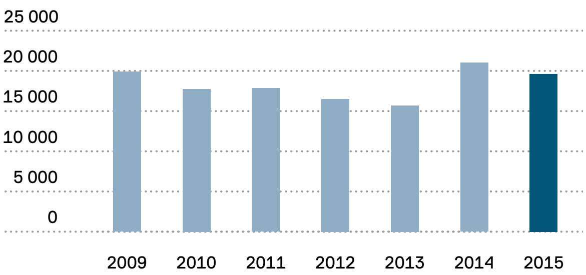
Patria has approximately 2 800 employees and had revenues of EUR 428 million (NOK 3.8 billion) in 2015. The company is Finland's leading defence supplier, and has a broad and modern product portfolio. Patria and KONGSBERG have complementary systems and significant synergies within several areas.

The completion of the transaction is expected in the second quarter of 2016, and is subject to normal closing conditions e.g. approval from relevant authorities. The final purchase price plus settlement of interest and taxes at closing will be settled in cash, and financed by a bridge facility of 24 to 33 months.

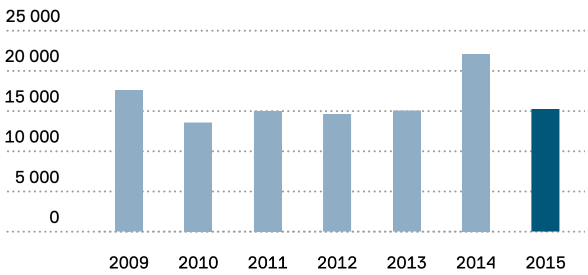
### Establishment of Kongsberg Digital

After the balance sheet date the Group decided to establish Kongsberg Digital, thereby taking an important step for development of the next generation of digitalised products and services. The company will be a leading industrial software community with about 450 employees from the

**Backlog of orders**
MNOK




**New orders**
MNOK



existing software and simulation community at KOGT and KM. Kongsberg Digital already has a significant portfolio and revenue from advanced data, software and simulation products. In addition, Kongsberg Digital will have corporate responsibility for the development of the new digital solutions and associated technology alliances. The establishment will take place during spring 2016.

Main priorities for Kongsberg Digital in 2016:

- Establish the company with a clear strategy for digitalised services
- Focus on the promotion of value and cost-effective products and services for our customers and partners within KONGSBERG's business areas
- Maintain high market activity in existing product areas

**KONGSBERG restructures and consolidate the Group's oil and gas-related businesses**

The Group's oil and gas related engineering services will be consolidated, strengthened and further developed with other oil and gas services in KM. KOGT's largest business unit, Software & Services, will be incorporated as an important part of Kongsberg Digital. As a result of the abovementioned, KOGT will no longer be a separate business area.

## Future strategy and priorities in 2016

KONGSBERG's focus going forward is to ensure increased competitiveness while also laying the foundation for continued profitable growth. The Group's ambition is to grow at an average of ten per cent annually over a five-year period. Growth will be achieved through a combination of five per cent organic growth and a minimum of five per cent growth through acquisitions. Organic growth should be based on development and expansion of existing products, services and market positions as well as developing or construction of new products for new markets. Hence, the Group will continue to invest considerably in product development, but also through further adjustments of its international business model to the market. Going forward, the Group will maintain its leading position in innovation and technological development. Acquisitions will be a means to supplement the Group's deliveries, but also to expand the extent of deliveries and further develop the industrial product range within KONGSBERG's main segments.

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

Within KONGSBERG's maritime portfolio, the emphasis is on achieving growth through further developing leading marked positions, as well as extending the range of deliveries and life cycles services by continued innovation and acquisitions.

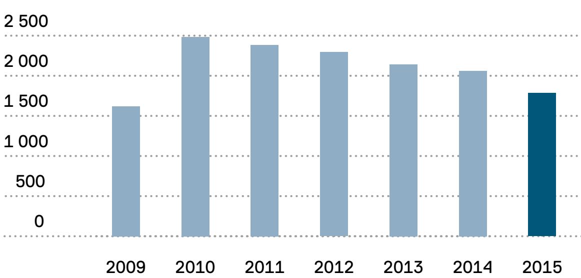
KONGSBERG's portfolio within oil and gas is relatively small, but comprises unique and newly-developed solutions. The oil and gas market is currently challenging. In the course of the first half of 2016, the Group's oil and gas related engineering services will be consolidated and strengthened with other oil and gas services in KM. KOGT's largest business unit, Software & Services, will be incorporated as an important part of Kongsberg Digital, which will be established at the same time. As a result, from 2016 KOGT will no longer be a separate business area.

The current technology shift offers significant opportunities, both in Norway and internationally. Kongsberg Digital will be a hub for the development of digital products and solutions, and an important driver for the entire group's digitalisation. In addition, the company will develop new solutions and gradually establish positions in new markets. This will ensure that customers have continued access to leading technology in the future. Kongsberg Digital will have corporate responsibility for the development of the new digital solutions and associated technology alliances.

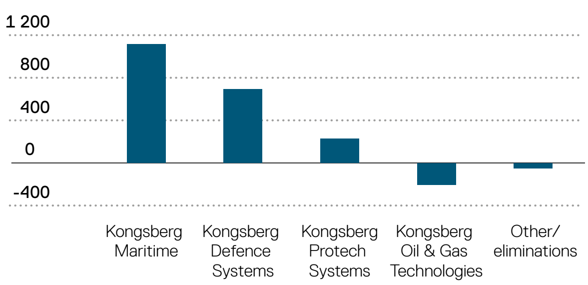
The Group's growth shall generate satisfactory return for the company as well as our owners. The Group's margins have been under pressure for the last few years, partly as a result of changes in the group's main markets, and intensified self-financed ventures. It is a goal for the Group's EBITA margin to be above ten per cent.

As part of securing the Group's future competitiveness, and ensuring a good return to the shareholders, "DeltaOne", a corporate-level efficiency programme, was started in the

**EBITDA**
MNOK




**Distribution of EBITDA**
MNOK



autumn of 2013. The ambition for the programme is a realised efficiency gain of NOK 1 billion per year before the end of 2016. Achievement of goals at the end of 2015 has exceeded expectations. In addition, further cost saving measures have been implemented.

## The business areas' priorities in 2016

### Kongsberg Maritime

- Continue significant investment in the development of cost-effective products and system solutions
- Continue to make efficiency and productivity improvements throughout the value chain
- Further develop after-market activity, the service portfolio and business models
- Secure and take new market positions, within all main segments
- Take market positions within the new market segments
- Expand the scope of supply in general and engineering services in particular

### Kongsberg Defence Systems

- Ensure continued solid completion of the large, ongoing programmes in missiles, air defence systems, aerostructure parts for F-35 and other delivery projects
- Secure good progress in developing JSM and pursue the opportunities arising from the teaming agreement with Raytheon
- Maintain high market activity related to the entire product range
- Continue to strengthen strategic foundations in key markets

### Kongsberg Protech Systems

- Solid implementation of the Stryker MCT project, and position KPS for new known opportunities for MCT-30
- Secure KPS' position in the US to ensure continued contracts on CROWS after 2017
- Establish new positions in the market for RWS outside the US
- Continued focus on growth in the after market
- Optimise operations

## Comments to the financial statements

### Operating revenues

The Group's revenues were MNOK 17,032 in 2015, up 2.5 per cent from MNOK 16,613 in 2014. KM and KPS increased revenues by 7.6 per cent and 13.5 per cent, respectively, in 2015. KDS had a smaller decline in revenues, while KOGT had a decline of 23.6 per cent.

### EBITDA development

In 2015, EBITDA totalled MNOK 1,784 (MNOK 2,060), resulting in an EBITDA margin of 10.5 per cent (12.4 per cent). In 2015, EBITDA was affected by several one-off effects. The positive effects include changes in the pension scheme that affects the EBITDA by MNOK 168, divided across all business areas and MNOK 206 related to the reversal of provisions in KPS. The negative effects include the payment of MNOK 95 in compensation as a result of the district court decision in Sunnmøre District Court, well as costs related to this matter, and MNOK 139 in restructuring costs in KOGT and KM. EBITDA is also influenced by increased market and development costs, as well as a somewhat different project mix. KDS increased both its EBITDA and EBITDA margin in 2015 compared with 2014, while the other business areas reported a decline in EBITDA.

### Profit/loss

Profit before tax amounted to MNOK 944 (MNOK 1,285). At the end of 2015, the Board decided to write down goodwill and intangible assets in KOGT by a total of MNOK 300. The profit after tax was MNOK 755 (MNOK 880), corresponding to NOK 6.23 (NOK 7.28) per share. Return on average capital employed (ROACE) was 16.9 per cent in 2015 (16.4 per cent).

KONGSBERG's dividend policy stipulates that dividend over time shall constitute between 40 per cent and 50 per cent of the company's net profit for the year. On this basis, the Board proposes an ordinary dividend for the accounting year 2015 of NOK NOK 4.25 per share (4.25). An extraordinary dividend of NOK 5.00 was paid for 2014, giving a total dividend of NOK 9.25 per share. The dividend represents 50.0 per cent (93.0 per cent) of the ordinary annual results before impairment, and 68.2 per cent (127.1 per cent) of ordinary results.

| | | *KONGSBERG consolidated* | *Kongsberg Maritime* | *Kongsberg Defence Systems* | *Kongsberg Protech Systems* | *Kongsberg Oil & Gas Technologies* | *Other / Eliminations* |
|---|---|---|---|---|---|---|---|
| **Operating revenues** | 2015 | 17 032 | 10 438 | 4 149 | 1 777 | 777 | (109) |
| | 2014 | 16 613 | 9 703 | 4 276 | 1 566 | 1 017 | 51 |
| | Change in per cent | 2.5% | 7.6% | (3.0)% | 13.5% | (23.6)% | (313.7)% |
| **EBITDA** | 2015 | 1 784 | 1 116 | 695 | 227 | (203) | (51) |
| | 2014 | 2 060 | 1 441 | 530 | 254 | (99) | (66) |
| | Change in per cent | (13.4)% | (22.6)% | 31.1% | (10.6)% | (105.1)% | (22.7)% |
| **EBITDA-margin** | 2015 | 10.5% | 10.7% | 16.8% | 12.8% | (26.1)% | (29.5)% |
| | 2014 | 12.4% | 14.9% | 12.4% | 16.2% | (9.7)% | (26.0)% |

**Cash flow**

In 2015, KONGSBERG had a negative cash flow from operational activities of MNOK -1,087 (MNOK 2,315). This primarily consists of operating profit before depreciation and amortisation (EBITDA) of MNOK 1,784, net of taxes and adjusted for changes in net current assets, current liabilities and accruals. In 2014, KONGSBERG received significant advance payments for several large projects. These payments are used in parallel with the progress of these projects, and the cash flow from operations has been adversely affected in 2015 as a result. In 2015, there were temporary cash effects related to currency hedges of MNOK 1,167, which are expected to recur over the next two to three years.

In 2015, there was a cash flow related to investment activities of MNOK -499 (MNOK 211). Of these, MNOK 363 was paid for the purchase of property, plant and equipment, MNOK 103 is related to capitalised internal development of intangible assets, and MNOK 45 relates to the payments for the purchase of subsidiaries. The cash flow from financing activities amounted to MNOK -1,139. This is mainly related to disbursement of MNOK 1,107 in dividends to shareholders.

Net change in cash and cash equivalents, after the effect of exchange rate changes in 2015, was MNOK -2,617.

**Capital structure**

The Group's equity at 31 December 2015 was MNOK 6,127 or 32.0 per cent of total assets. The equity book value declined by MNOK 155 during 2015, partly as a result of increased negative value of the Group's currency portfolio, as well as changes in estimated actuarial gains/losses. The Group's net interest-bearing debt (cash less long-term interest-bearing debt) at 31 December 2015 was negative (positive net cash balance) by MNOK 941 (MNOK 3,551). Long-term interest-bearing debt mainly consists of two bond loans totalling MNOK 750. The Group also has an undrawn syndicated loan facility of MNOK 1,500, which expires in April 2019. The loan facility requires that net interest-bearing debt does not exceed three times EBITDA, but can be up to 3.5 times

## Important events in 2015




| | | | |
|---|---|---|---|
| Contracts exceeding NOK 700 million associated with the F-35 programme and extended scope of the delivery | Contract for delivery of Protector RWS to General Dynamics UK's Scout vehicles | Agreement for the delivery of security and automation system (SAS), life-cycle simulator and SAS Information Management System to the field centre for Johan Sverdrup's four platforms | A number of contracts within the EPC/EIT segment, including FPSO |
| Contract with Avinor for the delivery of complete solutions for remote control of control tower services at several Norwegian airports. Significant international potential | GDLS chose Protector MCT-30 for the Stryker vehicles | Contract for delivery of ships equipment for NSM to Malaysia | KM positions itself as the leading player in the market for autonomous submarine vessels |

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

### Foreign currency

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

At the end of 2015, the balance of forward contracts related to fair value hedges was MNOK 10,471 measured at the hedged rates. At 31 December 2015, these forward contracts had a net negative fair value of MNOK 1,643. The Group also had MNOK 8,545 in cash flow hedges measured at hedged rates, constituting forward contracts. At 31 December 2015, these forward contracts had a net negative fair value of MNOK 1,138.

## Development in the business areas

### Kongsberg Maritime

| *Amounts in MNOK* | *2015* | *2014* |
|---|---|---|
| Operating revenues | 10 438 | 9 703 |
| EBITDA | 1 116 | 1 441 |
| EBITDA margin | 10.7% | 14.9% |

Kongsberg Maritime had record high turnover in 2015, but has a lower EBITDA margin compared with 2014. Revenues ended at MNOK 10,438 (MNOK 9,703), representing an increase of 7.6 per cent compared with 2014. EBITDA in 2015 is affected by various one-off effects, including a positive effect of MNOK 76 related to the change in the pension scheme and a negative effect of NOK 41 million related to restructuring costs within the offshore industry. EBITDA is also affected because KM was ordered to pay MNOK 95 in compensation, and costs, in a decision handed down by Sunnmøre District Court in Q2. KM increased its investment in product development and maintenance in 2015, and this influenced the total EBITDA margin by almost 1 percentage point. The business area is affected, to an increasing extent by the weak oil and gas market, but despite the fact that this

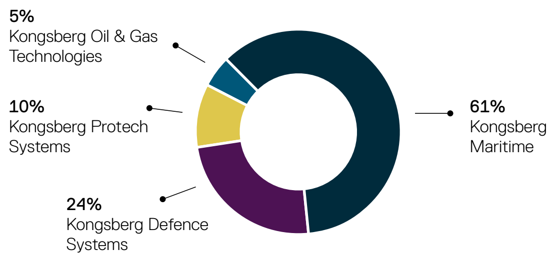
**KONGSBERG**

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

| | |
|---|---|
| Headquarters | Kongsberg |
| Number of employees | 7,688 |
| Share of employees outside Norway | 38% |
| Number of locations, countries | 25 |
| Revenues outside Norway | 83% |

**Distribution of revenue**

Per cent



market has been challenging in 2015, the business area had a high order intake in all divisions in 2015, totalling MNOK 9,756, compared with MNOK 10,038 in 2014.

Commitment to product development was intensified in 2015. One of the priority areas is within digitalisation with Kongsberg Information Management System (K-IMS), where KM has developed an interaction platform that connects offshore and marine systems with shipping companies and other users onshore. K-IMS collects massive amounts of data about different systems and processes it to provide valuable information that will be presented to the users in real time. KM has also focused on exploiting existing core technology in new areas. In Offshore, dynamic positioning (DP) and navigation technology, for example, have been further developed and adapted for use in offshore wind turbine fields.

There have been positive developments throughout 2015 within Merchant Marine. Despite a challenging market, some vessel types have shown encouraging trends, including container vessels, LNG/LPG and product tankers. Shipping companies are requesting "green" solutions that optimise the operation of their vessels, both to reduce operating costs and greenhouse gas emissions. KM has a portfolio of products and applications that support this and has succeeded well with its "Full Picture" solutions on several large ranges of ships. KM delivers complete equipment packages with automation, navigation, propulsion control and cargo control and monitoring.

The project mix has changed within KM's offshore-related business towards more EIT/EPC deliveries. This applies to both delivery and order intake situations. In this type of delivery, KM assumes a greater overall responsibility and includes more third-party equipment than in a typical "Full Picture" delivery, and the margins are, therefore, generally somewhat lower.

KM has confirmed its solid position within topside automation for offshore oil and gas units through a contract for the delivery of security and automation systems (SAS), lifecycle simulators and SAS Information Management System to the field centre for Johan Sverdrup's four platforms. The order is based on a project-specific agreement for SAS on Johan Sverdrup that was awarded to KM in May 2014.

There have also been changes in the order intake in Subsea, where offshore-related orders have decreased, while there are positive trends within autonomous underwater vehicles and fisheries. KMs fisheries activity increased revenues by 29 per cent in 2015, compared with 2014. The market for autonomous underwater vehicles is growing. KM has positioned itself as the leading player in this market, with a strong portfolio of vehicles adapted to various tasks and market segments. The product range consists of Hugin, Munin, Remus and Seaglider vehicles, and the associated instrumentation. Pipeline inspection using an AUV, which is estimated as being four to six times faster than the traditional method using an ROV, is expected to result in major savings for the client, and could open a new market for KM.

In total, KM has a satisfactory order intake for 2016. Both Subsea and Merchant Marine have larger order backlogs for delivery in 2016 than was the case at the beginning of 2015, but the proportion of traditional offshore deliveries in the order backlog is decreasing.

KM's after-market revenues is not included in the order backlog. KM has a well-established after-market network that supports more than 17,500 vessels fitted with KM-equipment. The decline in the oil and gas market is also noticeable in this part of the business, but the activity is less volatile than the new build markets.

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

### Kongsberg Defence Systems

| *Amounts in MNOK* | *2015* | *2014* |
|---|---|---|
| Operating revenues | 4 149 | 4 276 |
| EBITDA | 695 | 530 |
| EBITDA margin | 16.8% | 12.4% |

In 2015, Kongsberg Defence Systems (KDS) had a significant improvement in profitability and high market activity towards major international programmes. Revenues ended at MNOK 4,149 (MNOK 4,276), representing a reduction of three per cent compared with 2014. The EBITDA margin increased from 12.4 per cent in 2014 to 16.8 per cent in 2015, giving an EBITDA of MNOK 695 (MNOK 530). General high activity and good results from the DeltaONE improvement project in most divisions are the main reasons for the improved results, and EBITDA is also positively influenced by the change in pension scheme (MNOK 59). KDS enters 2016 with an order backlog of MNOK 8,622, compared to MNOK 9,471 at the beginning of 2014. The order backlog is solid, and provides in total a good basis for the years to come. The defence market is characterised by relatively few, but large contracts. Hence, fluctuations in order intake are regarded to be normal.

There has been high activity in the NASAMS projects throughout the year. The NASAMS project in Finland, which was signed in 2009, has entered its concluding phase, and is planned to be finished in the course of the first half of 2016. A new large NASAMS contract was signed with Raytheon in January 2014, and this project passed its first important milestones in 2015. A contract has also been signed with Avinor worth MNOK 400 for delivery of complete solutions for remote control of air traffic control tower services at several Norwegian airports from one control centre. The agreement between Avinor and KONGSBERG is the most comprehensive commitment to provide remotely operated towers ever made within the international aviation industry. The international potential for the solution is considered to be significant.

The potential for KDS' missiles has been further strengthened through 2015. A partnership agreement has been signed with the US company, Raytheon for NSM and a contract signed for the delivery of ship-based facilities for NSM to Malaysia, with a value of MNOK 175. The development programme for the Joint Strike Missile (JSM) is according to plan. KDS' activity within the F-35 programme has increased through the year, and delivery contracts have been signed for over MNOK 700. The scope of delivery for the programme has been extended in the course of the year to include advanced composite parts in connection with fighter aircraft landing wheels. The F-35 programme, including JSM, is estimated to have a potential of more than NOK 40 billion for KONGSBERG over the programme's lifetime.

It has been a good year with good profitability for the business area's organisations within communication and aerospace.

With effect from 1 January 2016, it has been decided to merge the Naval Systems and Integrated Defence Systems divisions. The background is a challenging market situation for Naval Systems as a result of the lower budgetary frameworks and deferred investment decisions by the most important customers. At the same time KDS wants to focus on major future opportunities and ensure that world-leading expertise is ensured in the division.

KDS has a product portfolio that is well positioned to meet future needs and current priorities in several nations' defence plans. These include the air defence NASAMS and missiles Naval Strike Missile (NSM) and JSM, all regarded as having great market potential. The business area's communication solutions and submarine systems are well established internationally. KDS has firm delivery contracts and framework agreements for delivery of parts for the F-35 aircraft. In addition, long-term and solid customer relationships have been established for the area's space business.

KONGSBERG has, over time and in cooperation with the Norwegian Armed Forces and the Norwegian Defence and Research Establishment, developed systems for Norway that have proved to be competitive internationally. It is of great importance to the Group that this national partnership continues. The cooperation provides the Norwegian Armed Forces with the possibility to develop and deploy technology that is particularly suitable for Norwegian conditions as well as maintaining a quality and cost that allows it to succeed in the international competition. A very successful flight test was performed for JSM, which is being developed for the Norwegian Armed Forces, in 2015. The missile was released from an American F-16 and completed a range of challenging air manoeuvres. This is an important milestone in the programme and the test demonstrated several critical capacities that were specially developed for JSM, showing that the development programme is proceeding according to schedule.

The customers of large defence systems are the defence authorities in the respective countries. These customers consider national security and domestic economic development as significant factors, in addition to product price and performance, when purchasing defence equipment. The market is not subject to international free trade agreements and is often characterised by more national protectionism than is to be seen in most other industries. It is important for the Norwegian defence industry that the emphasis is on securing solid agreements in connection with the purchase of defence equipment from abroad – be it repurchase agreements, joint development agreements or market access agreements. When the Norwegian Armed Forces make significant investments through foreign suppliers, this ties up a significant part of the defence budget, and purchases from domestic suppliers may be negatively affected. To ensure that military supplies are well adapted to Norwegian conditions and to guarantee a sustainable and competitive Norwegian defence industry, we emphasise the importance of Norwegian participation in such programmes. Both the Government and the Parliament have stressed the importance of industrial participation for Norwegian industry, and that this is in line with international practice. Such participation for KONGSBERG also means increased activity for many of the business area's approximately 1,000 Norwegian subcontractors.

Predictability in the export regulations with respect to defence material and the application of the regulations also constitutes an important framework condition for KONGSBERG. KONGSBERG will continue to emphasise partnerships with major defence contractors and continue to support the local industry in the business area's markets further. KONGSBERG's position as an attractive defence

supplier in the international market will continue to be based on close cooperation with the Norwegian Armed Forces. This cooperation is the platform for developing leading products that are necessary for a modern military defence.

### Kongsberg Protech Systems

| *Amounts in MNOK* | *2015* | *2014* |
|---|---|---|
| Operating revenues | 1 777 | 1 566 |
| EBITDA | 227 | 254 |
| EBITDA margin | 12.8% | 16.2% |

Kongsberg Protech Systems (KPS) had a high level of market activity in 2015, specifically aimed at programs for Medium Caliber. 2015 revenues ended at MNOK 1,777 (MNOK 1,566), an increase of 13.5 per cent. Revenues in 2015 consisted largely of reset activities (re-conditioning weapons stations) and spare part sales. The number of new systems delivered in 2015 is on a par with 2014. EBITDA in 2015 is positively influenced by the reversal of provisions as a result of specific clarifications with a customer (MNOK 206). The reversals are primarily related to reduced-cost allocations for previously delivered systems. In addition, EBITDA is positively influenced by the change in the pension scheme (MNOK 15). The underlying EBITDA margin is at a low level, mainly as a result of intensive market activity.

In December, GDLS announced that the PROTECTOR MCT-30 had been chosen for the Stryker vehicles. This is a very important event for KPS and comes as the result of several years of dedicated work to develop a system that has the capacity and performance that is required for this vehicle type. In January 2016, KPS signed the first contract for the delivery of systems under this programme. The system is considered to have significant potential and KPS' breakthrough in this market is important for the further development of the business area.

The largest single contract in 2015 was the production contract with General Dynamics UK for delivery of the remote weapon station PROTECTOR for the SCOUT SV vehicle programme, with a contract value of GBP 61 million. Other signings included a contract worth MNOK 414 to the CROWS programme and MNOK 191 to other US programmes.

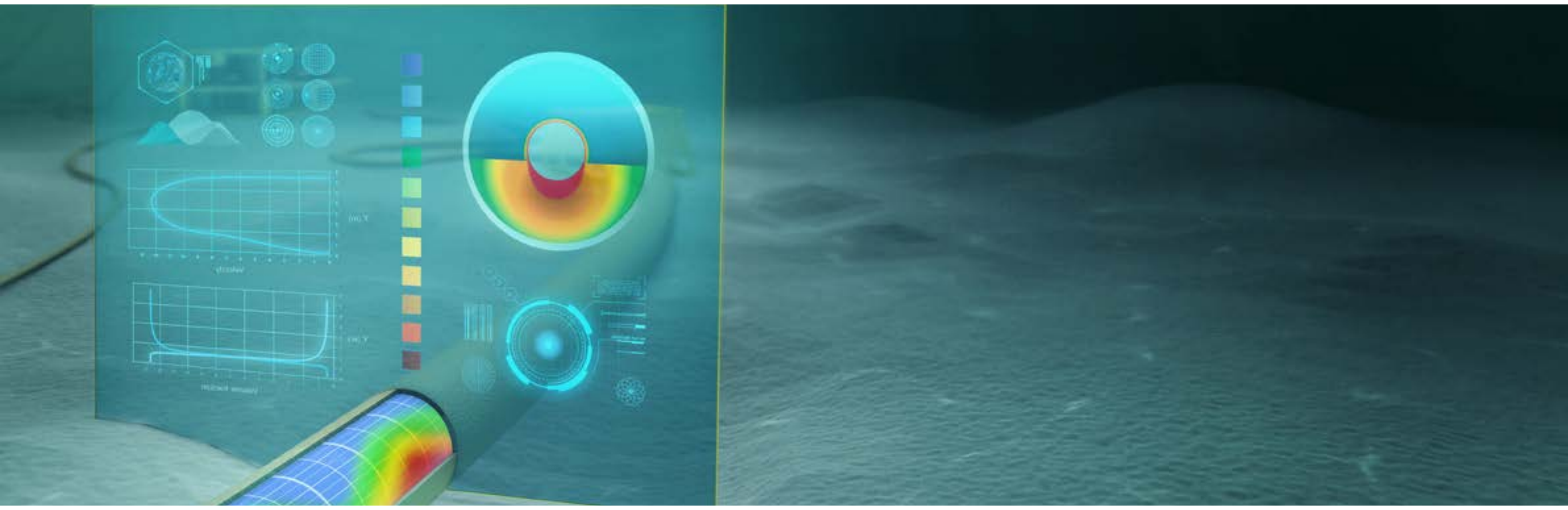
KPS has during the last decade grown to become the world's leading supplier of remote-controlled weapons systems. More than 18,500 systems have been sold to customers in 17 countries. The U.S. Army is both directly, and via vehicle suppliers, the largest customer. In recent years, there has been a change in the geographical distribution of revenues. From 2009 to 2011, the US accounted for almost 90 per cent of the business area's revenues. In 2015, this was 69 per cent. The share of new systems compared to aftermarket activities is also changing, and aftermarket activities are constituting an increasing share of the revenues. In 2010, over 4,000 new systems were delivered, compared to about 450 in 2015 with deliveries to eight countries. The aftermarket activities vary somewhat from one year to another as a consequence of the customers' patterns in purchasing spare parts. In 2015, deliveries of new weapons stations accounted for just under 40 per cent of revenues. The remaining are mainly distributed between 'reset and repair' of earlier stations, spare parts and development assignments.

KPS is starting 2016 with an order backlog of MNOK 3,325, (MNOK 3,523). The business area has a product range considered to be well aligned to future market requirements. The product portfolio has been extended in latter years with several versions of the core product. Several major vehicle programmes have been decided in different nations, offering significant potential for both traditional weapon stations and Medium Caliber.

### Kongsberg Oil & Gas Technologies

| *Amounts in MNOK* | *2015* | *2014* |
|---|---|---|
| Operating revenues | 777 | 1 017 |
| EBITDA | (203) | (99) |
| EBITDA margin | (26.1%) | (9.7%) |

Kongsberg Oil & Gas Technologies (KOGT) has had a weak 2015, characterised by low activity and restructuring in a very challenging market. As of 2016, KOGT will no longer be a



separate business area. KOGT's largest unit, Software & Services, will be included as a central part of Kongsberg Digital, while the business areas' oil and gas-related engineering services will be consolidated and further developed with the rest of the oil and gas services in KM.

Revenues ended at MNOK 777, which is 23.6 per cent lower than in 2014. The EBITDA margin was also further weakened compared with 2014.

Various cost saving measures have been implemented throughout the year, the most significant of which being relocalisations and capacity reductions. During the year, KOGT reduced the number of employees by 195, to 435 at the end of 2015. Total restructuring costs in 2015 amounted to MNOK 98. In addition, EBITDA is also positively influenced by the change in the pension scheme (MNOK 13).

As a result of the performance at KOGT, as well as the further deterioration of market conditions within the oil and gas market, the Board has decided to write down goodwill and intangible assets with a total of MNOK 300. The weak order intake continued in 2015, and the order backlog has reduced by 48 per cent compared with the end of 2014. At year-end the order backlog amounted to MNOK 204.

**Other activities**

Other activities mainly consist of eliminations and external revenues from the real estate business.

## Other factors and incidents

**Charge in corruption case: Romania**

In February 2014, charges were brought against Kongsberg Gruppen ASA, Kongsberg Defence & Aerospace AS and an employee of Kongsberg Defence & Aerospace AS with allegations of serious corruption related to deliveries of communication equipment to Romania from 2003 to 2008. The investigation continued in 2015 and includes investigations outside Norway. KONGSBERG is collaborating with the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway (Økokrim) to clarify the circumstances in question. It must be expected that it will take some further time before the investigation is completed and the case can be closed.

KONGSBERG has zero-tolerance for corruption, and high ethical standards are an integrated part of the business. KONGSBERG has over several years established and further developed compliance guidelines and functions at group level and in the business areas. The current anti-corruption system is considered to be at a good international level, and has also been assessed by external parties to constitute a solid and robust system. Reference is also made to the section: "Risk factors and risk management" in the Director's Report.

Before the investigation is closed, it is difficult to predict what decision Økokrim will make concerning charges. It is also difficult to predict any other effects of the charges and the matters that they are based on. Accordingly, it is not possible to estimate any possible financial effects for KONGSBERG.

**Lawsuit from Rolls-Royce Marine AS against Kongsberg Evotec AS**

In 2014, Rolls Royce Marine AS sued Kongsberg Evotec AS for breach of the Marketing Act and demanded a ban on the production and sale of certain products related to seismic vessels. Sunnmøre District Court handed down its judgment in the case on 4 June 2015 and the Court's conclusion was that Kongsberg Evotec AS was not bound by the claim for a ban on production and sale, but was required to pay Rolls Royce Marine AS compensation for breaches of the Marketing Act. The full compensation of MNOK 95 was expensed in its entirety in the second quarter of 2015.

The response of Kongsberg Evotec AS to the district court decision is unchanged and the company appealed against the district court judgment in August 2015. The case has consumed a significant share of resources and focus, and rather than expend further forces and resources on continued legal processes in what is a demanding period across the maritime sector, Kongsberg Evotec AS decided to withdraw its appeal in December 2015.

**New CEO from June 2016**
Geir Håøy will become the CEO of KONGSBERG, following Walter Qvam, who has informed the Board that he wants to retire as CEO in June, in accordance with the agreement that he has, allowing him to retire at 63 years of age. Geir Håøy was employed by KONGSBERG in 1993. Håøy has been the managing director of KM and a member of corporate executive management since 2010. Håøy has long international and industrial experience, and has, among other things, led KM's companies in Singapore and South Korea. Håøy will commence as CEO in June 2016.

**Other changes in corporate executive management**
Egil Haugsdal succeeds Geir Håøy as corporate executive vice president and president of Kongsberg Maritime. Haugsdal has wide managerial experience from KONGSBERG, and was until 2016 the president of Kongsberg Oil & Gas Technologies. He has previously been corporate executive vice president of business development and president of Kongsberg Protech Systems.

Hege Skryseth is appointed corporate executive vice president and president of Kongsberg Digital, and will also assume the role as Chief Digital Officer of KONGSBERG. Skryseth currently holds the position as Group EVP, Chief Administrative Officer and has experience with leading several companies, with Microsoft Norway being the latest one of these.

## Prospects for 2016

Kongsberg Maritime operates in large parts of the maritime and offshore-related value chain. The offshore market is contracting significantly fewer orders for new vessels, meaning fewer new orders and increased uncertainty from this segment. In Q4, KM announced an adjustment of capacity to the changing market outlook. This will lead to restructuring costs in 2016, currently estimated to roughly MNOK 50-100. Activity level is expected to remain high for gas and other advanced merchant vessels, and as well as in KM's subsea technology segment. A strong market position in all main segments, a high backlog, and equipment installed on nearly 17,500 vessels, provides a strong foundation in more demanding markets. The level of activity in 2016 is expected to be somewhat lower compared to 2015.

Kongsberg Defence Systems is well positioned in its niches in a generally stronger defence market. This is expected to lead to several contract opportunities during the coming years, e.g. for missiles, air defence systems, aircraft component production, submarine systems and communications. KDS' order backlog provides a good platform for a somewhat higher level of activity in 2016.

Kongsberg Protech Systems has a globally leading position in remotely controlled weapons systems and a well-positioned product portfolio that includes the medium caliber turret solution that has been selected for the US Stryker vehicles. The activity level is expected to increase somewhat in 2016.

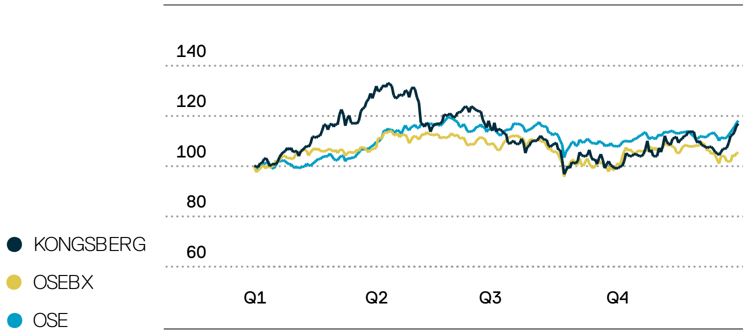
As a part of the Group's strategy for developing the next generation of digitalized products and services, Kongsberg Digital will be established during the first half of 2016. At the same time the Group's oil and gas engineering services will be restructured and consolidated in KM.

## KONGSBERG shares and shareholders

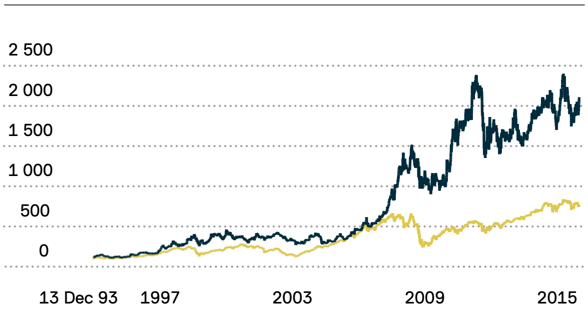
KONGSBERG shall provide the equity market with relevant, comprehensive information as the basis for a balanced, correct valuation of the share. The Group emphasizes maintaining an open dialogue with the equity market and media.

By the end of 2015, the price of KONGSBERG shares increased from NOK 123.00 at the end of 2014 to NOK 145.00. This gives a market value at the end of 2015 of MNOK 17,400. Including a dividend of NOK 9.25 per share, the return in 2015 amounted to 25.4 per cent. In the same period, the main index (OSEBX) on the Oslo Stock Exchange saw an increase of 5.9 per cent. As of 31 December 2015, KONGSBERG had 8,372 shareholders (8,014). The Group had 1,017 (976) foreign shareholders who collectively owned 13.96 per cent (13.14 per cent) of the shares. The Norwegian State, represented by the Ministry of Trade, Industry and Fisheries, is the largest shareholder with 50.001 per cent of the shares. At the end of the year, the 10 largest shareholders held a total of 76.50 per cent (76.43) of the shares. The num-

**Share price development in 2015**
NOK (Indexed at NOK 100 – 1 January 2015)




**Share price development since listing on the Oslo Stock Exchange**
NOK (Indexed at NOK 100 – 13 December 1993)



ber of shares outstanding is 120 million, each with a nominal value of NOK 1.25. By the end of 2015, KONGSBERG held a total of 15.971 treasury shares.

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

At the Annual General Meeting on 7 May 2015, it was decided to pay a dividend of NOK 4.25 per share for 2014, as well as an extraordinary dividend of NOK 5.00 per share, giving a total dividend of NOK 9.25 per share.

For the accounting year 2015, the Board proposes to pay an ordinary dividend of NOK 4.25 per share (4.25). The dividend represents 50.0 per cent of the ordinary annual results before impairment, and 68.2 per cent of ordinary results. In determining the size of the dividend, impairment was not included in the assessment basis, in line with previous practice.

In 2015, a total of 15.0 million (12.9 million) KONGSBERG shares were traded in 53,375 (36,354) transactions. 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 2016 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. At year-end, 11 brokers had active coverage of the share.

The Board believes that employee share ownership is positive. At 31 December 2015, more than 2,600 employees held approximately 4 million shares in total in KONGSBERG. This represents just over three per cent of the shares. During the spring of 2015, the Group's annual share programme for employees was carried out for the 19th time. A total of 583,382 (497,389) shares were sold at a price of NOK 115.60 (20 per cent discount on the market price). 2,521 (2,112) employees took advantage of the offer.

## Risk factors and risk management

KONGSBERG is exposed to different types of risks, and the Board closely monitors trends in the various risk areas. The Board is of the opinion that there is a healthy balance between the overall risk and the Group's capacity to deal with risk. The administration prepares monthly operating reports and quarterly risk reports which are reviewed by the Board. In addition, the Board and the administration perform risk analyses when considering major investments, tenders, initiatives and acquisitions. 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 within the Group. The Audit Committee meets, as a minimum, in connection with the issue of annual and interim financial statements.

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

The offshore market comprises exploration, development, production and transport of oil and gas. There are also support functions such as supply services, operational support, as well as maintenance and service on platforms and vessels. KONGSBERG is a supplier of products and services for all these segments. Energy demand and oil price trends affect the investment commitment in this market, something both KM and KOGT have clearly seen in 2015. The investment levels could also vary between the various geographical areas depending on e.g. oil reserves and the level of exploration and production activities. More challenging oil and gas fields and increased focus on costs in the industry in general create new niches in the market, which in turn creates the need for new technological solutions.

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

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

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

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

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

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

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

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

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

## Technology, research and development

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

## Corporate social responsibility

KONGSBERG shall represent a sustainable development characterised by a sound balance between economic performance, creating value and social responsibility. The strategic and commercial choices made in the Group are based on a sustainable perspective.

Corporate policy for Sustainability and Social Responsibility is built around the two main elements: Business opportunities linked to global mega-trends and sustainable technology, as well as the risk associated to the "license to operate" and global mega-trends.

In 2016, KONGSBERG will continue to focus on anti-corruption, following up regulations relating to human and employee rights, and will continue its work related to corporate social responsibility in the supplier network. In the course of the year, the Group will develop a new strategy for sustainability. Reference is made to the corporate responsibility report for a more detailed description of the Group's corporate social responsibility efforts. The report has been evaluated and approved by the Board.

## Health, safety and the environment

The Board is of the opinion that health, safety and environment is handled in a manner that promotes job satisfaction and a sound working environment. One basic principle is that the HSE work should be preventive. The Board is closely monitoring the work by reviewing HSE reports quarterly. During 2015, effort has been put into HSE training and further improving HSE reporting routines. Risk analyses are carried out on a regular basis. The reporting routines of the foreign subsidiaries are good, and figures on absence due to illness and accidents from the offices abroad are a natural part of the HSE report.

During 2015 there were 336 work accidents within the Group. Twenty injuries that resulted in absence were recorded. 176 events required treatment. The total number of work-related injuries with and without absence (TRI) constituted 4.09 per cent in 2015, a reduction from 4.56 per cent in 2014. There are no registered occupational diseases or work-related fatalities during 2015. Total absence due to sickness remains at the same level as in 2014, 2.6 per cent.

Great focus will be retained in 2016 on maintaining the low absence levels.

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, 38 per cent at the end of 2015. This requires additional attention and insight with respect to HSE issues in the countries in which we operate.

## Climate and environment

The climate and environmental statement provides an overview of KONGSBERG's consumption of energy, $CO_2$ emissions and waste processing and our consumption of water. The Groups' most significant positive contribution to the climate challenges is that an increasing number of our products and solutions are contributing in various ways to reduced emissions. This will be a key topic of the new sustainability strategy that will be prepared in 2016.

According to the climate statement, our $CO_2$ emissions increased by 51 per cent from 2014 to 2015. The large increase is due to the fact that the Group, for the first time, has included the $CO_2$ emissions related to transport of products and goods in the climate statement. If this fraction is disregarded, the decrease in $CO_2$ emissions from 2014 to 2015 was 0.3 per cent. A detailed overview of the climate and environmental statement for 2015 can be found in the Group's report on sustainability for 2015, pages 106–157.

The Group reports to the international "Carbon Disclosure Project" framework on issues relating to climate changes and the level of greenhouse gas emissions. The objective is to raise the quality and score on this report.

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

No serious incidents related to environmental pollution were reported in 2015.

## Personnel and organisation

| *Number of employees* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Kongsberg Maritime | 4,726 | 4,652 |
| Kongsberg Defence Systems | 1,729 | 1,672 |
| Kongsberg Protech Systems | 663 | 650 |
| Kongsberg Oil & Gas Technologies | 435 | 630 |
| Other | 135 | 122 |
| **Total** | **7,688** | **7,726** |
| **Share outside Norway** | **38%** | **38%** |

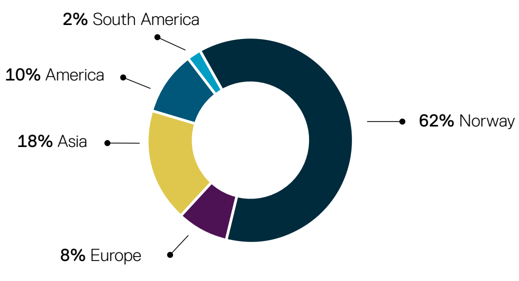
KONGSBERG is continuously working on adapting the organisation to the Group's markets. Efforts are made to develop the Group's international establishments. This is both cost effective and provides local presence and competitiveness. One of the Group's goals is that, as far as possible, our international subsidiaries should be staffed with local employees.

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

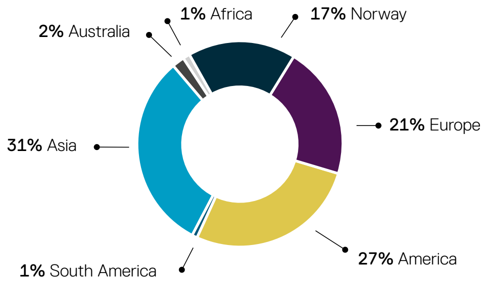
An important condition for long-term success is that KONGSBERG properly manages employee competencies. The goal is to develop and increase the diversity within the Group, so that different experiences, cultures, education backgrounds and ways of thinking are represented. This helps to increase the ability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

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

**Geographical distribution of employees**




**Geographical distribution of revenues**



and for ensuring a controlled development of the Group's global management capacity.

The Group educates skilled workers within several disciplines in cooperation with the education company Kongsberg Technology Training Centre AS, partly owned by KONGSBERG. During 2015, there were 31 apprentices in total. In addition, the company facilitates and stimulates employees to acquire apprenticeship completion certificates as private candidates, known as practice candidates.

Cooperation with employee unions and organisations through established cooperation and representation arrangements are well functioning and constitutes valuable contributions in meeting the Group's challenges in a constructive manner.

## Diversity

KONGSBERG has a personnel policy designed to ensure equal opportunities and rights, and to prevent discrimination on the grounds of ethnicity, national origin, skin colour, language, religion, philosophy of life, age or gender. A total of 1,615 (21 per cent) of the employees are women, and two of five shareholder-elected directors on the Board are women. As of 31 December 2015, there is one woman is in the corporate management team. The company considers it important to promote gender equality and prevent discrimination in conflict with the Gender Equality Act. Long and short-term goals have been established to help increase the percentage of women in the Group, both in terms of employment and in terms of management positions. The Board Compensation Committee has a particular responsibility for follow-up on diversity. In the opinion of the Board, the Group complies with current regulations.

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

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

## Corporate governance

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

The Board considers it important to review and update the Group's corporate governance documents annually to comply with the "Norwegian Code of Practice for Corporate Governance". According to Section 3-3b of the Accounting Act, the company shall prepare a statement on corporate governance. The statement will, pursuant to Section 5-6 of the Public Limited Companies Act, be discussed at the Annual General Meeting. The description on pages 92–105 is based on the latest revised version of the Norwegian Code of Practice for Corporate Governance of 30 October 2014.

## Salaries and other remuneration to senior executives

The Board has a separate Compensation Committee which deals with all significant matters related to wages and other remuneration to senior executives before the formal discussion and decision by the Board. In line with the Norwegian Companies Act, the Board has also prepared a statement on the remuneration of the Group CEO and Executive Management included in Note 27 to the consolidated financial statements.

## Profit for the year and allocation of net profit

The parent company Kongsberg Gruppen ASA made a net profit of MNOK 277 in 2015. The Board proposes the following allocation of net profit in Kongsberg Gruppen ASA:

| | | |
|---|---|---|
| Dividends | MNOK | 510 |
| From other equity | MNOK | -233 |
| Total allocated | MNOK | 277 |

The proposed dividend constitutes 50 per cent of the Group's ordinary profit for the year before depreciation. Impairment is not included in the dividend assessment. The ordinary part of the dividend complies with the company's dividend policy.

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

## Going concern

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

Kongsberg, 17 March 2016

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

Anne-Grete Strøm-Erichsen, *Director*
Rune Sundt Larsen, *Director*
Helge Lintvedt, *Director*
Roar Marthiniussen, *Director*
Walter Qvam, *President and CEO*

# Financial Statements and Notes

# Consolidated income statement for the year ended 31 December 2015

## Kongsberg Gruppen (Group)

| *MNOK* | *Note* | *2015* | *2014* |
|---|---|---|---|
| Operating revenues | 6, 7 | 17 032 | 16 552 |
| Profit on sale of property | | - | 61 |
| **Total revenues** | | **17 032** | **16 613** |
| Cost of goods sold | 8 | (5 983) | (5 572) |
| Personnel expenses | 9 | (6 192) | (6 118) |
| Other operating expenses | 29 | (3 160) | (2 925) |
| Share of net income from joint arrangements and associated companies | 31 | 87 | 62 |
| **Operating profit before depreciation and amortisation (EBITDA)** | 6 | **1 784** | **2 060** |
| Depreciation | 6, 11 | (362) | (342) |
| Impairment on property, plants and equipment | 6, 11 | (17) | - |
| **Operating profit before amortisation (EBITA)** | 6 | **1 405** | **1 718** |
| Amortisation | 6, 12 | (161) | (140) |
| Impairment intangible assets | 6, 12, 13 | (300) | (320) |
| **Operating profit (EBIT)** | 6 | **944** | **1 258** |
| Financial income | 14 | 109 | 137 |
| Financial expenses | 14 | (109) | (110) |
| **Profit before tax** | | **944** | **1 285** |
| Income tax expence | 15 | (189) | (405) |
| Profit for the year | | 755 | 880 |
| | | | |
| *Attributable to* | | | |
| Equity holders of the parent | | 747 | 873 |
| Non-controlling interests | | 8 | 7 |
| | | | |
| *Earnings per share in NOK* | | | |
| – Profit for the year, basic / Profit for the year, diluted | 16 | 6.23 | 7.28 |

# Consolidated statement of comprehensive income for the year ended 31 December 2015

## Kongsberg Gruppen (Group)

| *MNOK* | *Note* | *2015* | *2014* |
|---|---|---|---|
| **Profit for the year** | | **755** | **880** |
| **Specification of other comprehensive income** | | | |
| *Items to be reclassified to profit or loss in subsequent periods* | | | |
| Change in fair value: | | | |
| – Cash flow hedges, currency | 20C | (428) | (1 098) |
| – Interest rate swaps | 20C | 3 | (13) |
| – Available-for-sale shares | 17 | 101 | (6) |
| Income tax effect in cash flow hedges and interest rate swaps | 15 | 80 | 298 |
| Translation differences, currency | | 268 | 309 |
| **Total items to be reclassified to profit or loss in subsequent periods** | | **24** | **(510)** |
| *Items not to be reclassified to profit and loss* | | | |
| Actuarial gain/loss on pension expense | 10 | 254 | (168) |
| Income tax on items remaining in equity | 15 | (69) | 45 |
| Actuarial gains/losses associated companies after tax | | | (6) |
| **Total items not to be reclassified to profit and loss** | | **185** | **(129)** |
| **Other comprehensive income for the period** | | **209** | **(639)** |
| **Comprehensive income for the period[1)]** | | **964** | **241** |
| *Attributable to* | | | |
| Equity holders of the parent | | 956 | 234 |
| Non-controlling interests | | 8 | 7 |

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

# Consolidated statement of financial position at 31 December

## Kongsberg Gruppen (Group)

| *MNOK* | *Note* | *2015* | *2014* |
|---|---|---|---|
| **Assets** | | | |
| *Fixed assets* | | | |
| Property, plant and equipment | 11 | 2 542 | 2 477 |
| Goodwill | 12, 13 | 2 012 | 2 088 |
| Other intangible assets | 12 | 644 | 793 |
| Shares in joint arrangements and associated companies | 31 | 366 | 313 |
| Available-for-sale shares | 17 | 233 | 132 |
| Other non-current assets | 18 | 106 | 100 |
| **Total non-current assets** | | **5 903** | **5 903** |
| *Current assets* | | | |
| Inventories | 8 | 3 675 | 3 264 |
| Receivables | 19 | 4 056 | 3 284 |
| Construction contracts in progress, asset | 7 | 3 396 | 3 183 |
| Derivatives | 20A | 284 | 215 |
| Cash and cash equivalents | 21 | 1 807 | 4 424 |
| **Total current assets** | | **13 218** | **14 370** |
| **Total assets** | | **19 121** | **20 273** |
| **Equity, liabilities and provisions** | | | |
| *Equity* | | | |
| Issued capital | | 982 | 982 |
| Other reserves | | (580) | (604) |
| Retained earnings | | 5 684 | 5 875 |
| **Equity attributable to owners of the parent** | | **6 086** | **6 253** |
| Non-controlling interests | | 41 | 29 |
| **Total equity** | 22 | **6 127** | **6 282** |
| *Non-current liabilities and provisions* | | | |
| Long-term interest-bearing loans | 20D | 866 | 873 |
| Pension liabilities | 10 | 497 | 915 |
| Derivatives | 20A | - | 1 |
| Provisions | 23 | 166 | 153 |
| Deferred tax liability | 15 | 983 | 934 |
| Other non-current liabilities | | 13 | 19 |
| **Total non-current liabilities and provisions** | | **2 525** | **2 895** |
| *Current liabilities and provisions* | | | |
| Construction contracts in progress, liability | 7 | 2 736 | 3 590 |
| Derivatives | 20A | 3 069 | 2 732 |
| Provisions | 23 | 811 | 825 |
| Other current liabilities | 24 | 3 853 | 3 949 |
| **Total current liabilities and provisions** | | **10 469** | **11 096** |
| **Total liabilities and provisions** | | **12 994** | **13 991** |
| **Total equity, liability and provisions** | | **19 121** | **20 273** |

Kongsberg 17 March 2016

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

**Anne-Grete Strøm-Erichsen**, *Director* — **Rune Sundt Larsen**, *Director* — **Helge Lintvedt**, *Director* — **Roar Marthiniussen**, *Director* — **Walter Qvam**, *President and CEO*

# Consolidated statement of changes in equity for the year ended 31 December 2015

## Kongsberg Gruppen (Group)

| | | Equity holders of the parent | | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Issued capital | | Other reserves | | | Retained earnings | Total | | |
| *MNOK* | *Note* | *Share capital* | *Other issued capital* | *Hedge reserve* | *Available-for-sale reserve* | *Translation difference* | | | | |
| **Equity at 1 January 2014** | | **150** | **832** | **(141)** | **9** | **38** | **5 761** | **6 649** | **8** | **6 657** |
| **Profit for the year** | | | | | | | **873** | **873** | **7** | **880** |
| **Other comprehensive income** | | | | **(813)** | **(6)** | **309** | **(129)** | **(639)** | | **(639)** |
| Trading in treasury shares | 22 | - | - | | | | 10 | 10 | - | 10 |
| Dividends paid | | | | | | | (630) | (630) | | (630) |
| Purchase/sale, non-controlling interests | | | | | | | (10) | (10) | 10 | |
| Dividends, non-controlling interests | | | | | | | | | (1) | (1) |
| Translation differences, non-controlling interests | | | | | | | | - | 5 | 5 |
| **Equity at 31 December 2014** | | **150** | **832** | **(954)** | **3** | **347** | **5 875** | **6 253** | **29** | **6 282** |
| **Equity at 1 January 2015** | | **150** | **832** | **(954)** | **3** | **347** | **5 875** | **6 253** | **29** | **6 282** |
| **Profit for the year** | | | | | | | **747** | **747** | **8** | **755** |
| **Other comprehensive income** | | | | **(345)** | **101** | **268** | **185** | **209** | | **209** |
| Trading in treasury shares | | | | | | | 8 | 8 | | 8 |
| Dividends paid | 22 | | | | | | (1 110) | (1 110) | | (1 110) |
| Purchase/sale, non-controlling interests | | | | | | | (21) | (21) | | (21) |
| Dividends, non-controlling interests | | | | | | | | - | (2) | (2) |
| Translation differences, non-controlling interests | | | | | | | | - | 6 | 6 |
| **Equity at 31 December 2015** | | **150** | **832** | **(1 299)** | **104** | **615** | **5 684** | **6 086** | **41** | **6 127** |

# Consolidated statement of cash flow for the year ended 31 December 2015

Kongsberg Gruppen (Group)

| *MNOK* | *Note* | *2015* | *2014* |
|---|---|---|---|
| **Profit for the year** | | **755** | **880** |
| Depreciation/impairment on property, plant and equipment | 11 | 379 | 342 |
| Amortisation of intangible assets | 12 | 161 | 140 |
| Impairment | 12, 13 | 300 | 320 |
| Net finance items | 14 | - | (27) |
| Income tax expense | 15 | 189 | 405 |
| **Operating profit before depreciation and amortisation** | | **1 784** | **2 060** |
| *Adjusted for* | | | |
| Changes in construction contracts in progress, asset | | (302) | (1 011) |
| Changes in construction contracts in progress, liability | | (854) | 1 042 |
| Changes in other current liabilities | | (529) | 986 |
| Changes in inventories | | (409) | (321) |
| Changes in receivables | | (393) | (202) |
| Changes in provisions and other accruals | | (257) | (109) |
| Income tax paid | | (127) | (130) |
| **Net cash flows from operating activities** | | **(1 087)** | **2 315** |
| *Cash flow from investing activities* | | | |
| Proceeds from property, plant and equipment | 11 | 14 | 14 |
| Purchase of property, plant and equipment | 11 | (363) | (339) |
| Capitalised internal development of intangible assets (R&D) | 12 | (103) | (102) |
| Purchase of intangible assets | 12 | (2) | (2) |
| Net payment from sale of property shares | | | 264 |
| Net payment of loans and buying/selling shares/subsidiaries | 18, 22 | (45) | (46) |
| **Net cash flow used in investing activities** | | **(499)** | **(211)** |
| *Cash flow from financing activities* | | | |
| Payment of loans | 20D | - | (457) |
| Interest received | | 40 | 87 |
| Interest paid | | (37) | (44) |
| Trading in treasury shares | 22 | (12) | (7) |
| Transactions with non-controlling interests | | (23) | (1) |
| Dividends paid | 22 | (1 107) | (628) |
| **Net cash flow used in financing activities** | | **(1 139)** | **(1 050)** |
| Total cash flow | | (2 725) | 1 054 |
| **Effect of changes in exchange rates on cash and cash equivalents** | | **108** | **98** |
| **Net change in cash and cash equivalents** | | **(2 617)** | **1 152** |
| **Cash and cash equivalents at the beginning of the period** | | **4 424** | **3 272** |
| **Cash and cash equivalents at the end of the period** | 21 | **1 807** | **4 424** |

# Notes

Kongsberg Gruppen (Group)

## 1 General information

Kongsberg Gruppen ASA is a public limited liability company headquartered in Kongsberg, Norway. The company's shares are traded on the Oslo Stock Exchange. The Board approved Kongsberg Gruppen's consolidated financial statements for the accounting year 2015 at its meeting on 17 March 2016. The consolidated financial statements for 2015 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 consolidated financial statements are presented in Norwegian kroner (NOK), and all figures have been rounded off to the nearest million, unless otherwise specified.

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

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

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

**Significant accounting judgements, estimates and assumptions**

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

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

- Note 3 C "Summary of significant accounting policies – Revenue recognition"
- Note 3 F "Summary of significant accounting policies – Intangible assets" and Note 12 "Intangible assets"
- Note 3 H "Summary of significant accounting policies – Leases, sale and leaseback".
- Note 3 J "Summary of significant accounting policies – Financial Instruments" and Note 20 "Financial Instruments"
- Note 7 "Construction contracts in progress"
- Note 10 "Pensions"
- Note 13 "Impairment testing of goodwill"
- Note 19 "Receivables"
- Note 23 "Provisions"

## 3 Summary of significant accounting policies

### A) Basis of consolidation

*Subsidiaries*

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

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

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

Entities that constitute the Group are listed in Note 30 "List of Group Companies".

*Joint arrangements*

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

*Associates*

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

*Elimination of transactions*

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

*Non-controlling interests*

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

### B) Foreign currency

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

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

*Translation – foreign subsidiaries*

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

### C) Revenue recognition

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

*Construction contracts/system deliveries*

A significant part of KONGSBERG's operations is to develop and manufacture products and systems on the basis of signed contracts. A construction contract is a contract negotiated with the view to manufacture an asset or a combination of assets that are closely related or interdependent. KONGSBERG has applied the following criteria to define a construction contract:

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

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

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

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

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

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

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

*Goods/standard production/services*

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

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

*Licence revenues*

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

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

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

*Combined deliveries of goods, services and licence sales*

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

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

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

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

D) Taxes

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

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

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

### E) Financial income and expenses

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

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

### F) Intangible assets

*Goodwill*

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

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

Impairment is calculated by comparing the recoverable amount with the individual cash-generating unit's carrying amount. The recoverable amount is the higher of the 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 of goodwill is described in Note 13 "Impairment testing of goodwill".

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

*Development*

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

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

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

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

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

*Maintenance*

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

*Technology and other intangible assets*

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

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

### G) Property, plant and equipment

Property, plant and equipment are recognised at acquisition cost, net of accumulated depreciation and/or any accumulated impairment losses. Such cost includes expenses that are directly attributable to the acquisition of the assets. Property, plant and equipment are depreciated on a straight-line basis over their expected useful life.

When individual parts of a property, a plant or equipment have different useful lives, and the cost is significant in relation to total cost, these are depreciated separately. Any expected residual value is taken into account when stipulating the depreciation schedule.

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

### H) Leases, sale and leaseback

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

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

### I) Impairment of non-financial assets

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

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

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

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

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

### J) Financial instruments

*Financial assets and liabilities*

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

*Classification*

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

i. fair value through profit and loss
ii. loans and receivables
iii. financial assets available for sale
iv. financial liabilities

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

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

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

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

*Impairment of financial assets*

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

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

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

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

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

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

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

Hedge accounting is ended in the event that:

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

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

*(ii) Cash flow hedges*
By hedging highly probable future cash flows, the effective part of the change in fair value of the hedging instrument is recognised in other comprehensive income.

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

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

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

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

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

*iii) Interest hedging*
KONGSBERG also hedges parts of its liabilities with interest swap agreements. Both interest swap agreements from fixed to floating interest (fair value hedging) and from floating to fixed interest (cash flow hedging) have been entered into. Reference is made to Note 20 "Financial instruments" for further information.

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

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

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

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

### N) Cash and short-term deposits

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

### O) Equity

*i. Treasury shares*

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

*ii. Costs related to equity transactions*

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

*iii. Hedge reserves*

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

*iv. Available-for-sale reserve*

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

*v. Translation differences*

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

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

### P) Provisions

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

*Warranty provisions*

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

*Restructuring*

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

*Onerous contracts*

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

### Q) Employee benefits

*Defined contribution pension schems*

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

*Defined benefit pension plans*

Pension benefits depend on the number of years of service and salary level when reaching retirement age. There are also early retirement plans for some executives. To ensure a uniform calculation of KONGSBERG's pension liabilities, all corporate entities have used the same actuary for the calculations. In the income statement, the year's net pension expenses, after a deduction for the net interest cost of the liability and the expected return on pension plan assets, have been recognised as "personnel expenses". The statement of financial position shows net pension liabilities including social security contributions. The financial and actuarial assumptions are subject to annual review. The discount rate is stipulated on the basis of the covered bond interest rate, plus a supplement that reflects the duration of the pension liability. Risk coverage is described in Note 10 "Pension". Actuarial gains or losses related to changes in the basis data, estimates and changes in assumptions are recognised in other comprehensive income (OCI).

*Share transactions with employees*

For a number of years, the Group has been conducting a share programme for all employees, i.e. offering shares at a discounted price. Discounts on shares are recognised as payroll expenses. The Group also has a share programme for leading employees. See the description in Note 27 "Statement on the remuneration of the Group CEO and executive management".

*Compensation to employees as selling shareholders in connection with acquisitions*

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

### R) Earnings per share

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

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

### S) Changed standards in IFRS and interpretations in IFRIC that have not yet been implemented

Standards and interpretations that are issued up to the date of the issuance of the consolidated financial statements, but not yet effective, are disclosed below. The Group's intention is to adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval, before the consolidated financial statements are issued.

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

It replaces the guidance in IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group currently considers that the standard will not have any major accounting consequences, but will to a certain extent affect the Group's currency policy and the practical implementation of hedging. The Group has yet to assess IFRS 9's full impact and has also not made a decision on potential early application.

*IFRS 15 Revenue from contracts with customers*
IFRS 15 deals with revenue recognition. The standard requires that the customer contracts are divided into individual performance obligations. A performance obligation may be goods or a service. Revenue is recognised when a customer obtains control of goods or services and thus has the ability to direct the use and obtain the benefits from the goods or services. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. IFRS 15 will be central in relation to KONGSBERG's business and the Group has begun the task of investigating the effects.

*IFRS 16 Rental agreements*
IFRS 16 sets principles that both parties in a contract, i.e. the customer ("the tenant") and the supplier ("the landlord"), must follow to provide relevant information about rental agreements so that the accounting represents the reality of the transactions. The standard requires the tenant to recognise assets and liabilities on the balance sheet for most rental agreements. The new standard allows tenants either to take a full retrospective or a modified retrospective approach, with different simplifications, for rental agreements that exist at the time of transition to the new standard. The standard comes into effect from the accounting year 2019. The Group is in the process of assessing the potential effects of IFRS 16, and expects that this will affect some of the Group's rental contracts, especially sales and leaseback contracts, as discussed in Note 26.

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

## 4 Fair value

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

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

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

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

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

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

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

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

### Non-current liabilities
Fair value of interest-bearing loans, cf. Note 20F "Financial instruments – Summary of financial assets and liabilities", is calculated using estimates of the interest curve and KONGSBERG's interest margin as stipulated on the balance sheet date. The estimated cash flows are discounted by the market interest rate expected for comparable loans at the date of the balance sheet. The market interest rate, before the credit mark-up, is based on NIBOR, the money market interest rate.

## 5 Financial risk management objectives and policies

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

### Funding and capital management

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

In the autumn of 2013, the Group changed its dividend policy to: "The dividend shall over time constitute between 40 and 50 per cent of the company's ordinary profit after tax. In deciding the size of the dividend, the expected future capital requirements will be considered."

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

Excess liquidity is placed in term deposits and low-risk money market funds. See Note 21 "Cash and cash equivalents". 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 and a balanced maturity structure. This implies the use of banks based on syndicated credit facilities and the issue of debt instruments on the Norwegian capital market. Please refer to Note 20D "Financial instruments – Interest rate risk associated with loans".

Due to covenants on existing loans, KONGSBERG shall have a moderate gearing ratio (net interest-bearing liabilities/EBITDA).

Net interest-bearing liabilities should not exceed three times the EBITDA, but can be up to 3.5 times the EBITDA for a maximum of three consecutive quarters. 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 will always be able to meet its contractual payment obligations.

Short-term liquidity needs are normally covered by bank deposits and the balance on the group cash pool systems. Any further liquidity needs may be covered by short-term loans within the framework of the syndicated credit facility. KONGSBERG has Group bank account schemes to which all subsidiaries are connected. These schemes optimise availability and flexibility in terms of liquidity management. The Group's liquidity trend is routinely monitored through monthly carry-forwards of liquidity forecasts from the most material units, as well as budgets and reporting by segment for major investments. Please also refer to 20E "Financial instruments – Liquidity risk".

### Currency risk

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

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

According to policy, a fixed part of anticipated new orders are also hedged (cash flow hedges). In this manner, the Group seeks to mitigate the effects of currency fluctuations on tenders submitted and on price lists. The Group's policy has been changed in 2015 and implies that the expected order income must be hedged on a shorter horizon than under the previous policy.

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

Note 20 B "Financial instruments – Foreign currency risk and the hedging of foreign currency" has more information.

### Interest rate risk

On 31 December 2015, KONGSBERG had two bond loans totalling MNOK 750 and an undrawn syndicated credit facility of MNOK 1,500. One of these bond loans has a fixed interest rate, and an interest rate swap agreement from fixed to floating interest related to this loan has been entered into.

KONGSBERG has a policy of emphasising predictability for interest expenses at times when the interest level have a significant impact on consolidated profits. Each year, the funding plan is presented to the Board to consider the interest rate exposure. Note 20 D "Financial instruments – Interest rate risk associated with loans" has more information.

### Credit/counterparty risk

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

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

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

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

Note 19 “Accounts receivable” has more information.

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

Note 17 “Shares available for sale” has more information.

## 6 Operating segments

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

**Kongsberg Maritime** develops and delivers positioning, surveillance, navigation and automation systems for merchant vessels and the offshore industry. The business area is a market leader in dynamic positioning, automation and surveillance systems, process automation, fisheries, satellite navigation and hydroacoustics, as well as back-deck handling equipment for use on offshore vessels. Countries with significant offshore and shipbuilding industries are important markets. At Kongsberg Maritime, 60 per cent of the revenue is within Offshore, 16 per cent within Merchant Marine and 24 per cent within Subsea.

**Kongsberg Defence Systems** is Norway's premier supplier of defence and space-related systems. The business area supplies products and systems for command and control, weapons guidance and surveillance, communications solutions and missiles. The business area has expertise and production equipment to make advanced composite and engineering products for the aircraft, offshore and helicopter markets. One key element of the market strategy is to form alliances with major international defence enterprises. For Kongsberg Defence Systems, 22 per cent of the operating revenues are related to missile systems, 29 per cent to Integrated Defence Systems, 16 per cent to Space and Surveillance, 8 per cent to Naval systems, 15 per cent to Aerostructures and 10 per cent to Defence Communications.

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

**Kongsberg Oil & Gas Technologies** delivers innovative solutions for oil and gas operations, including drilling, production and subsea development projects. The business area integrates software and services with physical products for improving oil production, efficiency and health.

As of 2016, Kongsberg Oil & Gas Technologies is no longer a separate business area. Please see Note 34 “Events after balance date” for more information.

The remaining of the Group's activities are included in the column “Other”. These activities include income, expenses, assets, liabilities and other elements that are not assigned to the segments in an appropriate manner. This generally involves shareholder costs, certain overheads and effects on profit/loss related to property used by parties other than the Group's own units.

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

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

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

**Operating segment data**

| *MNOK* | *Kongsberg Maritime* | *Kongsberg Defence Systems* | *Kongsberg Protech Systems* | *Kongsberg Oil & Gas Tech-nologies* | *Other* | *Elimina-tions* | *Consoli-dated* |
|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | |
| Revenue from external customers | 10 390 | 4 051 | 1 735 | 682 | 174 | - | 17 032 |
| Revenue from group companies | 48 | 98 | 42 | 95 | 358 | (641) | - |
| **Total revenues** | **10 438** | **4 149** | **1 777** | **777** | **532** | **(641)** | **17 032** |
| **Operating profit before depreciation and amortisation (EBITDA)** | **1 116** | **695** | **227** | **(203)** | **(51)** | **-** | **1 784** |
| Depreciation | (184) | (105) | (50) | (21) | 2 | - | (362) |
| Impairment on property, plants and equipment | (2) | - | - | (15) | - | - | (17) |
| **Operating profit before amortisation (EBITA)** | **926** | **590** | **177** | **(239)** | **(49)** | **-** | **1 405** |
| Amortisation | (48) | (30) | (33) | (49) | (1) | - | (161) |
| Impairment intangible assets | - | - | - | (300) | - | - | (300) |
| **Operating profit (EBIT)** | **878** | **560** | **144** | **(588)** | **(50)** | **-** | **944** |
| | | | | | | | |
| Segment assets[1)] | 8 833 | 4 491 | 1 469 | 532 | 188 | (184) | 15 329 |
| Segment investments[2)] | 294 | 179 | 25 | 12 | - | - | 510 |
| Current segment liabilities and provisions[3)] | 3 526 | 3 181 | 442 | 322 | 136 | (179) | 7 428 |
| | | | | | | | |
| **2014** | | | | | | | |
| Revenue from external customers | 9 689 | 4 175 | 1 550 | 943 | 256 | - | 16 613 |
| Revenue from group companies | 14 | 101 | 16 | 74 | 347 | (552) | - |
| **Total revenues** | **9 703** | **4 276** | **1 566** | **1 017** | **603** | **(552)** | **16 613** |
| **Operating profit before depreciation and amortisa-tion (EBITDA)** | **1 441** | **530** | **254** | **(99)** | **(66)** | **-** | **2 060** |
| Depreciation | (175) | (95) | (53) | (23) | 4 | - | (342) |
| **Operating profit before amortisation (EBITA)** | **1 266** | **435** | **201** | **(122)** | **(62)** | **-** | **1 718** |
| Amortisation | (45) | (21) | (31) | (43) | - | - | (140) |
| Impairment intangible assets | - | - | - | (320) | - | - | (320) |
| **Operating profit (EBIT)** | **1 221** | **414** | **170** | **(485)** | **(62)** | **-** | **1 258** |
| | | | | | | | |
| Segment assets[1) 4)] | 8 485 | 3 194 | 1 663 | 980 | 148 | (87) | 14 383 |
| Segment investments[2)] | 253 | 112 | 27 | 51 | 2 | - | 445 |
| Current segment liabilities and provisions[3) 4)] | 3 962 | 3 555 | 847 | 282 | 301 | (89) | 8 858 |

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

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

**Reconciliation of assets**

| MNOK | 2015 | 2014 |
|---|---|---|
| **Segment assets[3)]** | **15 329** | **14 383** |
| Shares available for sale [1)] | 233 | 132 |
| Investments in joint arrangements and associated companies [2)] | 366 | 313 |
| Other non-current assets | 106 | 100 |
| Derivatives | 284 | 215 |
| Fair value adjustments related to financial instruments[3)] | 996 | 706 |
| Cash and cash equivalents | 1 807 | 4 424 |
| **Total assets** | **19 121** | **20 273** |

1) See Note 17 "Available-for-sale shares"
2) See Note 32 "Investments in associated companies and joint ventures"
3) Comparison figures have been changed

**Reconciliation of current liabilities and provisions**

| MNOK | 2015 | 2014 |
|---|---|---|
| **Current segment liabilities and provisions [3)]** | **7 428** | **8 858** |
| Short-term interest-bearing debt | - | - |
| Derivatives | 3 069 | 2 732 |
| Fair value adjustments related to financial instruments[3)] | (49) | (523) |
| Calculated income tax payable | 21 | 29 |
| **Total current liabilities and provisions** | **10 469** | **11 096** |

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

| MNOK | Norway | Europe | America | South America | Asia | Australia | Africa | Total |
|---|---|---|---|---|---|---|---|---|
| **2015** | | | | | | | | |
| Revenue from external customers | 2 904 | 3 609 | 4 602 | 196 | 5 310 | 258 | 153 | 17 032 |
| Operating income as % of the total | 17% | 21% | 27% | 1% | 31% | 2% | 1% | 100% |
| Fixed assets [1)] | 3 860 | 140 | 837 | 24 | 334 | 1 | - | 5 196 |
| **2014** | | | | | | | | |
| Revenue from external customers | 3 830 | 3 559 | 3 403 | 421 | 5 091 | 211 | 98 | 16 613 |
| Operating income as % of the total | 23% | 21% | 20% | 3% | 31% | 1% | 1% | 100% |
| Fixed assets [1)] | 4 156 | 130 | 736 | 29 | 305 | 2 | - | 5 358 |

1) Fixed assets above comprise property, plant and equipment, goodwill and other intangible assets.

## 7 Construction contracts in progress

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

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

**Financial position**

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Projects in progress | 4 895 | 4 350 |
| Prepayments received from customers | (3 365) | (4 914) |
| Project accruals, assets | 1 079 | 1 684 |
| Project accruals, liability | (1 949) | (1 527) |
| **Net construction contracts in progress** | **660** | **(407)** |

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Construction contracts in progress, asset | 3 396 | 3 183 |
| Construction contracts in progress, liability | (2 736) | (3 590) |
| **Net construction contracts in progress** | **660** | **(407)** |

The Group has construction contracts within all four business areas. At Kongsberg Maritime and Kongsberg Oil & Gas Technologies, the majority of projects are of shorter duration than two years, and revenue on the individual projects comprises a limited share of total revenues. At Kongsberg Defence Systems the projects are of longer duration and total revenues from the individual projects comprise a substantial amount in relation to the Group's total revenues. Kongsberg Protech Systems projects are mainly defined as standard production/goods deliveries, please see Note 3C "Income recognition – Goods/standard production/services".

**Summary of significant contract data**

| *MNOK* | *2015* | *2014* |
|---|---|---|
| Total orders in progress in the period | 50 175 | 47 075 |
| Operating revenues for the year | 10 369 | 9 733 |
| Accumulated operating revenues | 36 644 | 32 912 |
| Accumulated variable costs | 27 254 | 24 303 |
| Remaining operating revenues | 13 531 | 14 162 |
| Prepayments received from customers | 3 365 | 4 914 |
| Remaining variable cost of loss-making projects | 69 | 110 |

**Estimation uncertainty**

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

## 8 Inventories

The Group's total inventories include the following:

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Raw materials | 2 297 | 1 813 |
| Work in progress | 462 | 743 |
| Finished products | 916 | 708 |
| **Total** | **3 675** | **3 264** |
| *Recognised changes in value for inventories* | | |
| Impairment of stock in the financial year | 41 | 104 |
| Reversal of previous years' impairment | (7) | (16) |
| **Total cost of goods in year amounts to** | **5 983** | **5 572** |

## 9 Personnel expenses

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

| *MNOK* | *Note* | *2015* | *2014* |
|---|---|---|---|
| Salaries | | 4 699 | 4 467 |
| Performance-based salary | 28 | 26 | 70 |
| Social security expenses | | 916 | 854 |
| Pension expenses, defined benefit plans [1] | 10 | (14) | 157 |
| Pension expenses, defined contribution pension plans | 10 | 332 | 306 |
| Other benefits | | 233 | 264 |
| **Total payroll expenses** | | **6 192** | **6 118** |
| Average no. of FTEs (full-time employees) | | 7 589 | 7 494 |

1) In 2015 the Group had recognised income associated with the discontinuation of the paid-up policy accrual of MNOK 168 including social security. For more detailed information, see Note 10 "Pensions".

## 10 Pensions

KONGSBERG has a service pension plan that complies with legislation, and consists of a defined contribution plan and a closed defined benefit plan. The service pension plans include all employees of the Group in Norway. At 31 December 2015, there are about 4,850 employees in Norway covered by the pension plans. KONGSBERG aims to ensure that as many of its employees as possible outside Norway are also covered by service pension plans.

### The defined contribution plan

The Group introduced a defined contribution pension plan for all employees under the age of 52 as of 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 1G 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 plan for salaries between 12G and 15G. The entity's deposits in this plan constitute 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 "Statement on the remuneration of the Group CEO and Executive Management". The supplementary plan has the same investment choices as the main plan. KONGSBERG's companies abroad generally have defined contribution plans. At 31 December 2015, about 4,450 employees in Norway and most of the employees abroad were covered by these plans. The contributions are expensed as incurred.

### The defined benefit plan

In connection with the transition to the defined contribution plan on 1 January 2008, employees aged 52 or more remained in the defined benefit plan. The pension plan is insured through DNB Life Insurance. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. Pension costs are distributed over the employee's accrual period. Given a calculated state pension based on the Norwegian National Insurance Scheme's rules before 1 January 2011 and full earning, the scheme provides approx. 65 per cent of the final salary including National Insurance benefits until the age of 77. After this the service pension section is reduced by 50 per cent for the remaining lifetime. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The collective, unfunded benefits plan corresponds to about 60 per cent of the share of the basic wage that exceeds 12G until the age of 77, and then the benefit is reduced by 50 per cent for the remaining lifetime. Special terms and conditions apply for executives. This is described in Note 27 "Statement on the remuneration of the Group CEO and Executive Management". These supplementary plans were discontinued in connection with the transition to defined contribution pension plans.

### Risk coverage

Disability pension from the Group shall give an addition to the expected disability pension from the National Insurance Plan so that total payment constitutes approximately 65 per cent of pensionable income at full accrual. An additional 10 per cent disability pension is paid for each child under the age of 21, up to a maximum of 6 children. The payment depends on the extent of disability and the possibility for full coverage. Starting on 1 January 2013, the risk pensions are unfunded for the share of the basic wage that exceeds 12G. In practice this implies that KONGSBERG is self-insurer for the risk pension for future periods. From 1 January 2016, KONGSBERG has decided to terminate the paid-up policy accrual for disability pensions as part of the adaptation to the new regulations. The one-off effect from discontinuation of the paid-up policy accrual is included as part of the settlement of the pension scheme in 2015 with MNOK 168 including social security, and is presented as a reduction of payroll costs. The employees will be issued individual paid-up policies for the already earned paid-up policy rights. The new scheme will be one-year risk coverage and the premiums will be expensed as they accrue.

**Early retirement**

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

The Group has decided not to continue the scheme with early retirement agreements for executives employed after 1 July 2013. This also applies to employees in certain key positions who previously were offered agreements on early retirement. These individuals will receive an additional contribution of 12 per cent of the basic salary in excess of 12G to the unfunded pension scheme, as long as they hold the post, but only until the age of 65 at the latest.

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

| | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| *Economic assumptions* | | |
| Discount rate | 2.60% | 2.30% |
| Asset return | 2.60% | 2.30% |
| Wage adjustment | 1.75% | 2.00% |
| Pension base level (G) adjustment | 2.25% | 2.50% |
| Pension adjustment | 1.50% | 1.75% |
| *Demographic assumptions* | | |
| Mortality | K 2013 | K 2013 |
| Disability | IR 73 | IR 73 |
| Voluntary turnover | 4.5% for all ages | 4.5% for all ages |

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

| | Disability % | | Mortality % | | Estimate life | |
|---|---|---|---|---|---|---|
| *Age* | *Men* | *Women* | *Men* | *Women* | *Men* | *Women* |
| 20 | 0.1 | 0.2 | - | - | 89 | 94 |
| 40 | 0.3 | 0.4 | 0.1 | 0.0 | 88 | 92 |
| 60 | 1.4 | 1.8 | 0.4 | 0.3 | 87 | 90 |
| 80 | - | - | 4.4 | 3.0 | 90 | 92 |

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

The year's pension costs were calculated as follows:

| *MNOK* | *2015* | *2014* |
|---|---|---|
| Present value of earned pensions | 117 | 110 |
| Interest cost on accrued pension liabilities | 56 | 80 |
| Estimated return on pension plan assets | (40) | (61) |
| Administration costs | 16 | 15 |
| Accrued social security expenses | 21 | 20 |
| **Total** | **170** | **164** |
| Settlement pension scheme/gift retirement incl. social security costs. | (168) | 12 |
| **Total net pension costs for the year including finance items** | **2** | **176** |
| Adjusted for net interest classified as finance expense | (16) | (19) |
| **Total net pension costs for the year** | **(14)** | **157** |
| | | |
| Defined contribution pension plan costs in Norway | 297 | 281 |
| Defined contribution pension plan costs abroad | 35 | 25 |

Net interests costs are classified as finance expenses.

**Change in net pension liabilities recognised on the balance sheet**

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| *MNOK* | *Funded* | *Unfunded* | *Total* | *Funded* | *Unfunded* | *Total* |
| *Changes in gross pension liabilities* | | | | | | |
| Gross pension liabilities at 1 January | 2 371 | 265 | 2 636 | 2 154 | 234 | 2 388 |
| Present value of current year's contribution | 101 | 16 | 117 | 110 | 15 | 125 |
| Interest expenses on pension liabilities | 51 | 5 | 56 | 74 | 6 | 80 |
| Actuarial losses/gains | (192) | (19) | (211) | 144 | 16 | 160 |
| Settlement pension scheme/gift pension | (147) | - | (147) | - | 10 | 10 |
| Transition to the equity method | - | - | - | (34) | - | (34) |
| Plan change | (295) | - | (295) | - | - | - |
| Payments of pensions/paid-up policies | (83) | (18) | (101) | (92) | (22) | (114) |
| Net change in social security expenses | (50) | (2) | (52) | 15 | 6 | 21 |
| **Gross pension liabilities at 31 December** | **1 756** | **247** | **2 003** | **2 371** | **265** | **2 636** |
| *Changes in gross pension fund assets* | | | | | | |
| Fair value, pension plan assets 1 January | 1 721 | - | 1 721 | 1 631 | - | 1 631 |
| Expected return on pension funds | 40 | - | 40 | 61 | - | 61 |
| Actuarial losses/gains | 11 | - | 11 | 13 | - | 13 |
| Premium payments | 128 | - | 128 | 135 | - | 135 |
| Transition to the equity method | - | - | - | (27) | - | (27) |
| Plan change | (295) | - | (295) | - | - | - |
| Payments of pensions/paid-up policies | (99) | - | (99) | (92) | - | (92) |
| **Fair value, pension plan assets 31 December** | **1 506** | **-** | **1 506** | **1 721** | **-** | **1 721** |
| **Net capitalised pension liabilities at 31 December** | **(250)** | **(247)** | **(497)** | **(650)** | **(265)** | **(915)** |

The distribution of pension plan assets by investment categories at 31 December 2015 and in previous periods:

| *MNOK* | *2015* | *2014* | *2013* | *2012* | *2011* |
|---|---|---|---|---|---|
| Long-term bonds | 492 | 599 | 576 | 559 | 512 |
| Loans and receivables[1] | 271 | - | - | - | - |
| Money market | 366 | 386 | 403 | 357 | 336 |
| Short-term bonds | 98 | 248 | 264 | 248 | 219 |
| Shares | 125 | 194 | 139 | 93 | 117 |
| Property | 149 | 258 | 227 | 264 | 263 |
| Other | 5 | 36 | 22 | 31 | 15 |
| **Total** | **1 506** | **1 721** | **1 631** | **1 552** | **1 462** |
| **Recognised return on pension plan assets** | **4.5%** | **5.4%** | **4.4%** | **5.6%** | **3.2%** |

1) New entry i 2015 – including a large portfolio of home investment loans.

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

| *MNOK* | *2015* | *2014* | *2013* | *2012* | *2011* |
|---|---|---|---|---|---|
| Net liabilities at 1 January | (915) | (757) | (532) | (460) | (316) |
| Recognised pension cost | (149) | (144) | (138) | (96) | (82) |
| Settlement pension scheme/gift pension | 147 | (10) | - | (13) | 5 |
| Premium payments | 128 | 135 | 127 | 141 | 147 |
| Disbursements | 18 | 22 | 30 | 27 | 30 |
| Purchase/sale | - | - | (6) | - | (11) |
| Transition to the equity method | - | 7 | - | - | - |
| Actuarial losses/gains[1] | 222 | (147) | (209) | (122) | (215) |
| Net change in social security expenses | 52 | (21) | (29) | (9) | (18) |
| **Net capitalised pension liabilities at 31 December** | **(497)** | **(915)** | **(757)** | **(532)** | **(460)** |

1) Actuarial loss/gain is recognised in the statement of comprehensive income by MNOK 253 incl. social security expense.

### Historical information

| *MNOK* | *2015* | *2014* | *2013* | *2012* | *2011* |
|---|---|---|---|---|---|
| Gross pension liabilities at 31 December | 2 003 | 2 636 | 2 388 | 2 084 | 1 922 |
| Fair value, pension plan assets 31 December | 1 506 | 1 721 | 1 631 | 1 552 | 1 462 |
| **Net pension liabilities 31 December** | **(497)** | **(915)** | **(757)** | **(532)** | **(460)** |
| | | | | | |
| Actuarial gains/losses pension liabilities 31 December | (211) | 160 | 162 | 76 | 136 |
| Actuarial gains/losses pension assets 31 December | 11 | 13 | (47) | (46) | (79) |
| | | | | | |
| **Accumulated actuarial gains/losses recognised in the statement of comprehensive income after tax** | **(1 331)** | **(1 521)** | **(1 399)** | **(1 227)** | **(1 145)** |
| Of which constitute experience deviations | (898) | (1 002) | (1 056) | (1 076) | (1 053) |

**Contractual early retirement plan**

The Group's general contractual early retirement plan gives a life-long supplement to the ordinary pension. Employees can choose to draw on the new plan from the age of 62, even if they continue to work. The new plan is a defined benefit multi-employer pension plan, and it is funded through premiums established as a percentage of wages. For the moment, there is no reliable measurement or allocation of liabilities and funding as regards the plan. For accounting purposes, the plan is therefore considered to be a defined contribution pension scheme 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 the new plan of the total payments made between 1G and 7.1G to the Group's employees. For 2015, the premium was 2.4 per cent, and it was set to 2.5 per cent for 2016 (estimated to MNOK 80). There is no accumulation of capital in the plan and further increases in the premium level are expected over the coming years.

**Other**

Pension expenses for the year are calculated on the basis of the financial and actuarial assumptions that apply at the beginning of the year. Gross pension liabilities are based on the financial and actuarial assumptions made at year-end. The gross value of pension fund assets is calculated on the assumption that there will be an annual return of 3.3 per cent, being the expectation on 31 December 2015. The value adjusted return on investments was 4.7 per cent, but will not be included in the capitalised assets until 2016.

The total pension premium payments for the defined benefit plan for 2016 are expected to be approx. MNOK 130. Pension benefits depend on the number of years of service and salary level when reaching retirement age. Net pension liabilities are determined on the basis of actuarial estimates made on assumptions related to the discount rate, future wage growth, pension adjustments, projected return on pension fund assets and employee turnover. These assumptions are updated annually. The discount rate is stipulated on the basis of the covered bond interest rate, which reflects the time frame for paying out on the pension liabilities for the benefit plan. In KONGSBERG's opinion, the market for covered bonds is sufficiently deep and shows reliable pricing. The pension liability would have been approx. 13 per cent higher using a government bond rate of 1.5 per cent, all other factors held constant. Pension adjustments are now calculated after adjustment for inflation compared to minimum adjustments in previous years. The pension liability would have been approx. 12 per cent lower using minimum adjustment, all other factors held constant.

The balance sheet shows net pension liabilities including social security.

Expected pension payments:

| *MNOK* | |
|---|---|
| 2016 | 98 |
| 2017 | 98 |
| 2018 | 99 |
| 2019 | 101 |
| 2020 | 103 |
| Next 5 years | 567 |

**Sensitivity analysis of pension calculations**

The following estimates are based on facts and circumstances that applied at 31 December 2015, provided that all other parameters are constant. Actual results may deviate significantly from these estimates.

| | Discount rate | | Annual salary growth/ basic amount | | Annual adjustment of pensions | | Retirement rate | | Mortality | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Changes in % are percentage points* | *1%* | *-1%* | *1%* | *-1%* | *1%* | *-1%* | *1%* | *-1%* | *1 year lower expected lifetime at age 67* | *1 year increased lifetime at age 67* |
| *Change in pension* | | | | | | | | | | |
| Defined benefit obligation (PBO) | 11–12% | 11–12% | 5–6% | 5–6% | 7–8% | 7–8% | 2–3% | 2–3% | 2–3% | 2–3% |
| Net pension cost for the period | 12–13% | 12–13% | 5–6% | 5–6% | 7–8% | 7–8% | 2–3% | 2–3% | 1–2% | 1–2% |

When calculating the sensitivity for mortality, we adjust K2013 such that the life expectancy for a 67 year old is increased by one year and reduced by one year, respectively. This is relevant for life expectancy for a 67 year old in 2015 according to the mortality table K2013.

## 11 Property, plant and equipment

| *MNOK* | *Land* | *Buildings and other real property* | *Machinery and plant* | *Equipment and vehicles* | *Plant in progress* | *Total* |
|---|---|---|---|---|---|---|
| *Acquisition cost* | | | | | | |
| 1 January 2014 | 209 | 1 728 | 1 191 | 1 657 | 133 | 4 918 |
| Additions | 9 | 108 | 79 | 155 | (12) | 339 |
| Disposals | 1 | (2) | (25) | (40) | (16) | (82) |
| Disposal through sale of subsidiary | - | (99) | - | - | - | (99) |
| Translation differences | 9 | 71 | 40 | 66 | 15 | 201 |
| **Acquisition cost 31 December 2014** | **228** | **1 806** | **1 285** | **1 838** | **120** | **5 277** |
| Adjustment of opening balance 1 January 2015 | 2 | - | 19 | (19) | - | 2 |
| Additions through business combinations | - | - | - | 5 | - | 5 |
| Additions | - | 153 | 80 | 144 | (14) | 363 |
| Disposals | - | (15) | (23) | (173) | - | (211) |
| Translation differences | 8 | 70 | 39 | 53 | 9 | 179 |
| **Acquisition cost 31 December 2015** | **238** | **2 014** | **1 400** | **1 848** | **115** | **5 615** |
| *Accumulated impairment and depreciation* | | | | | | |
| 1 January 2014 | - | 653 | 552 | 1228 | 4 | 2 437 |
| Depreciation for the year | - | 81 | 87 | 174 | - | 342 |
| Accumulated depreciation through disposal | - | (16) | (19) | (37) | - | (72) |
| Translation differences | - | 24 | 23 | 45 | 1 | 93 |
| **Accumulated depreciation 31 December 2014** | **-** | **742** | **643** | **1 410** | **5** | **2 800** |
| Adjustment of opening balance 1 January 2015 | - | - | 8 | (6) | - | 2 |
| Depreciation for the year | - | 90 | 111 | 161 | - | 362 |
| Impairment for the year | - | 2 | 13 | 2 | - | 17 |
| Accumulated depreciation through disposal | - | (9) | (18) | (170) | - | (197) |
| Translation differences | - | 23 | 24 | 41 | 1 | 89 |
| **Accumulated depreciation and impairment 31 December 2015** | **-** | **848** | **781** | **1438** | **6** | **3 073** |
| **Carrying amount 31 December 2014** | **228** | **1 064** | **642** | **428** | **115** | **2 477** |
| **Carrying amount 31 December 2015** | **238** | **1 166** | **619** | **410** | **109** | **2 542** |
| | | | | | | |
| Useful life | N/A | 10–33 years | 3-10 years | 3-10 years | | |
| Annual rent paid for off-balance sheet property, plant and equipment | - | 281 | 5 | 5 | - | 291 |

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

## 12 Intangible assets

| *MNOK* | *Goodwill* | *Technology* | *Capitilised development* | *Others intangible assets* | *Total* |
|---|---|---|---|---|---|
| *Acquisition cost* | | | | | |
| 1 January 2014 | 2 726 | 721 | 686 | 91 | 4 224 |
| Additions | 2 | 2 | 102 | - | 106 |
| Disposals | - | - | (83) | - | (83) |
| Translation differences | 80 | 59 | - | 4 | 143 |
| **Acquisition cost 31 December 2014** | **2 808** | **782** | **704** | **100** | **4 390** |
| Additions through business combinations | 37 | - | - | - | 37 |
| Additions | - | - | 103 | 2 | 105 |
| Disposals | - | - | - | (4) | (4) |
| Translation differences | 80 | 43 | - | 5 | 128 |
| **Acquisition cost 31 December 2015** | **2 925** | **825** | **808** | **98** | **4 656** |
| | | | | | |
| *Accumulated amortisation and impairment* | | | | | |
| 1 January 2014 | 419 | 375 | 247 | 46 | 1 087 |
| Amortisation | - | 75 | 55 | 10 | 140 |
| Impairment[1)] | 300 | 3 | 17 | - | 320 |
| Disposals | - | - | (83) | - | (83) |
| Translation differences | 1 | 39 | - | 4 | 44 |
| **Accumulated amortisation and impairment 31 December 2014** | **720** | **492** | **236** | **64** | **1 508** |
| Amortisation | - | 83 | 64 | 14 | 161 |
| Impairment[1)] | 192 | 88 | 20 | - | 300 |
| Disposals | - | - | - | (4) | (4) |
| Translation differences | 1 | 31 | - | 4 | 36 |
| **Accumulated amortisation and impairment 31 December 2015** | **913** | **694** | **320** | **74** | **2 001** |
| | | | | | - |
| **Carrying amount 31 December 2014** | **2 088** | **290** | **469** | **35** | **2 882** |
| **Carrying amount 31 December 2015** | **2 012** | **131** | **488** | **24** | **2 655** |
| | | | | | |
| **Useful life** | | 8-10 years | 5 years | 8-10 years | |
| **Remaining useful life** | | 1-9 years | 3-5 years | 4-9 years | |

1) Impairment of goodwill mainly applies to the business area Kongsberg Oil & Gas Technologies. Information about the background for the impairment is provided in Note 13 "Impairment testing of goodwill". Impairment of technology and capitalised development costs is also within the business area Kongsberg Oil & Gas Technologies. The background for the impairment is the expectation of low or no future profit from the assets.

With the exception of goodwill, which cannot be amortised, the amortisation of intangible assets is mainly straight-line over the useful life or based on the number of units produced. The amortisation starts when the intangible asset is available for use.

**Product maintenance, research and development recognised in profit and loss**

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| *MNOK* | *Product maintenance* | *Research and development costs* | *Total* | *Product maintenance* | *Research and development costs* | *Total* |
| Kongsberg Maritime | 209 | 582 | 791 | 203 | 487 | 690 |
| Kongsberg Defence Systems | 12 | 87 | 99 | 12 | 86 | 98 |
| Kongsberg Protech Systems | 31 | 28 | 59 | 22 | 57 | 79 |
| Kongsberg Oil & Gas Technologies | 10 | 48 | 58 | 10 | 60 | 70 |
| **Total** | **262** | **745** | **1 007** | **247** | **690** | **937** |

1) Last year's figures contained a reclassification between the groups “Product maintenance” and “Research and development costs”

**Capitalisation of development projects**

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

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

In 2015, Kongsberg Maritime capitalised costs for the development of Kongsberg Information Management Systems. The development of this system will be continued throughout 2016 and 2017.

At Kongsberg Defence Systems, current capitalisations are related to the development of communications systems and to KONGSBERG's share of the development of Joint Strike Missile. In addition, in 2015 the business area started capitalisation of the development of the technology associated with remotely controlled ATC towers.

Kongsberg Protech Systems and Kongsberg Oil & Gas Technology have in the current year not had significant additions related to capitalised development projects.

**Estimation uncertainty**

Capitalised development costs are amortised according to the estimated lifetime. Estimated lifetime may change over time. This is considered annually, and the amortisation is adjusted when considered necessary. When testing the value of capitalised development costs, the Group applies the same principles and methods as used for impairment testing. Regarding estimate uncertainty associated with this matter, see Note 13 “Impairment testing of goodwill”.

## 13 Impairment testing of goodwill

**Goodwill**

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

Goodwill is allocated to the operating segments as follows:

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Kongsberg Maritime | 1 695 | 1 580 |
| Kongsberg Defence Systems | 173 | 172 |
| Kongsberg Oil & Gas Technologies | 144 | 336 |
| **Total goodwill in balance sheet** | **2 012** | **2 088** |

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

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

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

**Key assumptions**

*Discount rate*

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

*Profit margin (EBITDA)*

The future profit margin is based on an assessment of the different cash flow-generating devices. The historical level has been used for Kongsberg Maritime and Kongsberg Defence Systems, adjusted for future expectations. As regards Kongsberg Oil & Gas Technologies, we have assumed a low profit margin for the first two years, followed by gradual improvement to a level considered to be in the lower range of what is normal for comparable enterprises.

*Growth rate*

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

*Market shares*

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

**Key assumptions per cash flow-generating unit**

| *Per cent* | *Kongsberg Maritime* | *Kongsberg Defence Systems* | *Kongsberg Oil & Gas Technologies* |
|---|---|---|---|
| Discount rate before tax | 12.3 | 9.2 | 11.3 |
| Discount rate after tax | 9.8 | 7.7 | 9.8 |
| Long-term nominal growth rate | 1.5 | 1.5 | 1.5 |
| Inflation | 1.5 | 1.5 | 1.5 |

**Impairment**

Goodwill in the business area Kongsberg Oil & Gas Technologies was impaired by MNOK 192 in 2015. This was carried out as a result of the development of results at KOGT as well as further deterioration of market conditions in the oil and gas market.

**Sensitivity analysis**

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

Kongsberg Maritime and 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.

For Kongsberg Oil & Gas Technology, as mentioned above, goodwill has been impaired by MNOK 192. A reduction of 2 percentage points in the EBITDA margin would increase the impairment need by an additional MNOK 118. An increase in the discount rates by 1 percentage point would in itself give an impairment of MNOK 46 in addition to the impaired amount.

**Estimation uncertainty**

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 various 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.

## 14 Financial income and expense

| MNOK | 2015 | 2014 |
|---|---|---|
| Interest income from assets at amortised cost | 31 | 76 |
| Derivatives at fair value through profit and loss | 9 | 13 |
| Foreign exchange gain | 58 | 40 |
| Other finance income | 11 | 8 |
| **Financial income** | **109** | **137** |
| | | |
| Interest expense from liabilities at amortised cost | 24 | 30 |
| Derivatives at fair value through profit and loss | 9 | 12 |
| Foreign exchange loss | 38 | 20 |
| Discounts of non-current provisions | 3 | 3 |
| Other financial expenses | 35 | 45 |
| **Financial expenses** | **109** | **110** |
| | | |
| **Net finance item recognised in income statement** | **-** | **27** |

## 15 Income tax

**Tax expense**

| MNOK | 2015 | 2014 |
|---|---|---|
| Tax payable abroad | 129 | 135 |
| Change in deferred tax | 60 | 270 |
| **Tax expense** | **189** | **405** |

**Reconciliation from nominal to effective tax rate**

| MNOK | 2015 | 2014 |
|---|---|---|
| **Profit before tax** | **944** | **1285** |
| Result from joint arrangements and associated companies | (87) | (68) |
| **Profit before tax excluding joint arrangements and associated companies** | **857** | **1 217** |
| Tax calculated at tax rate 27 per cent of profit before tax | 231 | 329 |
| Effect of reducing the tax rate to 25 per cent | (114) | - |
| Effect of tax differences and unrecognised tax benefits abroad | 14 | 6 |
| Impaired goodwill | 52 | 81 |
| Sale of property shares | - | (17) |
| Other permanent differences | 6 | 6 |
| **Tax expense** | **189** | **405** |
| | | |
| Effective tax rate | 22.1% | 33.2% |

Income from long-term construction contracts is not recognised for tax purposes until the risk and responsibility has been transferred to the customer. This has no effect on the tax expense in the income statement, but as a consequence, tax payable will fluctuate over time.

As a result of the major differences between the accounting and tax results, the approved change in the tax rate from 27 to 25 per cent from 2016 will cause a reduction in this year's tax cost of MNOK 114.

**Deferred tax asset and deferred tax liability**

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| *Deferred tax asset* | | |
| Pensions | 124 | 247 |
| Provisions | 87 | 372 |
| Derivatives | 767 | 738 |
| Accumulated tax loss to carry forward | 316 | 626 |
| **Deferred tax assets - gross** | **1 294** | **1 983** |
| *Deferred tax liability* | | |
| Fixed assets | 216 | 313 |
| Construction contracts in progress | 1 990 | 2 546 |
| Derivatives | 71 | 58 |
| **Deferred tax liabilities - gross** | **2 277** | **2 917** |
| **Net recognised deferred tax liabilities** | **(983)** | **(934)** |
| Tax rate in Norway | 25% | 27% |

**Change in deferred tax recognised in other comprehensive income**

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Pensions | 69 | (45) |
| Cash flow hedges | (80) | (300) |
| **Total** | **(11)** | **(345)** |
| Addition of deferred tax at business combinations / transition equity method | - | 8 |

The tax effect related to a change in tax rate from 27 per cent to 25 per cent as of 2016 will give a reduction of MNOK 35 relating to cash flow hedges and is included in comprehensive income.

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

## 16 Earnings per share

| *MNOK* | *2015* | *2014* |
|---|---|---|
| *Profit for the year attributable to the shareholders* | | |
| Profit after tax | 755 | 880 |
| Non-controlling interests' share of the result | 8 | 7 |
| **Profit for the year/diluted profit attributable to the ordinary shareholders** | **747** | **873** |

| *Number of shares* | *Note* | *2015* | *2014* |
|---|---|---|---|
| Average weighted number of shares outstanding at 1 January | 22 | 120 | 120 |
| **Average weighted number of shares at 31 December** | | **120** | **120** |

| *NOK* | *2015* | *2014* |
|---|---|---|
| Earnings per share for the year | 6.23 | 7.28 |
| Earnings per share for the year, diluted | 6.23 | 7.28 |

## 17 Available-for-sale shares

**Available-for-sale shares**

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Quoted shares | 202 | 101 |
| Other shares | 31 | 31 |
| **Available-for-sale shares** | **233** | **132** |

Available-for-sale shares are recognised at fair value. Quoted shares on 31 December 2015 consisted of shares in Kitron ASA (19.33 per cent ownership), listed on the Oslo Stock Exchange, and shares in KBC Advanced Technologies PLC (4.9 per cent ownership), listed on the London Stock Exchange. KONGSBERG does not have significant influence in these companies.

Changes in the fair value of shares, with the exception of impairment losses, are recognised in other comprehensive income. Significant and permanent impairment losses for the shares are recognised in the income statement. In 2015, MNOK 101 was recognised as an increase in value in other comprehensive income (a decrease in 2014 of MNOK 6). The decrease in value concerns Kitron ASA and KBC Advanced Technology PLC. No impairment has been recognised in the income statement in 2015. In percentage of total market value, quoted shares constitute 87 per cent of available-for-sale shares.

**Fair value of shares**
The shares are measured at market value on the balance sheet date.

The market value is calculated as follows:
1. The last traded price on the stock exchange or the 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. Acquisition cost as an estimate of market value. This refers to investments that are not of significant value

**Sensitivity analysis on investments in shares**
An increase/reduction in the prices of listed shares of 10 per cent will result in an increase/reduction of the fair value of MNOK 20 at 31 December 2015 (MNOK 10 as of 31 December 2014), which in this case would be recognised in other comprehensive income.

## 18 Other non-current assets

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Loans to employees | 32 | 36 |
| Sales credit, property sales | 37 | 37 |
| Prepaid land rental | 16 | 14 |
| Other non-current assets | 21 | 13 |
| **Total other non-current assets** | **106** | **100** |

## 19 Receivables

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Gross receivables | 3 205 | 2 712 |
| Provision for bad debts | (167) | (142) |
| **Net accounts receivable** | **3 038** | **2 570** |
| Other receivables | 586 | 532 |
| Prepayments to suppliers | 432 | 182 |
| **Net receivables** | **4 056** | **3 284** |

**Credit risk**

*Exposure to credit risk*

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

| *MNOK* | *Note* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|---|
| Gross receivables | | 3 205 | 2 712 |
| Gross other short-term receivables | | 1 018 | 714 |
| Other non-current assets | 18 | 106 | 100 |
| Cash and cash equivalents | 21 | 1 807 | 4 424 |
| Forward contracts and interest rate swaps which are used as currency hedging | 20A | 284 | 215 |
| **Total exposure to credit risk** | | **6 420** | **8 165** |

*Gross receivables distributed by region*

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Norway | 337 | 297 |
| EU | 411 | 612 |
| Other Europe | 149 | 34 |
| North America | 1 493 | 769 |
| South America | 68 | 57 |
| Asia | 631 | 738 |
| Other countries | 116 | 205 |
| **Total** | **3 205** | **2 712** |

*Gross receivables distributed by customer type*

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Public institutions | 550 | 975 |
| Private companies | 2 655 | 1 737 |
| **Total** | **3 205** | **2 712** |

*Age-distributed receivables and provisions for bad debts*

| | **31 December 15** | | **31 December 14** | |
|---|---|---|---|---|
| *MNOK* | *Gross* | *Provision for bad debts* | *Gross* | *Provision for bad debts* |
| Not due | 1 688 | (5) | 1 373 | (1) |
| Due 1–30 days | 683 | (4) | 562 | (2) |
| Due 31-90 days | 322 | (6) | 311 | (1) |
| Due 91-180 days | 271 | (3) | 187 | (38) |
| Due more than 180 days | 241 | (149) | 279 | (100) |
| **Total** | **3 205** | **(167)** | **2 712** | **(142)** |

*Changes in provision for bad debts*

| *MNOK* | *2015* | *2014* |
|---|---|---|
| Provision 1 January | (142) | (123) |
| Actual losses | 19 | 20 |
| Allocation | (48) | (44) |
| Dissolved | 4 | 5 |
| **Provision 31 December** | **(167)** | **(142)** |

**Estimation uncertainty**

The provision for bad debts is determined by using the best estimate and judgement as the basis for assessment of the probability of loss on a receivable or a group of receivables.

## 20 Financial instruments

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

### A) Derivatives

| *MNOK* | *Note* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|---|
| *Current assets* | | | |
| Forward exchange contracts, cash flow hedges | 20C | 7 | 71 |
| Interest rate swaps, cash flow hedges | 20D | - | (12) |
| Forward exchange contracts, fair value hedges | | 248 | 140 |
| Interest rate swaps, fair value hedges | 20D | 19 | 19 |
| Loan hedges | | 10 | (3) |
| **Total derivatives, current asset** | | **284** | **215** |
| *Non-current liabilities* | | | |
| Interest rate swaps related to sale and leaseback | | - | 1 |
| **Total derivatives, non-current liabilities** | | **-** | **1** |
| *Current liabilities* | | | |
| Forward exchange contracts, cash flow hedges | | 1 146 | 1 103 |
| Foreign currency options | | 13 | - |
| Interest rate swaps, cash flow hedges | 20D | 9 | - |
| Forward exchange contracts, fair value hedges | | 1 891 | 1 632 |
| Loan hedges | | 10 | (3) |
| **Total derivatives, current liabilities** | | **3 069** | **2 732** |

### B) Currency risk and hedging of currency

KONGSBERG's currency risk management is accounted for in Note 5 "Financial risk management objectives and policies".

KONGSBERG's exposure to currency risk related to accounts receivable and payable in USD and EUR in the balance sheet, based on nominal amounts.

| | 31 Dec 15 | | 31 Dec 14 | |
|---|---|---|---|---|
| *Amounts in mill.* | *USD* | *EUR* | *USD* | *EUR* |
| Accounts receivable | 539 | 35 | 256 | 75 |
| Accounts payable | (27) | (14) | (37) | (11) |
| **Net balance exposure** | **512** | **21** | **219** | **64** |
| Forward exchange contracts, fair value hedges [1] | 1 038 | 106 | 1 399 | 192 |

1) In accordance with KONGSBERG's currency strategy all contracts are hedged to the functional currency.

The forward exchange contracts above are intended to hedge all contractual currency flows. This implies that the forward exchange contracts will hedge accounts receivables in foreign currency, as well as invoicing remaining on the contracts. KONGSBERG is also exposed to other currencies, but these are insignificant compared with the exposure to USD and EUR.

Important foreign exchange rates used in the consolidated financial statement through the year:

| | Average exchange rate | | Spot rate as of 31 Dec | |
|---|---|---|---|---|
| | *2015* | *2014* | *2015* | *2014* |
| USD | 8.06 | 6.30 | 8.81 | 7.42 |
| EUR | 8.95 | 8.36 | 9.60 | 9.02 |

*Currency hedging*
At 31 December, the Group had the following foreign currency hedges, divided by hedge category:

| **2015**<br>*Amounts in mill.* | *Value in NOK at 31 Dec 15 based on the agreed rates* | *Fair value 1) in NOK 31 Dec 15* | *Total hedged amount in USD 31 Dec 15* | *Average hedged rate in USD 31 Dec 15* | *Total hedged amount in EUR 31 Dec 15* | *Average hedged rate in EUR 31 Dec 15* |
|---|---|---|---|---|---|---|
| *Hedge category* | | | | | | |
| Forward exchange contracts, cash flow hedges[2) 3)] | 8 545 | (1 138) | 987 | 7,70 | 105 | 9,18 |
| **Total cash flow hedges** | **8 545** | **(1 138)** | **987** | | **105** | |
| | | | | | | |
| Forward exchange contracts, fair value hedges[3) 4)] | 10 471 | (1 643) | 1 038 | 7,49 | 106 | 9,04 |
| Loan hedges, fair value hedges[3)] | 1 048 | (10) | 104 | 8,74 | 3 | 9,57 |
| **Total fair value hedges** | **11 519** | **(1 653)** | **1 142** | | **109** | |
| | | | | | | |
| **Total** | **20 064** | **(2 791)** | **2 129** | | **214** | |

| **2014**<br>*Amounts in mill.* | *Value in NOK at 31 Dec 14 based on the agreed rates* | *Fair value 1) in NOK 31 Dec 14* | *Total hedged amount in USD 31 Dec 14* | *Average hedged rate in USD 31 Dec 14* | *Total hedged amount in EUR 31 Dec 14* | *Average hedged rate in EUR 31 Dec 14* |
|---|---|---|---|---|---|---|
| *Hedge category* | | | | | | |
| Forward exchange contracts, cash flow hedges[2) 3)] | 9 240 | (1 031) | 1 125 | 6,61 | 142 | 8,56 |
| **Total cash flow hedges** | **9 240** | **(1 031)** | **1 125** | - | **142** | - |
| | | | | | | |
| Forward exchange contracts, fair value hedges[3) 4)] | 10 532 | (1 492) | 1 399 | 6,37 | 192 | 8,71 |
| Loan hedges, fair value hedges[3)] | 1 133 | (3) | 122 | 7,40 | 3 | 9,10 |
| **Total fair value hedges** | **11 665** | **(1 495)** | **1 521** | | **195** | |
| | | | | | | |
| **Total** | **20 905** | **(2 526)** | **2 646** | | **337** | |

1) Fair value is the difference between the spot rate at 31 December and the agreed rates on the forward exchange contracts.
2) Changes in fair value associated with effective cash flow hedges are recognised in other comprehensive income. The part that is not an effective hedge will be recognised through profit and loss.
3) Values based on the agreed rates and fair value in the table above also include other currencies other than USD and EUR. Loan hedges are currency hedges connected to loans in foreign currency.
4) The total change in fair value on hedged projects is MNOK -107 during 2015 (reduction of MNOK 1,387 in 2014). Derivatives used as project hedging have had the corresponding negative value through the year and the hedging has thus been 100 per cent efficient. Change of value is recognised in accounts receivable and construction contracts in progress (assets and liabilities).

*Currency options*
As of 31 December 2015 KONGSBERG had currency options with a fair value of MNOK 13. The change in fair value is recognised through profit and loss. The total hedged amount is USD 88 million.

Fair value for forward exchange contracts is, in addition to the exchange rate on 31 December, influenced by the differences in interest rates in the relevant currencies. The interest rate curves that are used in the valuation are received from Reuters, which retrieves information from various market player. Also refer to Note 4 “Fair value” and Note 20 G “Assessment of fair value”.

*Sensitivity analysis*
A strengthening of the NOK against the USD and EUR as of 31 December 2015 of 10 per cent (also 10 per cent in 2014) would have increased the comprehensive income by the amount stated in the table.

Estimated effect on comprehensive income (after tax):

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Forward exchange contracts in USD | 652 | 609 |
| Forward exchange contracts in EUR | 75 | 94 |
| **Total** | **727** | **703** |

Assuming all other variables are constant, a corresponding weakening of the NOK against the USD and EUR would have had the same effect in numerical terms, but with the opposite sign.

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

KONGSBERG has a hedging strategy that primarily hedge all contractual currency flows and debt in foreign currency. A change in currency rate will therefore impact the profitability of the contracts to a minor extent.

**C) Cash flow hedges**

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

| | **31 Dec 15** | | | | | **31 Dec 14** | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *MNOK* | *Carrying amount* | *Expected cash flow* | *2016* | *2017* | *2018* | *Carrying amount* | *Expected cash flow* | *2015* | *2016* | *2017* |
| *Forward exchange contracts* | | | | | | | | | | |
| Assets | 7 | 7 | 7 | - | - | 71 | 72 | 69 | 3 | - |
| Liabilities | (1 146) | (1 163) | (991) | (172) | - | (1 103) | (1 121) | (839) | (282) | - |
| *Interest rate swaps* | | | | | | | | | | |
| Assets | - | - | - | - | - | - | - | - | - | - |
| Liabilities | (9) | (9) | (3) | (3) | (3) | (12) | (12) | (5) | (4) | (3) |
| **Total** | **(1 148)** | **(1 165)** | **(987)** | **(175)** | **(3)** | **(1 044)** | **(1 061)** | **(775)** | **(283)** | **(3)** |

Periods in which the cash flows related to derivatives that are cash flow hedges are expected to affect annual results:

| | **31 Dec 15** | | | | **31 Dec 14** | | | |
|---|---|---|---|---|---|---|---|---|
| *MNOK* | *Carrying amount* | *Expected cash flow* | *2016* | *2017 and later* | *Carrying amount* | *Expected cash flow* | *2015* | *2016 and later* |
| *Forward exchange contracts* | | | | | | | | |
| Assets | 7 | 7 | 4 | 3 | 71 | 72 | 36 | 36 |
| Liabilities | (1 146) | (1 163) | (655) | (508) | (1 103) | (1 121) | (563) | (558) |
| *Interest rate swaps* | | | | | | | | |
| Assets | - | - | - | - | - | - | - | - |
| Liabilities | (9) | (9) | (3) | (6) | (12) | (12) | (4) | (8) |
| **Total** | **(1 148)** | **(1 165)** | **(654)** | **(511)** | **(1 044)** | **(1 061)** | **(531)** | **(530)** |

*Cash flow hedges – hedging reserve*

| *MNOK* | *2015* | *2014* |
|---|---|---|
| Opening balance | (954) | (141) |
| *Changes in fair value in the period* | | |
| Forward exchange contracts and effects of rollovers [1) 3)] | (1 319) | (1 346) |
| Interest rate swaps | 3 | (13) |
| Tax on items recognised directly in comprehensive income | 80 | 298 |
| *Recognised gains/losses in the period* | | |
| Forward exchange contracts and effects of rollovers [1) 3)] | 891 | 248 |
| **Closing balance hedge reserve [2)]** | **(1 299)** | **(954)** |

1) Accruals occur when cash flow hedges are realised and new forward exchange contracts, fair value hedges, are entered into for the projects (rollovers). The gains/losses that occur is deferred and realised in line with the progress of the projects. The carrying amount associated with effects from rollovers of cash flow hedges amounts to MNOK 585 on 31 December 2015 (MNOK 263 on 31 December 2014).
2) The net effect from the cash flow hedges before tax that are recognised in comprehensive income amounts to MNOK -425 in 2015 (MNOK -1.111 in 2014).
3) Comparison figures are changed.

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

In 2015, a total of MNOK -247 was recognised related to ineffective cash flow hedges in the income statement. The amount is also included in the record "recognised gains/losses in the period" in the table above.

### D) Interest rate risk on loans

| | 2015 | | | | | 2014 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Amounts in MNOK* | *Due date* | *Nominal interest rate* | *Years maturity* | *Nominal amount* | *Carrying amount* | *Due date* | *Nominal interest rate* | *Years maturity* | *Nominal amount* | *Carrying amount* |
| Bond issue KOG 07 | 11 Sept 19 | 4.80% | 3.7 | 250 | 250 | 11 Sept 19 | 4.80% | 4.7 | 250 | 250 |
| Bond issue KOG 06 | 11 Sept 17 | 2.85% | 1.7 | 500 | 500 | 11 Sept 17 | 3.28% | 2.7 | 500 | 500 |
| Other long-term loans | | | | 97 | 97 | | | | 104 | 104 |
| **Total long-term loans [1)]** | | | | **847** | **847** | | | | **854** | **854** |
| Credit facility (unused borrowing limit) | 7 April 19 | | | 1 500 | | 7 April 19 | | | 1 500 | |

1) The difference between the carrying amount in the statement of financial position and the amount in this note is due to the positive value of the interest rate swap agreement related to bond loan KOG 07 of MNOK 19. See table below (Interest rate swaps).

KONGSBERG has a syndicated credit facility with Danske Bank, DNB, JP Morgan Chase, Nordea and SEB. The facility is for general business purposes. The facility has a term of five years with an option to extend for one year, twice. The interest rate is NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.5 per cent to 1 per cent. The credit facilities require that net interest-bearing debt shall not exceed three times the EBITDA, but can be up to 3.5 times the figure for three consecutive quarters at the most. The covenants in the loan agreements have been met. The credit facility was undrawn in 2015.

Kongsberg Group ASA had two bond loans at the end of 2015. The bond loans were issued in NOK and listed on the Oslo Stock Exchange. The interest is 3-month NIBOR + 1.8 per cent for loans with a nominal value of MNOK 500 and maturity in 2017, and a fixed interest rate of 4.8 per cent for the bond loan with a nominal value of MNOK 250 and maturity in 2019. The loans are capitalised at their amortised cost using the effective interest method.

Other loans are minor debts incurred directly by some of the Group's subsidiaries in local banks.

*Interest rate swaps*

| *Amounts in MNOK* | *Due date* | *Interest rate* | *Nominal amount 2015* | *Fair value 31 Dec 15* | *Nominal amount 2014* | *Fair value 31 Dec 14* |
|---|---|---|---|---|---|---|
| Interest rate swap agreements, floating to fixed rate[1)] | 2 Jan 15 | 3.43% | - | - | 150 | (1) |
| Interest rate swap agreements, floating to fixed rate[1)] | 2 Jan 15 | 3.21% | - | - | 120 | - |
| Interest rate swap agreements, floating to fixed rate[2)] | 2 Jan 18 | 2.47% | 247 | (9) | 247 | (11) |
| **Total interest rate swap agreements, floating to fixed rate** | | | **247** | **(9)** | **517** | **(12)** |
| Interest rate swap agreements, fixed to floating rate[3)] | 11 Sept 19 | 4.80% | 250 | 19 | 250 | 19 |
| **Total interest rate swap agreements** | | | **497** | **10** | **767** | **7** |

1) As of 31 December 2014 KONGSBERG had interest rate swaps from floating to fixed interest rate for a nominal amount of MNOK 270 relating to sales and leaseback agreements entered into as described in Note 26 "Sale and leaseback". The change in value on interest rate swap agreements are recognised in comprehensive income. The due date of the interest rate swaps was 2 January 2015.
2) KONGSBERG has entered into interest rate swaps from floating to fixed interest rate for a nominal amount of MNOK 247. The agreement was entered into in connection with the funding of property activities in order to reduce interest rate exposure. The value change of the interest swap agreement is recognised in comprehensive income.
3) KONGSBERG has entered into two interest rate swaps from floating to fixed interest rate for a nominal amount each of MNOK 125. The agreements were entered into in connection with the bond loan KOG 07, which is a fixed rate loan. The value change for the interest rate swap agreements is adjusted against carrying value of the loan.

*Sensitivity analysis interest rate risk*

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

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Investments with floating interest rates | 9 | 11 |
| Variable interest rate loans | (3) | (3) |
| Interest rate swap agreements, floating to fixed rate | 2 | 4 |
| **Cash flow sensitivity (net)** | **8** | **12** |

In addition, such a change in interest rate would increase (decrease) comprehensive income and equity by MNOK 3 (MNOK 5 in 2014) related to the interest rate swaps from fixed to floating interest rates.

### E) Liquidity risk

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

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

| **31 December 14** | | | | | | | |
|---|---|---|---|---|---|---|---|
| *MNOK* | *Carrying amount* | *Contractual cash flows* | *2015* | *2016* | *2017* | *2018* | *2019 and later* |
| *Financial liabilities that are not derivatives* | | | | | | | |
| Unhedged bond loans | 750 | (860) | (29) | (29) | (523) | (12) | (267) |
| Other loans and liabilities | 104 | (104) | (21) | (21) | (21) | (21) | (20) |
| Accounts payable | 1 057 | (1 057) | (1 057) | - | - | - | - |
| *Financial liabilities that are derivatives* | | | | | | | |
| Currency derivatives | 2 735 | (2 890) | (1 822) | (1 053) | (13) | (1) | (1) |
| Interest rate swaps | 12 | (12) | (5) | (4) | (3) | - | - |
| | | | | | | | - |
| **Total** | **4 658** | **(4 923)** | **(2 934)** | **(1 107)** | **(560)** | **(34)** | **(288)** |

### F) Summary of financial assets and liabilities

Financial assets and liabilities divided into different categories for accounting purposes as of 31 December 2015:

| 2015<br>MNOK | Note | Derivatives used for hedging | Derivatives that do not qualify for hedging | Loans and receivables | Available for sale shares | Other financial liabilities | Total | Fair value |
|---|---|---|---|---|---|---|---|---|
| *Assets – fixed assets* | | | | | | | | |
| Investment in shares available for sale | 17 | - | - | - | 233 | - | 233 | 284 |
| Other non-current assets | 18 | - | - | 106 | - | - | 106 | 107 |
| *Assets – current assets* | | | | | | | | |
| Derivatives | 20A | 284 | - | - | - | - | 284 | 284 |
| Receivables | 19 | - | - | 4 056 | - | - | 4 056 | 4 056 |
| Cash and cash equivalents | 21 | - | - | 1 807 | - | - | 1 807 | 1 807 |
| *Financial liabilities – non-current* | | | | | | | | |
| Interest-bearing loans | 20D | - | - | - | - | 847 | 847 | 859 |
| Derivatives | 20D | | - | - | - | 19 | 19 | - |
| Other non-current liabilities | | - | - | - | - | 13 | 13 | 13 |
| *Financial liabilities – current* | | | | | | | | |
| Interest-bearing loans | | | - | - | - | - | - | - |
| Derivatives | 20A | 3 069 | - | - | - | - | 3 069 | 3 069 |
| Accounts payable | 24 | - | - | - | - | 1 214 | 1 214 | 1 214 |

| 2014<br>MNOK | Note | Derivatives used for hedging | Derivatives that do not qualify for hedging | Loans and receivables | Available for sale shares | Others financial liabilities | Total | Fair value |
|---|---|---|---|---|---|---|---|---|
| *Assets – fixed assets* | | | | | | | | |
| Investment in shares available for sale | 17 | - | - | - | 132 | - | 132 | 132 |
| Other non-current assets | 18 | - | - | 100 | - | - | 100 | 100 |
| *Assets – current assets* | | | | | | | | |
| Derivatives | 20A | 215 | - | - | - | - | 215 | 215 |
| Receivables | 19 | - | - | 3 284 | - | - | 3 284 | 3 284 |
| Cash and cash equivalents | 21 | - | - | 4 424 | - | - | 4 424 | 4 424 |
| *Financial liabilities – non-current* | | | | | | | | |
| Interest-bearing loans | 20D | - | - | - | - | 854 | 854 | 866 |
| Derivatives | 20D | - | 1 | - | - | - | 1 | 1 |
| Other non-current liabilities | | - | - | - | - | 19 | 19 | 19 |
| *Financial liabilities – current* | | | | | | | | |
| Interest-bearing loans | | - | - | - | - | - | - | - |
| Derivatives | 20A | 2 732 | - | - | - | - | 2 732 | 2 732 |
| Accounts payable | 24 | - | - | - | - | 1 057 | 1 057 | 1 057 |

### G) Assessment of fair value

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

| | | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|---|
| *MNOK* | *Note* | *Level 1* | *Level 2* | *Level 3* | *Level 1* | *Level 2* | *Level 3* |
| *Assets* | | | | | | | |
| Investment in shares available for sale | 17 | 202 | - | 31 | 101 | - | 31 |
| Derivative financial assets | 20A | | 284 | | | 215 | |
| **Total assets at fair value** | | **202** | **284** | **31** | **101** | **215** | **31** |
| *Liabilities* | | | | | | | |
| Derivative financial liabilities | 20A | - | 3 069 | - | - | 2 733 | - |
| Interest-bearing liabilities (intended for note purposes) | | - | 859 | - | - | 866 | - |
| **Total liabilities at fair value** | | **-** | **3 928** | **-** | **-** | **3 599** | **-** |

*The various levels are defined as follows:*

**Level 1:** Fair value is measured by using quoted prices from active markets for identical financial instruments. No adjustment is made with respect to these prices.

**Level 2:** Fair value is measured based on data other than the traded prices covered by level 1, but which is based on observable market data either directly or indirectly. These methods have some uncertainty in the determination of fair value.

**Level 3:** Fair value is measured using models that substantially employ non-observable market data. This involves more uncertainty connected to the determination of fair value.

See also Note 4 “Fair value” and Note 17 “Shares available for sale” for description of fair value measurement.

### H) Estimate uncertainty

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

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

## 21 Cash and cash equivalents

| *Nominal amounts in MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Short-term money market investments | 9 | 2 116 |
| Bank deposits, operating accounts | 1 798 | 2 308 |
| **Total** | **1 807** | **4 424** |

Bank guarantees have been furnished for funds related to withholding tax for employees of MNOK 286 (MNOK 280 in 2014).

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

## 22 Share capital

**Share capital**

As of 31 December 2015, share capital consists of 120,000,000 shares, each with a nominal value of NOK 1.25.

**Share capital trends**

| | Date | Number of shares | Nominal NOK | Amount MNOK | Corr. factor | Share capital MNOK |
|---|---|---|---|---|---|---|
| *Expansion type* | | | | | | |
| Stock exchange introduction | 13 Dec 1993 | 5 850 000 | 20 | 117 | | 117 |
| Private placement for employees | 1996 | 6 000 000 | 20 | 3 | | 120 |
| Share split | 1997 | 24 000 000 | 5 | | 01:04 | 120 |
| Issue | 1999 | 30 000 000 | 5 | 30 | | 150 |
| Share split | 2009 | 120 000 000 | 1.25 | | 01:04 | 150 |

**List of major shareholders as of 31 December 2015**

| Share owners | Number of shares | % share |
|---|---|---|
| The Norwegian State, represented by the Ministry of Trade, Industry and Fisheries | 60 001 600 | 50.00% |
| Arendals Fossekompani ASA | 9 552 796 | 7.96% |
| National Insurance Fund | 7 513 607 | 6.26% |
| MP Pensjon Pk | 4 540 048 | 3.78% |
| Odin Norden | 2 301 536 | 1.92% |
| Danske Invest Norske Instit. II. | 2 096 034 | 1.75% |
| Odin Norge | 1 680 646 | 1.40% |
| Swedbank Robur Smabolagsfond | 1 569 405 | 1.31% |
| State Street Bank and Trust Co. | 1 329 327 | 1.11% |
| HSBC Bank Plc | 1 215 001 | 1.01% |
| Danske Invest Norske Aksjer Inst | 1 144 269 | 0.95% |
| BNP Paribas Sec. Services S.C.A | 952 000 | 0.79% |
| **Total** | **93 896 269** | **78.25%** |
| Others (ownership share < 0.75%) | 26 103 731 | 21.75% |
| **Total number of shares** | **120 000 000** | **100.00%** |

**Shareholders listed according to holding size**

| Number of shares | Number of owners | Number of shares | Holding % |
|---|---|---|---|
| 1-1,000 | 6 344 | 1 700 034 | 1.42% |
| 1,001-10,000 | 1 801 | 4 836 308 | 4.03% |
| 10,001-100,000 | 161 | 4 669 876 | 3.89% |
| 100,001-1,000,000 | 55 | 15 849 513 | 13.21% |
| 1,000,001-10,000,000 | 10 | 32 942 669 | 27.45% |
| Over 10,000,000 | 1 | 60 001 600 | 50.00% |
| **Total** | **8 372** | **120 000 000** | **100.00%** |

Of the 8,372 shareholders at 31 December 2015, 1,017 were foreign, with a total holding of 13.96 per cent.

**Treasury shares**

As of 31 December 2015 KONGSBERG has a holding of 15,971 treasury shares. The shares have been purchased in accordance with the authority given at the annual general meeting and provides the opportunity to buy back of up to 5 per cent of the issued shares.

| | Number |
|---|---|
| Holding of treasury shares as of 31 December 2014 | 26 674 |
| Purchase of treasury shares | 590 535 |
| Treasury shares disposed of to employees | (601 238) |
| **Holding of treasury shares as of 31 December 2015** | **15 971** |

**Dividends**

| | 2015 | 2014 |
|---|---|---|
| Dividends paid in MNOK | 1 110[1) ] | 630 |
| Dividends paid in NOK per share | 9,25 | 5,25 |

1) Of which MNOK 2.66 paid on treasury shares.

The Board has proposed a dividend for the accounting year 2015 of MNOK 510. This is equivalent to NOK 4.25 per share.

## 23 Provisions

### Non-current provisions

| *MNOK* | *Sale and leaseback* | *Others* | *Total* |
|---|---|---|---|
| **31 December 2014** | **153** | **-** | **153** |
| Provisions used | (5) | - | (5) |
| Provisions made | 23 | 24 | 47 |
| Dissolved | (25) | - | (25) |
| Effect of discounting | (4) | - | (4) |
| **31 December 2015** | **142** | **24** | **166** |

### Current provisions

| *MNOK* | *Warranty provisions* | *Others* | *Total* |
|---|---|---|---|
| **31 December 2014** | **539** | **286** | **825** |
| Provisions used | (146) | (22) | (168) |
| Provisions made | 350 | 82 | 432 |
| Dissolved | (193) | (85) | (278) |
| **31 December 2015** | **550** | **261** | **811** |

**Non-current provisions**
KONGSBERG has in the period from 1999 to 2014 sold properties in the Kongsberg Technology Park. In connection with the sale and leaseback, please see Note 26 "Sales and leaseback", it was agreed that KONGSBERG guarantees for entry costs and for the maintenance of the buildings in the leaseback period. The current value of future warranty liability is allocated in the accounts. In addition, provision has been made for lack of rental. The remaining provision requirement will need to be assessed each quarter. The effects of discounting cost are transferred as financial expenses.

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

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

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

Moreover, in the financial year liabilities are dissolved amounting to MNOK 152 which have been classified in the statement of financial position as "Other current liabilities".

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

## 24 Other current liabilities

### Other current liabilities

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Accounts payable | 1 214 | 1 057 |
| Public charges owing | 324 | 303 |
| Calculated income tax payable | 21 | 29 |
| Holiday pay allocations | 444 | 423 |
| Accrued revenues | 221 | 82 |
| Prepayments by customers on sale of goods | 452 | 455 |
| Liabilities linked to the result-dependent part of salary | 26 | 128 |
| Other accruals | 1 151 | 1 472 |
| **Total** | **3 853** | **3 949** |

## 25 Assets pledged as collateral and guarantees

**Assets pledged as collateral**
The Groups loan agreements, both bond loan agreements and the agreement about the syndicated loan facilities are based on the negative collateral.

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

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Guarantees issued by banks and insurance companies | 2 796 | 3 109 |
| Guarantees issued by Kongsberg Gruppen ASA (parent company) | 5 395 | 5 560 |
| **Prepayments from and completion guarantees to customers** | **8 191** | **8 669** |

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

## 26 Sale and leaseback

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

In addition to lease payments, KONGSBERG is responsible for certain expenses related to taxes and maintenance of the properties. With the exception of the properties sold in 2007 and 2014, the properties are mainly leased to external tenants. The leases have durations ranging from three months to 15 years. The provisions related to the sales and leaseback agreements are discussed in Note 23 "Provisions".

| *Amounts in NOK million* | *Year of disposal* | *Annual lease payments 2016* | *Lease payments 2017 –2021* | *Lease payments later than 2021* | *Remaining term of lease* | *Lease payments sublease 2016* | *Weighted average subleasing period* |
|---|---|---|---|---|---|---|---|
| Agreement 1 – A total of 40,000 sq m industry/office | 2001 | 36 | 74 | - | 3 years | 39 | 2 years |
| Agreement 2 – A total of 6,000 sq m industry/office | 2002 | 7 | 11 | - | 1.5 years | 7 | 1.5 years |
| Agreement 3 – A total of 10,000 sq m industry/office | 2006 | 17 | 86 | - | 5.5 years | 20 | 4.5 years |
| Agreement 4 – A total of 40,000 sq m industry/office | 2007 | 59 | 317 | 206 | 9 years | 59 | 9 years |
| Agreement 5 – A total of 57,000 sq m parking/office | 2014 | 31 | 165 | 384 | 15 years | 31 | 13 years |
| **Total** | | **150** | **653** | **590** | | **156** | |

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

Agreement 5 was signed in connection with the completed property sale in 2014. The rental agreement consists of three buildings, of which two are parking garages, and the rent amounts are adjusted annually according to the consumer price index. The Group has the right to the extension of the rental periods for at least five years at a time at the existing conditions. Sub-letting agreements have been signed for the rental period to both external and internal corporate tenants.

See also Note 23 "Provisions".

## 27 Statement on remuneration of the Group CEO and Executive Management

**Statement on remuneration of the Group CEO and Executive Management**
The Board proposes that the guidelines described below are applied for 2016 and until the Annual General Meeting in 2017.

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

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

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

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

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

As of 13 February 2015, the Ministry of Trade, Industry and Fisheries (NFD) set new guidelines for salary and other remuneration of leading employees in enterprises and companies that are partly state-owned. These discuss important points from previous corresponding guidelines, including the long-term incentive (LTI) scheme, with particular emphasis on pensions, where the state does not wish to see pension earnings exceed a salary level of 12 National Insurance base points, 12G (currently approx. MNOK 1.1). The new guidelines were not, however, designed to be retroactive, i.e. agreements entered into before 13 February 2015 could be continued. Throughout 2015, the Board has implemented the government's new guidelines for leading employees.

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

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

*Fixed benefits in kind*
Leading employees will normally be assigned benefits in kind that are common for comparable positions, such as free telephone, free broadband connection, newspapers, company car/company car scheme and parking. There are no particular restrictions on the kind of benefits in kind that can be agreed.

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

The Group's collective main pension scheme is a defined contribution scheme. The contributions are 0 per cent of salary between 0G and 1G, 5 per cent of salary from 1G to 6G and 8 per cent of salary from 6G to 12G. The funds can be distributed optionally between three savings profiles, respectively with 30, 50 and 80 per cent shares. The scheme was introduced on 1 January 2008. Employees who were 52 years of age or older at the time of the conversion remained in a locked benefit scheme. Adjustment of the collective pension scheme will be considered in 2016 to better adapt to changes in the Norwegian National Insurance scheme.

Managers with a base salary exceeding 12G also earn pensions for that part of the salary that exceeds 12G through an operations-based contribution scheme. The contribution is 18 per cent of the part of the base salary that exceeds 12G, and the investment options are the same as those for the main scheme. This scheme was closed for new executive management in 2015 because of the aforementioned NFD guidelines.

A ceiling on pension-earning salary (maximum pension basis) of NOK 3,129,234 has been introduced (this excludes the CEO). The amount is adjusted for inflation in accordance with the consumer price index on 1 January each year. All members of executive management are members of the company's defined benefit scheme. The CEO has a separate agreement regarding retirement at the age 67, including the National Insurance pension (assuming full earning) and KONGSBERG's service pension that gives an overall payment of NOK 1,540,117, from the ages of 67 to 77 and NOK 1,283,431 from age 77 and the remaining lifetime. The pension is adjusted annually in line with pensions paid by the National Insurance scheme, i.e. currently in line with national wage growth minus 0.75 per cent.

KONGSBERG's scheme with early retirement agreements for executive management will not apply to managers who take up their positions after 1 October 2015.

The company has previously entered into early retirement agreements for some of its executives. The agreements have always been entered into in accordance with the current ownership reports from the state. There are currently various different schemes, depending on when they were signed. The newest agreements entail the opportunity for early retirement from the age of 65, but with reciprocal rights for employees in corporate management to request retirement from the age of 63. Benefits are equal to 65 per cent of the annual wage, based on a minimum of 15 contribution years. If the employee retires between the ages of 63 and 65, however, this will lead to reduced pension earnings in the defined contribution pension scheme, that will apply from the age of 67 years. These agreements apply to four members of corporate executive management. One of the corporate executive management members has an older agreement, active from the age of 60. Assuming at least a 10-year earning period, the benefit is 90 per cent of salary from the age of 60, reducing in 10 per cent steps per year to 60 per cent of salary from the ages of 63 to 67. Correspondingly, two executive vice presidents have agreements entitling them to retire from 62. Assuming at least a 15-years earning period, the benefit is 65 per cent of salary up to the age of 67. These older schemes were discontinued in 2006 and 2008, respectively. One of the corporate executive management members has, for the part of their salary that exceeds 12G, a contribution of 12 per cent of their salary. The CEO has an agreement about early retirement of NOK 1,796,803 per year from the ages of 65 to 67. The CEO and KONGSBERG can mutually require resignation with early retirement from the age of 63 or 64 years, and then with NOK 1,668,460 or NOK 1,732,632 per year, respectively, up to the age of 65. Early retirement pensions are regulated annually in line with pensions paid out from National Insurance. All figures apply as at 31 December 2015.

*Long-term incentives (LTI)*
From 2012 the Board introduced an LTI scheme in the form of remuneration of 25 per cent and 15-20 per cent of the annual base salary for the CEO and the remaining corporate executive management, respectively. The rationale for this scheme is to be competitive with comparable companies. In order for payment to be paid, KONGSBERG must have had positive operating results (EBIT) in the previous year. The participants in the scheme will be committed to invest the net amount after tax in KONGSBERG shares that are purchased in the market and are owned with held in periode of three years. Participants who leave the company of their own volition will, for shares that do not meet the three-year requirement, have to pay back an amount equal to the share value after tax at the time of resignation. The scheme does not earn pension points.

The scheme will be continued in 2016. The Board will make an evaluation and adjust the scheme, if necessary, within the NFD framework.

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

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

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

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

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

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

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

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

*Severance arrangements*
In order to safeguard KONGSBERG's requirement for ensuring at any time that the composition of its managers is in accordance with its business needs, agreements for severance arrangements can be, and have been entered into. Severance arrangements are designed to be acceptable both internally and externally, and agreements signed from 2011 are not entitled to severance payments whose value exceeds the equivalent of salary and benefits for more than six months. This scheme will continue in 2016. Before 2011, the scheme allowed for up to 12 months of severance pay. Such agreements have been entered into for directors in corporate executive management within the framework of the Working Environment Act. The CEO has an agreement that satisfies KONGSBERG's need to be able to ask the CEO to resign immediately if this is considered to be in KONGSBERG's interest. In addition to the mutual period of notice of six months, the CEO can maintain full salary until any taking up any new position, limited up to 12 months, and assuming that KONGSBERG has asked for the resignation.

**Report for the 2015 financial year**
The executive management salary policy has for the 2015 financial year, been conducted in accordance with the guidelines that were adopted by KONGSBERG's annual general meeting in 2015.

After the ordinary wage settlement on 1 July 2015 base salary of the CEO has been adjusted by 2.2 per cent to NOK 4,053,300 per year (3.0 per cent in 2014). For the other members of corporate executive management, the base salary has been adjusted upwards by an average of 2.1 per cent in 2015 (3 per cent in 2014). In addition, there is the performance-based part of the salary, as described above and as shown in note 28.

The corporate accounts for 2015 have calculated performance-based salaries for leading employees of MNOK 10, excluding social security tax, corresponding to 7 per cent of the total payroll for participants in the scheme (MNOK 24 in 2014, corresponding to 18 per cent). No agreements regarding remuneration were entered into or changed that would have any significant effects for KONGSBERG or its shareholders in the previous accounting year.

## 28 Compensation for Executive Management and the Board

**Compensation specified for members of Executive Management for 2015 and 2014 [1)]**

| *Amounts in NOK thousand* | *Year* | *Salaries including holiday pay* | *Other benefits recognised in financial year [2)]* | *Earned long-term incentive scheme (LTI)[3)]* | *Earned perfomance-based part of salary in the financial year[4)]* | *The year's pension accruals* | *Payment of long-term incentive scheme (LTI)[5)]* | *Amount out-standing loans* | *Shares acquired in financial year related to LTI-arrange-ment* | *Total number of shares including LTI as of 31 Dec* |
|---|---|---|---|---|---|---|---|---|---|---|
| Walter Qvam,<br>President and CEO | 2015 | 4 050 | 276 | 961 | - | 2 646 | 1 013 | - | 3 846 | 17 732 |
| | 2014 | 3 942 | 223 | 631 | 694 | 2 401 | 992 | - | 3 707 | 13 626 |
| Hans-Jørgen Wibstad,<br>Group EVP and Chief Financial Officer | 2015 | 2 437 | 256 | 346 | - | 598 | 363 | - | 1 380 | 5 453 |
| | 2014 | 2 362 | 209 | 227 | 240 | 601 | 356 | - | 1 330 | 3 813 |
| Even Aas,<br>Group EVP, Public Affairs | 2015 | 1 561 | 269 | 220 | - | 208 | 233 | - | 882 | 14 524 |
| | 2014 | 1 511 | 289 | 144 | 319 | 194 | 228 | - | 850 | 13 382 |
| Hege Skryseth,<br>Group EVP, Chief Administrative Officer | 2015 | 2 191 | 182 | 98 | - | 668 | 330 | 533 | 1 138 | 1 663 |
| | 2014 | 1 822 | 165 | - | 336 | 593 | 294 | 602 | - | 265 |
| Harald Aarø,<br>Group EVP, Business Development as of 11 August 2015 | 2015 | 746 | 59 | - | - | 165 | 71 | - | - | 525 |
| Egil Haugsdal,<br>Group EVP, Business Development until 10 August 2015, President Kongsberg Oil & Gas Technologies as of 11 August 2015 | 2015 | 2 402 | 391 | 377 | - | 741 | 358 | 515 | 1 362 | 15 076 |
| | 2014 | 2 332 | 359 | 260 | 518 | 708 | 351 | 579 | 1 313 | 13 454 |
| Geir Håøy,<br>President, Kongsberg Maritime | 2015 | 2 382 | 229 | 449 | 86 | 596 | 485 | - | 1 826 | 6 945 |
| | 2014 | 2 361 | 227 | 292 | 720 | 577 | 471 | - | 1 760 | 4 859 |
| Harald Ånnestad,<br>President, Kongsberg Defence Systems | 2015 | 2 339 | 338 | 445 | 663 | 834 | 474 | 230 | 1 784 | 9 838 |
| | 2014 | 2 291 | 315 | 291 | 810 | 790 | 460 | 293 | 1 720 | 7 794 |
| Espen Henriksen,<br>President, Kongsberg Protech Systems | 2015 | 2 113 | 301 | 272 | - | 466 | 422 | - | 1 606 | 4 815 |
| | 2014 | 2 053 | 273 | 134 | - | 449 | 414 | - | 1 548 | 2 949 |
| Pål Helsing,<br>President, Kongsberg Oil & Gas Technologies until 10 August 2015 | 2015 | 1 594 | 102 | 341 | - | 373 | 234 | 487 | 1 361 | 4 134 |
| | 2014 | 2 336 | 149 | 224 | - | 549 | 351 | 522 | 1 312 | 2 773 |

1) Compensation and other benefits to members of Executive Management are based on their time served as part of corporate management.
2) Benefits other than cash refers to expensed discounts on shares in connection with the share program for all employees, telephone/broadband, car arrangements and compensation for the taxable share of pensions and insurance, as well as other taxable benefits.
3) 2013 was the first year that the LTI was disbursed. Accrued LTI including tax compensation is accrued in the accounts on a linear basis over three years since the shares can be managed freely only after three years. A statement on the LTI scheme is provided in Note 27.
4) Earned performance-based part of salary in the accounting year accounted for 1/3 of the balance in the performance-based salary account, incl. holiday pay and is disbursed when the financial statements for the relevant year have been approved by the Board. A statement on performance-based pay is provided in Note 27.
5) LTI with tax compensation for disbursement the following year where the net amount will be invested in KONGSBERG shares. A statement on the LTI scheme is provided in Note 27.

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

| **The Board** *Amount in NOK* | *Year* | *Number of shares* | | *Fixed Board compensation* | *Compensation for committee meetings* | *Total Board compensation* | *Number of Board meetings*[1)] |
|---|---|---|---|---|---|---|---|
| Finn Jebsen, Chairman of the Board | 2015 | 20 000 | (through the company Fateburet AS) | 427 667 | 50 500 | 478 167 | 10 |
| | 2014 | 20 000 | (through the company Fateburet AS) | 414 000 | 19 000 | 433 000 | 10 |
| Anne-Lise Aukner, Member of the Board, Deputy Chair, left the Board on 7 May 2015 | 2015 | - | | 76 667 | 31 800 | 108 467 | 3 |
| | 2014 | - | | 227 333 | 53 000 | 280 333 | 9 |
| Roar Marthiniussen, Member of the Board | 2015 | 5 529 | | 215 167 | 44 500 | 259 667 | 10 |
| | 2014 | 5 269 | | 207 000 | 16 600 | 223 600 | 10 |
| Helge Lintvedt, Member of the Board | 2015 | - | | 215 167 | 48 000 | 263 167 | 10 |
| | 2014 | - | | 207 000 | 46 500 | 253 500 | 10 |
| Irene Waage Basili, Member of the Board, Deputy Chair from 7 May 2015 | 2015 | - | | 225 167 | - | 225 167 | 8 |
| | 2014 | - | | 207 000 | - | 207 000 | 10 |
| Roar Flåthen, Member of the Board, left the Board on 7 May 2015 | 2015 | - | | 69 833 | 8 600 | 78 433 | 2 |
| | 2014 | - | | 207 000 | 16 600 | 223 600 | 10 |
| Magnar Hovde, Member of the Board, left the Board on 7 May 2015 | 2015 | 340 | | 69 833 | - | 69 833 | 3 |
| | 2014 | 80 | | 207 000 | - | 207 000 | 10 |
| Morten Henriksen, Member of the Board | 2015 | - | | 215 167 | 54 500 | 269 667 | 10 |
| | 2014 | - | | 207 000 | 46 500 | 253 500 | 10 |
| Anne-Grete Strøm-Erichsen, Member of the Board from 7 May 2015 | 2015 | - | | 145 333 | 35 600 | 180 933 | 6 |
| Jarle Roth, Member of the Board from 7 May 2015 | 2015 | - | | 145 333 | 28 800 | 174 133 | 7 |
| Rune Sundt Larsen, Member of the Board from 7 May 2015 | 2015 | - | | 145 333 | - | 145 333 | 6 |
| **Total compensation to the Board** | 2015 | | | **1 950 667** | **302 300** | **2 252 967** | |
| **Total compensation to the Board** | 2014 | | | **1 883 333** | **198 200** | **2 081 533** | |

1) 10 board meetings were held in 2015 (10 board meetings in 2014)

## 29 Auditors' fees

| *NOK thousand* | 2015 *Parent company* | 2015 *Subsidiaries in Norway* | 2015 *Subsidiaries abroad* | *Total 2015* | 2014 *Parent company* | 2014 *Subsidiaries in Norway* | 2014 *Subsidiaries abroad* | *Total 2014* |
|---|---|---|---|---|---|---|---|---|
| *Group auditor EY* | | | | | | | | |
| Statutory audit | 886 | 5 659 | 2 730 | 9 275 | 860 | 6 351 | 2 383 | 9 594 |
| Other assurance services | - | 318 | - | 318 | 84 | 213 | - | 297 |
| Tax consultancy | 604 | 1 251 | 1 409 | 3 264 | 1 777 | 81 | 1 692 | 3 550 |
| Other services outside the audit | 1 174 | 2 512 | 138 | 3 824 | 3 799 | - | - | 3 799 |
| **Total fees, EY** | **2 664** | **9 740** | **4 277** | **16 681** | **6 520** | **6 645** | **4 075** | **17 240** |
| *Other auditors* | | | | | | | | |
| Estimated audit fees | - | 24 | 1 920 | 1 944 | - | 36 | 1 919 | 1 955 |

## 30 List of Group companies

The following companies have been consolidated:

| *Name of company* | *Country of origin* | *Ownership stake 31 Dec 15* | *Ownership stake 31 Dec 14* |
|---|---|---|---|
| Kongsberg Gruppen ASA | Norway | Parent | Parent |
| Kongsberg Defence & Aerospace AS | Norway | 100 | 100 |
| Kongsberg Spacetec AS | Norway | 100 | 100 |
| Kongsberg Norspace AS | Norway | 100 | 100 |
| Kongsberg Oil & Gas Technologies AS | Norway | 100 | 100 |
| Kongsberg Eiendom Holding AS | Norway | 100 | |
| Kongsberg Teknologipark AS | Norway | 100 | 100 |
| Kongsberg Næringseiendom AS | Norway | 100 | 100 |
| Kongsberg Næringsparkutvikling AS | Norway | 100 | 100 |
| Kongsberg Næringsbygg 2 AS | Norway | 100 | 100 |
| Kongsberg Næringsbygg 3 AS | Norway | 100 | 100 |
| Kongsberg Næringsbygg 5 AS | Norway | 100 | 100 |
| Kongsberg Næringsbygg 6 AS | Norway | 100 | 100 |
| Kongsberg Næringsbygg 10 AS | Norway | 100 | 100 |
| Kongsberg Næringsbygg 11 AS | Norway | 100 | 100 |
| Kongsberg Next AS | Norway | 100 | 100 |
| Kongsberg Renewables Technology AS | Norway | 100 | |
| Kongsberg Seatex AS | Norway | 100 | 100 |
| Vehicle Tracking and Information Systems AS | Norway | 100 | 100 |
| Nerion AS | Norway | 100 | 100 |
| Kongsberg Maritime AS | Norway | 100 | 100 |
| Kongsberg Norcontrol IT AS | Norway | 100 | 100 |
| Kongsberg Maritime Engineering AS | Norway | 100 | 100 |
| Portside AS | Norway | Merged | 100 |
| Kongsberg Evotec AS | Norway | 100 | 100 |
| Kongsberg Asia Pacific Ltd. | Norway | 100 | 100 |
| Kongsberg Nemo AS | Norway | Merged | 100 |
| Kongsberg NemoTech AS | Norway | 100 | 100 |
| Kongsberg Nemo AB | Sweden | 100 | 100 |
| Kongsberg Maritime Sweden AB | Sweden | Liquidated | 100 |
| Kongsberg Maritime S.R.L | Italy | 100 | 100 |
| Simrad S.R.L | Italy | 100 | 100 |
| Kongsberg Maritime Holland BV | The Netherlands | 100 | 100 |
| Kongsberg Maritime Poland Sp.z o.o. | Poland | 100 | 100 |
| Kongsberg Defence Sp.z o.o. | Poland | 100 | 100 |
| Simrad Spain S.L. | Spain | 100 | 100 |
| Kongsberg Defence Oy | Finland | 100 | 100 |
| Kongsberg Maritime GmbH | Germany | 100 | 100 |
| Kongsberg Maritime Embient GmbH | Germany | 100 | 100 |
| Kongsberg Maritime Contros GmbH | Germany | 100 | |
| Kongsberg Reinsurance Ltd. | Ireland | 100 | 100 |

| *Name of company* | *Country of origin* | *Ownership stake 31 Dec 15* | *Ownership stake 31 Dec 14* |
|---|---|---|---|
| Kongsberg Norcontrol IT Ltd. | The UK | 100 | 100 |
| Kongsberg Maritime Holding Ltd. | The UK | 100 | 100 |
| Kongsberg Maritime Ltd. | The UK | 100 | 100 |
| Kongsberg Oil & Gas Technologies Ltd. | The UK | 100 | 100 |
| Kongsberg GeoAcoustics Ltd. | The UK | 100 | 100 |
| Kongsberg Hungaria Kft. | Hungary | 100 | 100 |
| Kongsberg Maritime Hellas SA | Greece | 100 | 100 |
| Kongsberg Maritime Tech LLC | Russia | 100 | 100 |
| Kongsberg Gallium Ltd. | Canada | 100 | 100 |
| Kongsberg Maritime Simulation Ltd. | Canada | 100 | 100 |
| Kongsberg Maritime Ltd. | Canada | 100 | 100 |
| Kongsberg Mesotech Ltd. | Canada | 100 | 100 |
| Kongsberg Protech Systems Canada Corporation | Canada | 100 | 100 |
| Kongsberg Maritime Simulation Inc. | USA | 100 | 100 |
| Simrad North America Inc. | USA | 100 | 100 |
| Kongsberg Maritime Inc. | USA | 100 | 100 |
| Kongsberg Underwater Technology Inc. | USA | 100 | 100 |
| Kongsberg Protech Systems USA Corporation | USA | 100 | 100 |
| Kongsberg Gas Technologies Inc. | USA | 100 | 100 |
| Kongsberg Defense Systems Inc. | USA | 100 | 100 |
| Seaflex Riser Technology Inc. | USA | 100 | 100 |
| GlobalSim Inc. | USA | 100 | 100 |
| Hydroid Inc. | USA | 100 | 100 |
| Kongsberg Gallium Corporation | USA | 100 | 100 |
| Kongsberg Integrated Tactical Systems Inc. | USA | 100 | 100 |
| Kongsberg Maritime do Brasil S.A. | Brazil | 100 | 80 |
| Kongsberg Maritime Training do Brasil S.A. | Brazil | 100 | 100 |
| Kongsberg Oil & Gas Technologies do Brazil S.A. | Brazil | 100 | 100 |
| Kongsberg Maritime Mexico S.A. DE C.V. | Mexico | 100 | 100 |
| Kongsberg Defence Chile SpA | Chile | 100 | 100 |
| Kongsberg Asia Pacific Ltd. | Hong Kong | 100 | 100 |
| Kongsberg Maritime Hoi Tung Holding Ltd. | China | 90 | 90 |
| Kongsberg Maritime China Shanghai Ltd. | China | 100 | 100 |
| Kongsberg Maritime China Jiangsu Ltd. | China | 97 | 100 |
| Kongsberg Maritime Korea Ltd. | South Korea | 96.9 | 96.9 |

| *Name of company* | *Country of origin* | *Ownership stake 31 Dec 15* | *Ownership stake 31 Dec 14* |
|---|---|---|---|
| Kongsberg Norcontrol IT Pte. Ltd. | Singapore | 100 | 100 |
| Kongsberg Maritime Pte. Ltd. | Singapore | 100 | 100 |
| GeoAcoustics Asia Pacific Pte Ltd. | Singapore | 100 | 100 |
| Kongsberg Maritime India Pvt. Ltd. | India | 91 | 91 |
| Kongsberg Oil & Gas Technologies PVT Ltd. | India | 100 | 100 |
| Kongsberg Software & Services Pvt Ltd | India | 100 | 100 |
| Kongsberg Norcontrol Surveillance Pvt. Ltd. | India | 100 | 100 |
| Kongsberg Defence Ltd. Co. | Saudi Arabia | 100 | 100 |
| Kongsberg Maritime Middle East DMCCO | UAE | 70 | 70 |
| Kongsberg Protech Systems Australia Pty Ltd. | Australia | 100 | 100 |
| Kongsberg Oil & Gas Technologies Pty. Ltd. | Australia | 100 | 100 |
| Kongsberg Maritime Australia Pty Ltd. | Australia | 100 | 100 |
| Kongsberg Maritime Malaysia Sdn. Bhd. | Malaysia | 100 | 100 |

## 31 Shares in joint arrangements and associated companies

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

| *MNOK* | *Net holding 1 Jan 15* | *Dividends received* | *Profit/loss in the period*[2] | *Compre-hensive income in the period* | *Net holding 31 Dec 15* |
|---|---|---|---|---|---|
| Kongsberg Satellite Services AS [1] | 269 | (30) | 79 | (1) | 317 |
| Other | 44 | (3) | 8 | - | 49 |
| **Total** | **313** | **(33)** | **87** | **(1)** | **366** |

1) KONGSBERG owns 50 per cent of the company Kongsberg Satellite Services AS and has a corresponding proportion of right to vote.
2) The results from companies that are independent tax entities, such as private limited companies, are adopted after tax.

## 32 Transactions with related parties

**The Norwegian State as the largest owner**
The Norwgian State as represented by the Minstry of Trade, Industry and Fisheries is KONGSBERG's largest owner (50.001 per cent of the shares in Kongsberg Gruppen ASA). The State represented by the Ministry of Defence is an important customer for the Group. Sales to the Armed Forces are regulated by the EEA agreement and the Procurement Regulations for the Armed Forces, which guarantee equal treatment for all vendors. At 31 December 2015 KONGBERG had an outstanding balance from State-owned customers of MNOK 227, while other liability items in respect of state suppliers amounted to MNOK 7.

In 2015, KONGSBERG issued invoices to state customers for a total of MNOK 1,553. Goods and services purchased from state suppliers in 2015 amounted to MNOK 22.

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

**Other**
The CEO, Walter Qvam, is a Board member of Petroleum Geo-Services ASA (PGS). In 2015, KONGSBERG's sales to the PGS Group totalled MNOK 159. Accounts receivable towards the PGS Group amounted to MNOK 7 at 31 December 2015.

## 33 Contingent liabilities

**Charge in corruption case: Romania**

In February 2014, charges were brought against Kongsberg Gruppen ASA, Kongsberg Defence & Aerospace AS and an employee of Kongsberg Defence & Aerospace AS with allegations of serious corruption related to deliveries of communication equipment to Romania from 2003 to 2008. The investigation continued in 2015 and includes investigations outside Norway. KONGSBERG is collaborating with the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway (Økokrim) to clarify the circumstances in question. It must be expected that it will take some further time before the investigation is completed and the case can be closed.

KONGSBERG has zero-tolerance for corruption, and high ethical standards are an integrated part of the business. KONGSBERG has over several years established and further developed compliance guidelines and functions at group level and in the business areas. The current anti-corruption system is considered to be at a good international level, and has also been assessed by external parties to constitute a solid and robust system. Reference is also made to the section: "Risk factors and risk management" in the Director's Report.

Before the investigation is closed, it is difficult to predict what decision Økokrim will make concerning charges. It is also difficult to predict any other effects of the charges and the matters that they are based on. Accordingly, it is not possible to estimate any possible financial effects for KONGSBERG.

## 34 Events subsequent to the balance sheet date

**Establishment of Kongsberg Digital**

After the balance sheet date the Group decided to establish Kongsberg Digital, thereby taking an important step for development of the next generation of digitalised products and services. The company will be a leading industrial software community with about 450 employees from the existing software and simulation community at KOGT and KM. Kongsberg Digital already has a significant portfolio and revenue from advanced data, software and simulation products. In addition, Kongsberg Digital will have corporate responsibility for the development of the new digital solutions and associated technology alliances. The establishment will take place during spring 2016.

**KONGSBERG restructures and consolidate the Group's oil and gas-related businesses**

The Group's oil and gas related engineering services will be consolidated, strengthened and further developed with other oil and gas services in KM. KOGT's largest business unit, Software & Services, will be incorporated as an important part of Kongsberg Digital. As a result of the abovementioned, KOGT will no longer be a separate business area.

**KONGSBERG buys 49,9 per cent of Patria Oyj**

On March 17th 2016, KONGSBERG entered into an agreement with the Finnish state for the purchase of 49.9 per cent of the shares in Patria for EUR 272 million. Patria is Finland's leading defence supplier and also owns 50 per cent of the shares in the Norwegian company Nammo. The partnership will be a leading defence supplier in the Nordics, and a considerable supplier on the European defence market, with total gross revenues of NOK 13.4 billion in 2015.

Patria has approximately 2 800 employees and had revenues of EUR 428 million (NOK 3.8 billion) in 2015. The company is Finland's leading defence supplier, and has a broad and modern product portfolio. Patria and KONGSBERG have complementary systems and significant synergies within several areas.

The completion of the transaction is expected in the second quarter of 2016, and is subject to normal closing conditions e.g. approval from relevant authorities. The final purchase price plus settlement of interest and taxes at closing will be settled in cash, and financed by a bridge facility of 24 to 33 months.

# Income statement and balance sheet

Kongsberg Gruppen ASA

## Income statement 1 January–31 December

| *MNOK* | *Note* | *2015* | *2014* |
|---|---|---|---|
| Revenues | 9 | 232 | 203 |
| Profit on sale of property | | - | 58 |
| **Total revenues** | | **232** | **261** |
| Payroll expenses | 4, 5 | (85) | (137) |
| Depreciation | | (2) | (3) |
| Other operating expenses | 4 | (146) | (238) |
| **Total operating expenses** | | **(233)** | **(378)** |
| **Operating profit** | | **(1)** | **(117)** |
| | | | |
| Interest from group companies | | 80 | 79 |
| Impairment of shares | | - | (1) |
| Net gain on currency exchange | | 11 | 7 |
| Interest to group companies | | (71) | (89) |
| Other interest expenses | | (20) | (86) |
| Other financial income | | 45 | 101 |
| Other finance expenses | | (3) | (6) |
| Received group contribution | | 250 | 1 400 |
| **Net finance items** | | **292** | **1 405** |
| **Ordinary profit before tax (EBIT)** | | **291** | **1 288** |
| Income tax expense | 6 | (14) | 42 |
| **Profit for the year** | | **277** | **1 330** |
| | | | |
| *Allocations and equity transfers* | | | |
| Proposed dividend | | (510) | (1 110) |

## Balance sheet at 31 December

| *MNOK* | *Note* | *2015* | *2014* |
|---|---|---|---|
| **Assets** | | | |
| *Non-current assets* | | | |
| Deferred tax asset | 6 | 100 | 119 |
| Fixed assets | | 4 | 6 |
| Shares in subsidiaries | 3 | 2 245 | 2 215 |
| Other shares | | 121 | 99 |
| Long-term receivables from subsidiaries | 9 | 2 361 | 2 587 |
| Other long-term receivables | | 43 | 49 |
| **Total non-current assets** | | **4 874** | **5 075** |
| | | | |
| *Current assets* | | | |
| Receivables from subsidiaries | 9 | 381 | 1 469 |
| Other short-term receivables | | 25 | 44 |
| Cash and cash equivalents | 11 | - | 2 272 |
| **Total current assets** | | **406** | **3 785** |
| **Total assets** | | **5 280** | **8 860** |
| | | | |
| **Equity and liabilities** | | | |
| *Equity* | | | |
| Share capital | | 150 | 150 |
| **Total paid-in capital** | | **150** | **150** |
| Other equity | | 1 002 | 1 215 |
| **Total retained earnings** | | **1 002** | **1 215** |
| **Total equity** | 2 | **1 152** | **1 365** |
| | | | |
| *Non-current liabilities* | | | |
| Pension liabilities | 5 | 233 | 246 |
| Debt to credit institutions | 7 | 750 | 750 |
| Other non-current liabilities | | 13 | 111 |
| **Total non-current liabilities** | | **996** | **1 107** |
| | | | |
| *Current liabilities* | | | |
| Dividend | | 510 | 1 110 |
| Debt to credit institutions | 11 | 279 | - |
| Current liabilities to subsidiaries | 9 | 2 261 | 5 136 |
| Other current liabilities | | 82 | 142 |
| **Total current liabilities** | | **3 132** | **6 388** |
| **Total equity and liabilities** | | **5 280** | **8 860** |

# Statement of cash flows

## Kongsberg Gruppen ASA

| *MNOK* | *Note* | *2015* | *2014* |
|---|---|---|---|
| Profit before tax | | 291 | 1 288 |
| Profit from sale of shares | | - | (58) |
| Depreciation | | 2 | 3 |
| Impairment of financial assets | | - | 2 |
| Reversal of impairment of financial assets | | (22) | - |
| Changes in accruals, etc. | | (177) | 111 |
| **Net cash flows from operating activities** | | **94** | **1 346** |
| *Cash flow from investing activities* | | | |
| Sales of fixed assets | | 1 | - |
| Purchase of shares | | (30) | (47) |
| Net payments from sale of shares | | - | 264 |
| **Net cash flows used in investing activities** | | **(29)** | **217** |
| *Cash flow from financing activities* | | | |
| Repayment of previously impaired loans | | 2 | - |
| Payment of loans | | - | (500) |
| Dividends received | | 2 | - |
| Paid dividend | | (1 107) | (628) |
| Net disbursements for purchase/disposal of treasury shares | | (5) | (7) |
| Changes in intercompany balances | | (1 508) | 301 |
| **Net cash flows used in financing activities** | | **(2 616)** | **(834)** |
| **Net increase (reduction) in cash and cash equivalents** | | **(2 551)** | **729** |
| **Cash and cash equivalents at the beginning of the period** | | **2 272** | **1 543** |
| **Cash and cash equivalents at the end of the period (deducted from operating bank accounts)** | | **(279)** | **2 272** |

# Notes

Kongsberg Gruppen ASA

## 1 Accounting policies

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

### Subsidiaries and associated companies

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

### Classification and valuation of balance sheet items

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

### Recognition of income

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

### Hedging

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

### Receivables

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

### Foreign currency

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

### Short-term investments

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

### Pensions

*The defined contribution plan*

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

*The defined benefit plan*

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

### Income tax

The tax expense comprises tax payable and changes in deferred tax in the period. Deferred tax/tax assets are calculated at 25 per cent on all temporary differences between the book value and tax value of assets and liabilities, and loss carried forward at the end of the reporting period. Taxable and deductible temporary differences that reverse or may reverse in the same period are offset. Deferred tax assets are recognised when it is probable that the company will have adequate profit for tax purposes in subsequent periods to utilise the tax asset.

### Cash flow statement

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

## 2 Equity reconciliation

| *MNOK* | *Shares capital* | *Other equity* | *Total equity* |
|---|---|---|---|
| **Equity at 31 December 2013** | **150** | **1 005** | **1 155** |
| Profit for the year | - | 1 330 | 1 330 |
| Trading in treasury shares | - | 10 | 10 |
| Dividend for 2014 | - | (1 110) | (1 110) |
| Actuarial gain/loss on pension expense | - | (20) | (20) |
| **Equity at 31 December 2014** | **150** | **1 215** | **1 365** |
| Profit for the year | - | 277 | 277 |
| Trading in treasury shares | - | 7 | 7 |
| Dividend for 2015 | - | (510) | (510) |
| Actuarial gain/loss on pension expense | - | 13 | 13 |
| **Equity at 31 December 2015** | **150** | **1 002** | **1 152** |

Other information about the company's share capital is provided in Note 22 "Share capital" to the consolidated financial statements. The total number of treasury shares at 31 December 2015 is 15,971.

## 3 Shares in subsidiaries

| *MNOK* | *Acquisition time* | *Business office* | *Owner/vote share %* | *Capitalised value 31 Dec.* |
|---|---|---|---|---|
| Kongsberg Defence & Aerospace AS | 1997 | Kongsberg | 100 | 506 |
| Kongsberg Basetec AS | 1992 | Kongsberg | 100 | 106 |
| Kongsberg Maritime AS [1] | 1992 | Kongsberg | 89 | 1 102 |
| Kongsberg Eiendom Holding AS [3] | 2015 | Kongsberg | 100 | 497 |
| Kongsberg Next AS | 2014 | Kongsberg | 100 | 30 |
| Kongsberg Holding AS | 1987 | Kongsberg | 100 | - |
| Kongsberg Forsvar AS | 1995 | Kongsberg | 100 | - |
| Norsk Forsvarsteknologi AS | 1987 | Kongsberg | 100 | - |
| Nerion AS | 2002 | Trondheim | 100 | - |
| Kongsberg Hungaria Kft [2] | 2003 | Budapest | 10 | - |
| Kongsberg Reinsurance Ltd. | 2001 | Dublin | 100 | 4 |
| **Total** | | | | **2 245** |

1) The remaining shares in Kongsberg Maritime AS are owned by Kongsberg Basetec AS with 11 per cent.
2) The remaining shares in Kongsberg Hungaria Engineering Service Development and Trading LLC are owned by Kongsberg Defence & Aerospace AS with 90 per cent.
3) Kongsberg Eiendom Holding AS was established in 2015 and is a holding company for other property companies in the Group. As part of the restructuring the following companies were placed under Kongsberg Eiendom Holding AS: Kongsberg Teknologipark AS, Kongsberg Næringseiendom AS, Kongsberg Næringsparkutvikling AS, Kongsberg Næringsbygg 2 AS, Kongsberg Næringsbygg 3 AS, Kongsberg Næringsbygg 5 AS, Kongsberg Næringsbygg 6 AS, Kongsberg Næringsbygg 10 AS and Kongsberg Næringsbygg 11 AS.

## 4 Payroll expenses and auditor's fee

For salary and remuneration for executive management and board members, reference is made to Note 28 "Compensation for Executive Management and the Board" in the consolidated financial statements.

**Auditors' fees**

| *TNOK* | *2015* | *2014* |
|---|---|---|
| *Corporate auditor Ernst & Young:* | | |
| Statutory audit | 886 | 860 |
| Other assurance services | - | 84 |
| Tax consultancy | 604 | 3 799 |
| Other services outside the audit | 1 174 | 1 777 |
| **Total fees, Ernst & Young** | **2 664** | **6 520** |

**Payroll expenses**

| *MNOK* | *2015* | *2014* |
|---|---|---|
| Salaries | 85 | 80 |
| Social security expenses | 14 | 13 |
| Pension | 21 | 20 |
| Other benefits | (35) | 24 |
| **Total payroll expenses** | **85** | **137** |
| | | |
| Total man-labour years | 60 | 57 |

## 5 Pensions

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

**The defined contribution plan**
The company introduced a defined contribution pension plan for all employees under the age of 52 as of 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 1G 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 company also has a collective, unfunded contribution plan for salaries between 12G and 15G. The entity's deposits in this plan constitute 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 "Statement on the remuneration of the Group CEO and Executive Management". The supplementary plan has the same investment choices as the main plan. The contributions are expensed as incurred.

**The defined benefit plan**
In connection with the transition to the defined contribution plan on 1 January 2008, employees aged 52 or more remained in the defined benefit plan. The pension plan is insured through DNB Life Insurance. The pension benefits are defined by the number of contribution years and the salary level of the individual employee. Pension costs are distributed over the employee's accrual period. Given a calculated state pension based on the Norwegian National Insurance Scheme's rules before 1 January 2011 and full earning, the scheme provides approx. 65 per cent of the final salary including National Insurance benefits until the age of 77, after which the service pension section is reduced by 50 per cent for the remaining lifetime. The company also has a collective, unfunded contribution plan for salaries between 12G and 15G. The collective, unfunded benefits plan corresponds to about 60 per cent of the share of the basic wage that exceeds 12G until the age of 77. After this the benefit is reduced by 50 per cent for the remaining lifetime. Special terms and conditions apply for executives. This is described in Note 27 "Statement on the remuneration of the Group CEO and Executive Management". These supplementary plans were discontinued in connection with the transition to defined contribution pension plans.

**Risk coverage**
Disability pension from the Group shall give an addition to the expected disability pension from the National Insurance Plan so that total payment constitutes approximately 65 per cent of pensionable income at full accrual. An additional 10 per cent disability pension is paid for each child under the age of 21, up to maximum of 6 children. The payment depends on the extent of disability and the possibility for full coverage. From 1 January 2013 the risk pensions are unfunded for the share of the basic wage that exceeds 12G. In practice this implies that KONGSBERG is self-insurer for the risk pension for future periods. From 1 January 2016, the company has decided to terminate the paid-up policy accrual for disability pensions as part of the adaptation to the new regulations. The employees will be issued individual paid-up policies for the already earned paid-up policy rights. The new scheme will be one-year risk coverage and the premiums will be expensed as they accrue.

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

The company has decided not to continue the scheme with early retirement agreements for executives employed after 1 July 2013. This also applies to employees in certain key positions who previously were offered agreements on early retirement. These individuals will receive an additional contribution of 12 per cent of the basic salary in excess of 12G to the unfunded pension scheme, as long as they hold the post, but only until the age of 65 at the latest.

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

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

| | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Discount rate | 2.60% | 2.30% |
| Asset return | 2.60% | 2.30% |
| Wage adjustment | 1.75% | 2.00% |
| Pension base level (G) adjustment | 2.25% | 2.50% |
| Pension adjustment | 1.50% | 1.75% |
| Mortality | K 2013 | K 2013 |
| Disability | IR 73 | IR 73 |
| Voluntary turnover | 4.50% | 4.50% |

The year's pension costs were calculated as follows:

| *MNOK* | *2015* | *2014* |
|---|---|---|
| Present value of earned pensions | 10 | 7 |
| Interest cost on accrued pension liabilities | 3 | 4 |
| Estimated return on pension plan assets | (1) | (1) |
| Accrued social security expenses | 2 | 1 |
| Settlement of pension scheme [1] | (4) | - |
| **Total net pension cost for the year** | **10** | **11** |
| | | |
| **Defined contribution pension plan costs** | **11** | **9** |

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

The net pension liability appears as follows:

| *MNOK* | *2015* | *2014* |
|---|---|---|
| Total gross pension liabilities | (240) | (253) |
| Gross value of gross pension assets | 36 | 37 |
| **Net pension liabilities** | **(204)** | **(216)** |
| | | |
| Social security expenses | (29) | (30) |
| **Net pension liabilities in balance sheet** | **(233)** | **(246)** |

## 6 Income tax

**Tax expense**

| *MNOK* | *2015* | *2014* |
|---|---|---|
| Taxes payable | - | - |
| Change in deferred tax | 14 | (42) |
| **Tax income/expense** | **14** | **(42)** |

| *MNOK* | *2015* | *2014* |
|---|---|---|
| **Profit before tax** | **291** | **1 288** |
| Tax calculated – 27% of profit before tax | 79 | 348 |
| Group contribution without tax effect | (68) | (378) |
| Other permanent differences | (5) | (12) |
| Effect of reduced tax rate by 2 per cent | 8 | - |
| **Tax income/expense** | **14** | **(42)** |

**Deferred tax and deferred tax asset**

| *MNOK* | *2015* | *2014* |
|---|---|---|
| Pension | 58 | 66 |
| Unused tax losses | 38 | 65 |
| Other | 4 | (12) |
| **Recognised deferred tax asset** | **100** | **119** |
| Tax rate in Norway | 25% | 27% |

Change in deferred tax recognised directly in equity as follows:

| *MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Pensions | (4) | (7) |
| **Total** | **(4)** | **(7)** |

## 7 Long-term interest-bearing loans and credit facilities

At 31 December 2015, the Group had the following loans and credit facilities:

| *Amounts in MNOK* | *Due date* | *Nominal interest rate* | *Years to maturity* | *Nominal amount* | *Capitalised value* |
|---|---|---|---|---|---|
| Bond issue KOG 07 | 10 Sept 2019 | 4.80% | 3.7 | 250 | 250 |
| Bond issue KOG 06 | 10 Sept 2017 | 2.85% | 1.7 | 500 | 500 |
| **Total loans** | | | | **750** | **750** |
| Credit facility (unused borrowing limit) | 7 April 2019 | | | 1 500 | - |

Kongsberg Group ASA has a syndicated credit facility with Danske Bank, DNB, JP Morgan Chase, Nordea and SEB. The facility is for general business purposes. The facility has a term of five years with an option to extend for one year, twice. The interest rate is NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.5 per cent to 1 per cent. The credit facilities require that net interest-bearing debt shall not exceed three times the EBITDA, but can be up to 3.5 times the figure for three consecutive quarters at the most. The covenants in the loan agreements have been met. The loan facility was undrawn in 2015.

Kongsberg Group ASA had two bond loans at the end of 2015. The bond loans were issued in NOK and listed on the Oslo Stock Exchange. The interest is 3-month NIBOR + 1.8 per cent for loans with a nominal value of MNOK 500 and maturity in 2017, and a fixed interest rate of 4.8 per cent for the bond loan with a nominal value of MNOK 250 and maturity in 2019. The loans are capitalised at their amortised cost using the effective interest method.

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

## 8 Guarantees

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

In addition to lease payments, Kongsberg Gruppen ASA is responsible for certain expenses related to taxes and maintenance of the properties. With the exception of the properties sold in 2007 and 2014, the properties are mainly leased to external tenants. The leases have durations ranging from three months to 15 years. The obligations related to this responsibility for taxes and maitenance were in 2015 transferred to Kongsberg Næringsparkutvikling AS, but Kongsberg Gruppen ASA guarantees that the obligations are met. Further information on provisions related to these leases are given in Note 23 "Provisions" of the consolidated financial statements.

The parent company has guaranteed a lease amount related to sale and leaseback agreements of MNOK 1,393.

**Prepayment and completion guarantees**

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

| *MNOK* | *2015* | *2014* |
|---|---|---|
| Guarantees issued by banks and insurance companies | 2 796 | 3 109 |
| Guarantees issued by Kongsberg Gruppen ASA | 5 395 | 5 560 |
| **Prepayments from and completion guarantees to customers** | **8 191** | **8 669** |

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

## 9 Related parties

**Operating revenues**

| *MNOK* | *2015* | *2014* |
|---|---|---|
| Kongsberg Maritime AS | 111 | 97 |
| Kongsberg Oil & Gas Technologies AS | 9 | 15 |
| Kongsberg Defence & Aerospace AS | 77 | 78 |
| Other companies | 11 | 13 |
| Margins on guarantees and currency transactions [1)] | 24 | - |
| **Total operating income from related parties** | **232** | **203** |

1) Margins on guarantees and currency transactions amounted to MNOK 19 in 2014, and were classified under other operating costs.

Revenues, in addition to margin revenues, from related parties is mainly from billing of group management fees and insurance.

### Long-term receivables from related parties

| MNOK | 2015 | 2014 |
|---|---|---|
| Kongsberg Næringseiendom AS | 100 | 100 |
| Kongsberg Teknologipark AS | - | - |
| Kongsberg Næringsbygg 2 AS | 79 | 79 |
| Kongsberg Næringsbygg 3 AS | 103 | 103 |
| Kongsberg Norcontrol IT AS | 193 | 109 |
| Kongsberg Næringsbygg 5 AS | 48 | 48 |
| Kongsberg Næringsbygg 6 AS | 12 | 12 |
| Kongsberg Maritime Engineering AS | 126 | 35 |
| Kongsberg Oil & Gas Technologies AS | 463 | 777 |
| Kongsberg Evotec AS | 6 | 116 |
| Kongsberg Renewables Technology AS | 10 | - |
| Kongsberg Gallium Ltd | 20 | 34 |
| Kongsberg Protech Systems USA Corporation Inc. | 45 | 57 |
| Hydroid Inc | 569 | 568 |
| Kongsberg Maritime Holding Ltd | 56 | 50 |
| Kongsberg Oil & Gas Technologies Inc | - | 1 |
| Kongsberg Protech Systems Canada Corporation Inc | 51 | 122 |
| Kongsberg Maritime Hoi Tung Holding Ltd | 103 | 85 |
| Kongsberg Maritime Middle East DMCCO | - | - |
| Kongsberg Integrated Tactical Systems Inc (KITS) | 178 | 150 |
| Kongsberg Maritime Hellas AS | 1 | 3 |
| Kongsberg Nemotech AS | - | 22 |
| Kongsberg Maritime Mexico S.A.DE CV | 7 | 6 |
| Kongsberg Maritime do Brasil SA | 12 | 14 |
| Kongsberg Maritime Training do Brasil SA | 16 | 14 |
| Kongsberg Maritime Malaysia sdn. Bhd | 18 | 15 |
| Kongsberg Oil & Gas Technologies Ltd | 12 | 11 |
| Kongsberg Oil & Gas Technologies Pty Ltd | 23 | 13 |
| Kongsberg Norspace AS | 64 | 9 |
| Kongsberg Maritime Embient GmbH | 26 | 25 |
| Kongsberg Maritime Contros GmbH | 10 | - |
| Kongsberg Maritime Australia Pty Ltd | 3 | 3 |
| Other companies | 7 | 6 |
| **Total** | **2 361** | **2 587** |

### Short-term liabilities to related parties

| MNOK | 2015 | 2014 |
|---|---|---|
| Kongsberg Maritime AS | 10 | 832 |
| Kongsberg Seatex AS | 210 | 249 |
| Kongsberg Defence & Aerospace AS | 1 857 | 3 935 |
| Kongsberg Spacetec AS | 19 | 27 |
| Kongsberg Maritime Inc | 39 | 11 |
| Portside AS | 6 | 7 |
| Kongsberg Maritime Simulation Inc. | 13 | - |
| Global Sim Inc | 26 | 26 |
| Kongsberg Underwater Technology Inc | 18 | 15 |
| Kongsberg Reinsurance Ltd | 50 | 33 |
| Kongsberg Next AS | 10 | - |
| Other companies | 3 | 1 |
| **Total** | **2 261** | **5 136** |

### Short-term receivables from related parties

| MNOK | 2015 | 2014 |
|---|---|---|
| Kongsberg Maritime AS | 41 | 705 |
| Kongsberg Oil & Gas Technologies AS | 19 | 8 |
| Kongsberg Defence & Aerospace AS | 263 | 706 |
| Kongsberg Maritime Holding Ltd | 7 | 5 |
| Kongsberg Basetec AS | 40 | 40 |
| Others | 11 | 5 |
| **Total** | **381** | **1 469** |

## 10 Currency hedging

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

| 2015<br>*Amounts in mill.* | *Value in NOK based on the agreed rates 31 Dec 15* | *Fair value in NOK 31 Dec 15* | *Total hedged amount in USD 2015* | *Average hedged rate in USD 31 Dec 15* | *Total hedged amount in EUR 31 Dec 15* | *Average hedged rate in EUR 31 Dec 15* |
|---|---|---|---|---|---|---|
| *Cash flow hedges* | | | | | | |
| Forward exchange contracts | 8 545 | (1 138) | 987 | 7.70 | 105 | 9.23 |
| **Total cash flow hedges** | **8 545** | **(1 138)** | **987** | | **105** | |
| *Fair value hedges* | | | | | | |
| Forward exchange contracts | 10 471 | (1 643) | 1 038 | 7.49 | 106 | 9.04 |
| Loan hedges | 1 048 | (10) | 104 | 8.74 | 3 | 9.57 |
| **Total currency hedges** | **20 064** | **(2 791)** | **2 129** | | **214** | |

| 2014<br>*Amounts in mill.* | *Value in NOK based on the agreed rates 31 Dec 14* | *Fair value in NOK 31 Dec 14* | *Total hedged amount in USD 2014* | *Average hedged rate in USD 31 Dec 14* | *Total hedged amount in EUR 31 Dec 14* | *Average hedged rate in EUR 31 Dec 14* |
|---|---|---|---|---|---|---|
| *Cash flow hedges* | | | | | | |
| Forward exchange contracts | 9 240 | (1 031) | 1 125 | 6.61 | 142 | 8.56 |
| **Total cash flow hedges** | **9 240** | **(1 031)** | **1 125** | | **142** | |
| *Fair value hedges* | | | | | | |
| Forward exchange contracts | 10 532 | (1 492) | 1 399 | 6.37 | 192 | 8.71 |
| Loan hedges | 1 133 | (3) | 122 | 7.40 | 3 | 9.10 |
| **Total currency hedges** | **20 905** | **(2 526)** | **2 646** | | **337** | |

*Currency options*
As of 31 December 2015 Kongsberg Group ASA has currency options with a fair value of MNOK -13. The total hedged amount is MUSD 88.

**Currency hedges related parties**

*Subsidiaries*

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| *Amounts in mill.* | *Value in NOK based on the agreed rates 31 Dec 15* | *Fair value in NOK 31 Dec 15* | *Total hedged amount in USD 2015* | *Total hedged amount in EUR 31 Dec 15* | *Value in NOK based on the agreed rates 31 Dec 14* | *Fair value in NOK 31 Dec 14* | *Total hedged amount in USD 2014* | *Total hedged amount in EUR 31 Dec 14* |
| *Forward exchange contracts, cash flow hedging* | | | | | | | | |
| Kongsberg Maritime AS | 2 970 | (602) | 351 | 51 | 5 424 | (758) | 712 | 97 |
| Kongsberg Maritime Engineering AS | - | - | - | - | - | - | - | - |
| Kongsberg Oil & Gas Technologies AS | 61 | (28) | 10 | - | 184 | (27) | 29 | - |
| Kongsberg Defence & Aerospace AS | 5 214 | (500) | 591 | 54 | 3 359 | (206) | 348 | 40 |
| Kongsberg Norcontrol IT AS | 300 | (8) | 35 | - | 273 | (40) | 36 | 5 |
| **Total cash flow hedges** | **8 545** | **(1 138)** | **987** | **105** | **9 240** | **(1 031)** | **1 125** | **142** |
| *Forward exchange contracts, fair value hedges* | | | | | | | | |
| Kongsberg Maritime AS | 3 049 | (342) | 308 | 51 | 3 833 | (533) | 489 | 72 |
| Kongsberg Maritime Engineering AS | 314 | - | 19 | 10 | 81 | (12) | 14 | (2) |
| Kongsberg Oil & Gas Technologies AS | 64 | (9) | 6 | 2 | 86 | (10) | 12 | 1 |
| Kongsberg Defence & Aerospace AS | 6 041 | (1 264) | 694 | (11) | 4 950 | (793) | 689 | 13 |
| Kongsberg Spacetec AS | 69 | (3) | 4 | 4 | 51 | (3) | 2 | 4 |
| Kongsberg Norcontrol IT AS | 332 | (12) | 4 | 31 | 362 | (25) | 7 | 36 |
| Other companies | 602 | (13) | 3 | 19 | 216 | (14) | 102 | 22 |
| **Total fair value hedges** | **10 471** | **(1 643)** | **1 038** | **106** | **9 579** | **(1 390)** | **1 315** | **146** |
| **Total currency hedges** | **19 016** | **(2 781)** | **2 025** | **211** | **18 819** | **(2 421)** | **2 440** | **288** |

*Associated companies*

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| *Amounts in mill.* | *Value in NOK based on the agreed rates 31 Dec 15* | *Fair value in NOK 31 Dec 15* | *Total hedged amount in USD 2015* | *Total hedged amount in EUR 31 Dec 15* | *Value in NOK based on the agreed rates 31 Dec 14* | *Fair value in NOK 31 Dec 14* | *Total hedged amount in USD 2014* | *Total hedged amount in EUR 31 Dec 14* |
| *Forward exchange contracts, fair value hedges* | | | | | | | | |
| Kongsberg Satellite Services AS | 1 474 | (156) | 109 | 65 | 953 | (102) | 84 | 46 |

## 11 Cash and cash equivalents

| *Nominal amounts in MNOK* | *31 Dec 15* | *31 Dec 14* |
|---|---|---|
| Short-term money market investments | - | 2 116 |
| Bank deposits, operating accounts | - | 156 |
| Deductions from operating bank accounts | (279) | - |
| **Total** | **(279)** | **2 272** |

Bank guarantees amounting to MNOK 10 (MNOK 10 in 2014) have been furnished for funds related to withholding tax for employees.

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

# Statement from the Board

Kongsberg Gruppen ASA

We hereby confirm, to the best of our conviction, that the financial statements for 1 January to 31 December 2015 have been drawn up in compliance with recognised accounting standards, and that the information disclosed therein gives a true picture of the enterprise's and the Group's assets, liabilities, financial position and performance as a whole, and that the information disclosed in the Directors' report gives a true picture of the progress, profits and position of the enterprise and the Group, as well as a description of the most central risk and uncertainty factors facing them.

Kongsberg, 17 March 2016

**Finn Jebsen**, *Chairman*

**Irene Waage Basili,** *Deputy chairman*

**Morten Henriksen**, *Director*

**Jarle Roth**, *Director*

**Anne-Grete Strøm-Erichsen**, *Director*

**Rune Sundt Larsen,** *Director*

**Helge Lintvedt**, *Director*

**Roar Marthiniussen**, *Director*

**Walter Qvam**, *President and CEO*

# Auditor's Report

Building a better working world

Statsautoriserte revisorer
Ernst & Young AS

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

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00
Fax: +47 24 00 24 01

www.ey.no
Medlemmer av Den norske revisorforening

To the Annual Shareholders' Meeting of
Kongsberg Gruppen ASA

## AUDITOR'S REPORT

**Report on the financial statements**

We have audited the accompanying financial statements of Kongsberg Gruppen ASA, comprising the financial statements for the Parent Company and the Group. The financial statements of the Parent Company comprise the balance sheet as at 31 December 2015, the income statement 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 2015, the income statement, 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 financial statements of 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.

# Auditor's Report

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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 at 31 December 2015 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 at 31 December 2015 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 on the statements on corporate governance and corporate social responsibility*

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

*Opinion on registration and documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that 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, 17 March 2016
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

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

# CORPORATE GOVERNANCE

# The Board's report on Corporate Governance

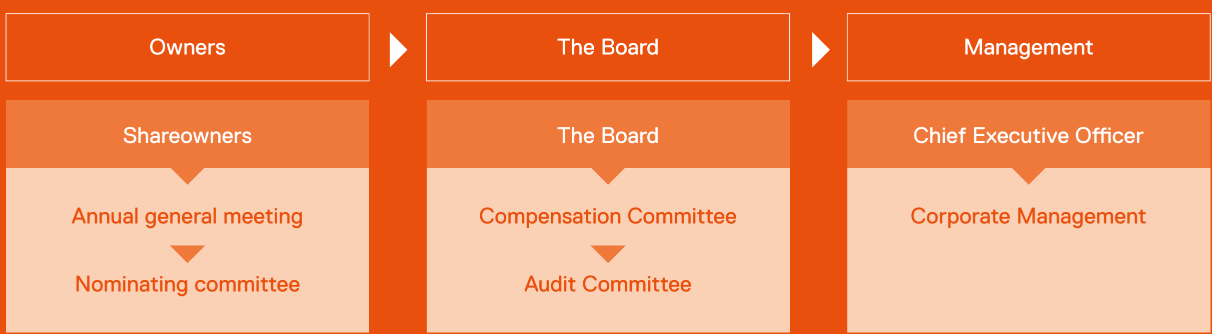
KONGSBERG's objective is to safeguard and enhance stakeholder value through profitable and growth-oriented industrial development in a long-term and international perspective.

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

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

**Treatment of the topic in 2015**
The topic of corporate governance is subject to annual evaluations and discussions by the corporate Board. Amongst other things, the Group's management documents are reviewed and revised annually.

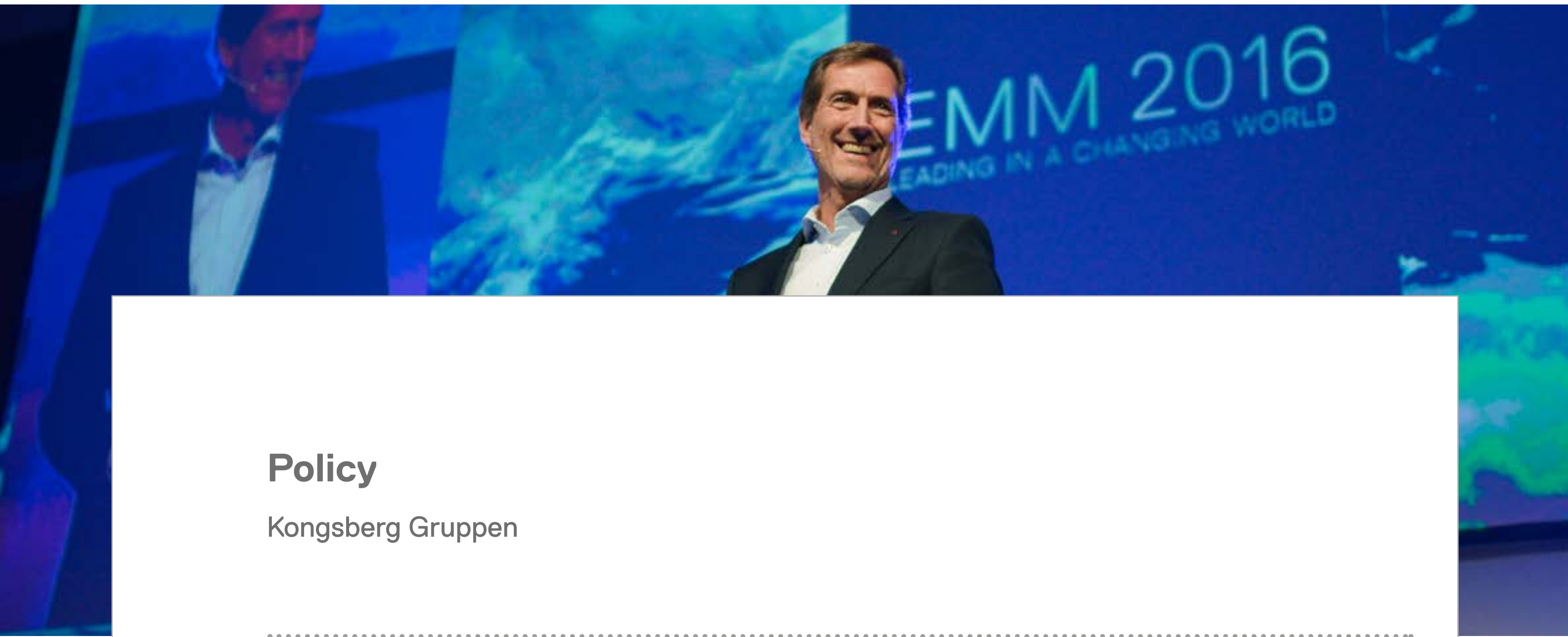
## KONGSBERG's model for Corporate Governance




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

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

Strategy and operational management.




# Policy

## Kongsberg Gruppen

KONGSBERG is subject to the reporting requirements regarding corporate governance pursuant to Section 3–3b of the Norwegian Accounting Act, as well as the "Norwegian Code of Practice for Corporate Governance"; cf. ongoing requirements for listed companies, item 7. The Norwegian Accounting Act is available on www.lovdata.no. "The Norwegian Code of Practice for Corporate Governance", most recently revised on 30 October 2014, is available at www.nues.no.

In compliance with Section 5-4 of the Public Limited Liability Companies Act, this report will be dealt with at KONGSBERG's Annual General Meeting on 9 May 2016. The Group's compliance with and any deviations from the recommendation will be commented on and made available to the Group's stakeholder.

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

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

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

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

# Articles of Association

## Kongsberg Gruppen ASA

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

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

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

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

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

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

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

§ 8 The Annual General Meeting shall:

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

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

§ 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, 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 Board's report on the Norwegian Code of Practice for Corporate Governance

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

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

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

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

prevailing instructions and guidelines for the bodies' and any committees' work": The section's item 8, "Composition and independence of the Board" and item 9, "The Board's work"

7. "articles of association that regulate the appointment and replacement of directors": The section's item 8, "Composition and independence of the Board"
8. "articles of association and authorisations that allow the Board to decide that the enterprise is to repurchase or issue the enterprise's own shares or equity certificates": The section's item 3, "Share capital and dividends"

**Deviations from the code of practice**

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

*Item 6 – General Meeting*

There are two deviations on this point. The entire Board has not usually attended the General Meeting. Thus far, the items on the agenda of the General Meeting have not required this. The Chair of the Board is always present to respond to any questions. Other Board members participate on an ad hoc basis. From the Group's perspective, this is considered to be sufficient.

The other departure refers to Article 8 of the Articles of Association, which specifies that the General Meetings are to be chaired by the Chair of the Board. If the Chair is absent, the General Meeting is chaired by the Board's Deputy Chair. In the absence of both, the chair shall be elected by the General Meeting. This is a departure from the recommendation regarding an independent chair. The arrangement has been adopted by the shareholders through a unanimous resolution of the General Meeting and has worked satisfactorily thus far.

## 1 Report on corporate governance

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

KONGSBERG actively strives to comply with international best practice standards when governance documents are drawn up, because the Group feels that there is a close correlation between high-quality systems of governance and value creation in the company.

The topic of corporate governance is subject to annual evaluation and discussion by the Board. The following report was carried at the Board meeting on 10 February 2016.

**Value platform**

The Group's vision is "World Class – through people, technology and dedication". The values that support this vision are: Determined, Innovative, Collaborative and Reliable. These values are important for developing a healthy, strong corporate culture and also form a platform for good corporate governance. Further information about the Group's values can be found on the Group's website at www.kongsberg.com and in the Group's Annual and Sustainability Report for 2015.

**Ethics and corporate social responsibility**

The Group's current ethical guidelines were approved by the Board in February 2015. They are based largely on international initiatives and guidelines related to social responsibility which the Group has endorsed, including the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the ILO Conventions. The guidelines include the topics of human rights, worker's rights, climate and environment, corruption, our relations with customers, supplier and market representatives, legal competence and confidentiality. They apply to the Group's directors, managers, employees, all contracted personnel, consultants, agents and lobbyists and others who act on behalf of KONGSBERG. See the detailed description in the Annual and Sustainability Report for 2015.

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

## 2 Operations

Kongsberg Gruppen ASA is a company whose 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-mentioned is stated in Section 3 of KONGSBERG's Articles of Association. The Articles of Association are available on the Group's website at www.kongsberg.com.

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

## 3 Share capital and dividends

**Equity**

At 31 December 2015, the Group's equity came to MNOK 6,127 (MNOK 6,282), which is equivalent to 32 (31) per cent of total assets. The Board considers this satisfactory. At any given time, the company's need for financial strength is considered in the light of its objectives, strategy and risk profile.

**Dividend policy**

The Board decided on a dividend policy that stipulates that dividends shall over time amount to between 40 and 50 per cent of the company's ordinary profit for the year after tax.

In determining the size of the dividends, account will be taken of expected future capital requirements. The dividend policy was made effective from the 2013 financial year.

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

A dividend of NOK 9.25 per share was paid for 2014, consisting of NOK 4.25 per share as ordinary dividend and NOK 5.00 per share as an extraordinary dividend. The Board proposes to the General Meeting a dividend for the accounting year 2015 of NOK 4.25 per share. The dividend represents 50 per cent of the ordinary annual results before impairment, and 68.2 per cent of ordinary results.

### Board authorisations

*Capital increase*

The Board has not been authorised to issue shares.

*Purchase of treasury shares*

The General Meeting can authorise the Board to acquire up to 10 per cent of its own shares.

At the Annual General Meeting on 7 May 2015, the Board was given authorisation to acquire treasury shares up to a value of MNOK 7.5. This is equivalent to five per cent of the share capital. The authorisation can be used several times and applies up until the next Annual General Meeting, but not later than 30 June 2016. The Board's acquisition of treasure shares pursuant to this authorisation can be exercised only between a minimum price of NOK 25 and a maximum NOK 300 per share. At 31 December 2015, the Group owned a total of 15,971 (26,674) treasury shares.

The shares were purchased for the employee share programme and in connection with the company's long-term incentive (LTI) arrangement, but can also be sold on the market. The shares included in the Group's employee share programme are offered to all employees at a discount (20 per cent), and they are subject to a one-year lock-in period from the date of acquisition. The LTI scheme is discussed in Note 27 and Item 12 of this report.

## 4 Equal treatment of shareholders and transactions between related parties

### Class of shares

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

### Trading in treasury shares

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

### Transactions with related parties

The Board is not aware of any transactions in 2015 between the company and shareholders, directors, executive personnel or parties closely related to such individuals that could be described as material transactions. If such a situation were to arise, the Board would ensure that an independent valuation is made by a third party. For further information, see Note 28 and Note 32 of the consolidated financial statements for 2015.

### Guidelines for directors and executives

The Corporate Code of Ethics discusses this topic under conflicts of interest under item 1.6. Similarly, this applies to Item 8 of the Board's instructions – Independence and disqualification. Here, it is emphasised that the Board shall act independently of special interests. Independence in this context is defined as follows:

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

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

### The Norwegian Government as customer and shareholder

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

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

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

## 5 Freely negotiable

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

## 6 General Meetings

Through the General Meeting, shareholders are ensured participation in the Group's supreme governing body. The Articles of Association are adopted by this body. Shareholders representing at least 5 per cent of the shares can call for an extraordinary general meeting.

### Notification

The Annual General Meeting is ordinarily held by 1 June each year. In 2016, the Annual General Meeting is scheduled to be held on 9 May.

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

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

### Registration and proxies

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

In 2015, the General Meeting was held on 7 May and 77.6 per cent (77.5) of the aggregate share capital was represented. A total of 99 (95) shareholders were present or represented by proxies.

### Agenda and execution

The agenda is set by the Board, and the main items are specified in Article 8 of the Articles of Association. The same article stipulates that the Chair of the Board will chair the General Meeting. The CEO and other members of the corporate management board review the status of the Group.

All shareholders are entitled to have their questions dealt with at the General Meeting. Questions shall be submitted in writing to the Board a minimum of seven days prior to the deadline for sending the notification of the General Meeting. The reason for wanting to have the question added to the agenda should also be specified. The minutes from the General Meeting will be posted on the Group's website at www.kongsberg.com.

## 7 Nominating committee

Article 9 of the Group's Articles of Association specifies that the Group shall have a Nominating Committee. The Committee's work is regulated by special instructions adopted by the General Meeting. These instructions were last revised by the Annual General Meeting on 11 May 2010. The Nominating Committee's main responsibility is to submit a roster of nominees to the General Meeting for the shareholder-elected members of the Board and their deputies. The nominations shall be reasoned and recommend a nominee for the Chair of the Board separately. In the work on finding candidates for the Board, the Committee is in contact with relevant shareholders, Board members and the CEO.

In addition, the Nominating Committee shall submit proposals for the remuneration of Board members and their deputies, and make an annual evaluation of the work of the Board.

The Nominating Committee consists of three members who shall be shareholders or representatives of shareholders. The General Meeting shall elect all members of the Nominating Committee, including the chair. The Nominating Committee itself proposes to the General Meeting a roster of nominees for the Committee. The period of service is two years, which means that elections will be held for the committee's members in 2016. 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 9 May 2014 and consists of:

- Alexandra Morris, Chief Investment Officer, DNB
- Morten S Bergesen, managing director of Havfonn AS
- Morten Strømgren, department director in the Ministry of Trade, Industry and Fisheries

Morris was elected chair of the Committee.

None of the Committee's members represents KONGSBERG's management or Board. The majority of the members are considered to be independent of daily management and Board. Morten S Bergesen is the managing director of Havfonn AS, which owns a 26.02 per cent share in Arendals Fossekompani ASA. Morten S Bergesen is also a Deputy Chair of the Board of Arendals Fossekompani ASA, where KONGSBERG's director Morten Henriksen has a leading position. 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 slip for nominating candidates for the Board and the deadlines are available on the Group's website at www.kongsberg.com.

## 8 Composition and independence of the Board

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

**Composition of the Board**

The Board consists of eight members and currently has the following composition: Finn Jebsen (Chair), Irene Waage Basili (Deputy Chair), Anne-Grete Strøm-Erichsen, Jarle Roth and Morten Henriksen. Helge Lintvedt, Roar Marthiniussen and Rune Sundt Larsen are members who were elected by, and from, the employees. Detailed information on the individual directors can be found on the website at www.kongsberg.com.

Participation in Board meetings and Board Committees in 2015:

| *Participation in meetings* | *Board meetings* | *Audit Committee* | *Remuneration committee* |
|---|---|---|---|
| Finn Jebsen | 10 | | 7 |
| Anne-Lise Aukner (left the Board in May 2015) | 3 | 3 | |
| Irene Waage Basili | 8 | | |
| Anne-Grete Strøm-Erichsen (new from May 2015) | 6 | | 4 |
| Jarle Roth (new from May 2015) | 7 | 3 | |
| Magnar Hovde (left the Board in May 2015) | 3 | | |
| Morten Henriksen | 10 | 6 | |
| Roar Flåthen (left the Board in May 2015) | 2 | | 1 |
| Helge Lintvedt | 10 | 6 | |
| Roar Marthiniussen | 10 | | 7 |
| Rune Sundt Larsen (new from May 2015, elected by the employees) | 6 | | |

It is important that the entire Board has the expertise required to deal with Board work and the Group's main business activities.

In addition, the directors need to have the capacity to carry out their duties. According to the Articles of Association, the Group shall have five to eight directors. The CEO is not a member of the Board.

The directors are elected for two-year terms and elect their own Chair. Finn Jebsen was elected Chair of the Board.

**The Board's independence**

All shareholder-elected directors are considered autonomous and independent of the Group's corporate executive management. The same applies relative to important business associates. Morten Henriksen has a leading position with Arendals Fossekompani ASA, which owned a 7.96 (7.96) per cent stake in Kongsberg Gruppen ASA at year-end.
The Board is favourable to long-term shareholders being represented on the Board. It is important that there be no conflicts of interest between owners, the Board, management and the Company's other stakeholders.

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

**Election of the Board**

The General Meeting elects the five shareholder-elected representatives to the Board. The Nominating Committee draws up a roster of shareholders' nominees for the Board prior to the election. The roster of nominees is sent to the shareholders along with the notification of the General Meeting. Decisions on the composition of the Board take place by simple majority. The government currently owns some 50 per cent of the shares, and could, in principle, control the election of the shareholder-elected directors.

Three of the directors are elected by, and from, the Group's employees.

The directors are elected for two-year terms and are eligible for re-election. No directors will be up for election in 2016.

**The directors' shareholdings**

At 31 December 2015, the shareholder-elected directors held the following portfolios of shares in the Group: Finn Jebsen, Chair of the Board, owns 20,000 (20,000) shares through his wholly-owned company Fateburet AS. The employee-elected directors had the following holdings of KONGSBERG shares at 31 December 2015: Roar Marthiniussen owned 5.529 (5,269) shares.

## 9 The Board's work

**The Board's responsibilities**

The Board bears the ultimate responsibility for managing the Group and for monitoring day-to-day administration and the Group's business activities. This means that the Board is responsible for establishing control systems and for 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 protects the interests of all shareholders, but it is also responsible for safeguarding the interests of the Group's other stakeholders.

The Board's main responsibilities are to contribute to corporate competitiveness, and to ensure that the Group develops and creates value. Further, the Board is to participate in the framing of and adopt the Group's strategy, exercising the requisite control functions and ensuring that the Group is managed and organised in a satisfactory manner. The Board sets the objectives for financial structure and adopts the Group's plans and budgets. The Board also handles items of major strategic or financial importance to the Group. In cases of a material nature in which the Chair and other Board members have been actively engaged, this will be disclosed in the proceedings and considered by the Board on a case-by-case basis. These tasks are not constant and the focus will depend on the Group's needs at any given time. The Board hires the CEO, defines his or her work instructions and authority, and sets his or her wages.

**Board instructions**

The Board's instructions are subject to review every second year by the Board and are revised as needed. The current instructions were presented to the Board in February 2015. The instructions cover the following items: the notification of Board meetings, notification deadlines, administrative preparations, Board meetings, Board decisions, the keeping of minutes, the Board's competency and items on the Board's agenda, segregation of duties between the Board and the CEO, relations between subsidiaries and the parent company, independence and disqualification, main principles for the work of the Board in connection with a possible corporate take-over, confidentiality and professional secrecy, relations to legislation, the Articles of Association and instructions.

The Board can decide to depart from the instructions in individual cases.

**Instructions for the CEO**

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

The CEO is responsible for the Group's operational management. The Board has prepared a separate instruction for the CEO. Instruction will be reviewed by the Board every other year and will be revised as required. The current instructions were presented to the Board in February 2015.

**Financial reporting**

The Board receives monthly financial reports and comments on the Group's economic and financial status. The reports are financial presentations that describe 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 hold meetings to review operating activities. The financial report forms the basis for internal control and communication on status and necessary measures. Quarterly financial reports are reviewed at Board meetings, and these form the basis for external financial reporting.

### Notice of meetings and discussion of items

The Board schedules regular Board meetings each year. Ordinarily, eight meetings are held each year. Additional meetings are held on an ad hoc basis. 10 (10) Board meetings were held in 2015. The Board meetings had 94 (99) per cent attendance in 2015.

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 Company's business plan, strategy and risk are regularly reviewed and evaluated by the Board. The directors are free to consult the Group's senior executives as needed. The Board draws up and adopts an annual plan, including set topics for the Board meetings. Ordinarily, the CEO proposes the agenda for each individual Board meeting. The final agenda is decided in consultation between the CEO and the Chair of the Board.

Besides the directors, Board meetings are attended by the CEO, CFO, other EVPs as needed, and the General Counsel (secretary of the Board). Other participants are called in on an ad hoc basis.

The Board adopts decisions of material importance to the Group. These include approval of the annual and quarterly accounts, strategies and strategic plans, the approval of significant investments, 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.

### Duty of confidentiality – 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 instructions to the Board.

### Expertise

The entire Board has completed a programme to gain insight into the Group's business activities. In that connection, the Board makes excursions to different Group locations. The purpose of the excursions is to improve the Board's insight into the commercial activities in the area.

### Disqualification

The Board is bound by the rules regarding disqualification as they appear in Section 6–27 of the Public Limited Companies Act and in the instructions to the Board. In 2015, no directors were recused due to disqualification.

### Use of Board Committees

The Board has two subcommittees, an Audit Committee and a Compensation Committee. Both committees prepare items for consideration by the Board. They are responsible only to the Board as a whole and their authority is limited to making recommendations to the Board. In addition, special committees are formed when needed, such as appointments committees.

### The Board's Audit Committee

The Audit Committee shall support the Board in its responsibilities related to financial reporting, audits, internal control and overall risk management. The Committee consists of two shareholder-elected directors and one employee-elected director. The Group's CFO and its elected accountant normally participate in the meetings. The CEO and the other directors are entitled to attend if they so desire. Six (seven) meetings were held in 2015.

Members: Morten Henriksen (chair), Jarle Roth and Helge Lintvedt. The terms of reference for the Audit Committee are published on the Group's website at www.kongsberg.com.

### The Board's Compensation Committee

The committee shall prepare issues for Board discussion related to remuneration, management development and diversity. This includes, among others, discussion of issues associated with the remuneration for the CEO, and questions of principle relating to salary levels, bonus systems, pension schemes/terms, employment contracts, etc. for leading employees. The committee also prepares issues regarding other conditions associated with remuneration that the committee will find is of particular significance to the company's competitive position, profile, recruitment ability, reputation, etc. In addition, the committee prepares for discussion of the Group's management development plans, performance reviews and succession plan for managers, with particular emphasis on ensuring diversity.

The Committee consists of the Chair of the Board, one shareholder-elected director and one employee-elected director. The CEO is entitled to participate in the Committee's meetings if he/she so desires, except when his/her own situation is under discussion. Seven (two) meetings were held in 2015.

Members: Finn Jebsen (chair), Anne-Grete Strøm-Erichsen and Roar Marthiniussen. The terms of reference for the Compensation Committee are published 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. The Board's evaluation is made available to the Nominating Committee. Individual performance interviews are conducted each year between the Chair of the Board and the other directors.

## 10 Risk management and internal control

### The Board's responsibilities and the purpose of internal control

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

The Group has established a decentralised management model featuring delegated responsibility for profits. As a result, the control function parallels the Group's management model, and it is the individual unit's responsibility to make sure that it has the capacity and expertise it requires to carry out responsible internal control.

A general 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 the directors.

In addition, quarterly financial reports are prepared for the financial market. 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 otherwise required.

### The Board's annual review and reporting

The annual review of the strategic plans of the Board forms the basis for the Board's discussions and decisions throughout the year. Reviewing the Group's risks is part of this annual review. In addition, quarterly reviews are made of the operative risks. HSE matters are reviewed by the Board on a quarterly basis.

The Board conducts an annual review of the Group's key governance documents to ensure that these are updated and cover the relevant topics. Risk assessment and the status of the Group's work on compliance and corporate social responsibility are reported to the Board annually.

The Group's financial position and risks are thoroughly described in the Directors' Report.

### Compliance with values, ethics and corporate social responsibilities

KONGSBERG emphasise that the values and Code of Ethics are to be an integral part of the operations. KONGSBERG expect the employees and partners to demonstrate high ethical standards and compliance with applicable rules and regulations.

In 2015, KONGSBERG continued the work on systematic development and follow-up of important areas for compliance with regulations, rules and internal guidelines. The Group has had a special focus on its anti-corruption programme, including training of managers and market representatives, and further development of the export control. In 2014, KONGSBERG evaluated its anti-corruption programme using external advisers. The evaluation showed that the Group has a satisfactory programme with regard to internationally recognised statutes and frameworks. Some areas were identified where the programme could be strengthened, and appropriate action for these has been implemented. The Group has compliance functions at both a corporate level and in the business areas. In the same way as the financial reporting, the internal control was established in accordance with a decentralised management model. The KONGSBERG compliance programme is coordinated and monitored from a corporate level.

Routines have been established for notification and follow-up on any alleged misconduct.

The Group has an Ethics Committee whose purpose is to promote high ethical standards and good behaviour, and to ensure that KONGSBERG maintains a good reputation.

## 11 Remuneration of the Board

The Annual General Meeting approves the remuneration paid to the Board each year. The proposal for remuneration is made by the chair of the Nominating Committee. From the annual general meeting in 2015 until the next annual general meeting, the total remuneration to the Board members will amount to NOK 1,973,000 (NOK 1,906,000).

The remuneration breaks down as follows:

- Board Chairperson NOK 432,000 (NOK 419,000)
- Deputy Chair NOK 233,000 (NOK 230,000)
- Other Board members NOK 218,000 (NOK 209,500).

In addition, the members of the Audit Committee receive NOK 9,600 (NOK 9,300) per meeting, and a maximum of NOK 48,000 (NOK 46,500) per year. The Committee's chair receives NOK 10,900 (NOK 10,600) per meeting, and a maximum of NOK 54,500 (NOK 53,000) per year. The members of the Compensation Committee receive NOK 8,900 (NOK 8,600) per meeting, and a maximum of NOK 44,500 (NOK 43,000) per year. The Committee's chair receives NOK 10,100 (NOK 9,800) per meeting, and a maximum of NOK 50,500 (NOK 49,000) per year.

The directors' fees are not contingent on financial performance, option programmes or the like. No remuneration has been paid allowance, apart from normal Board fees. None of the Board's shareholder-elected directors works for the company outside of their directorships, and no-one has any agreement regarding a pension plan or severance pay from the company.

## 12 Remuneration of executive management

### Guidelines

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

The structure of the incentive system for the other members of corporate executive management is determined by the Board and presented to the Annual General Meeting for information purposes. The terms are determined by the CEO in consultation with the Chair of the Board.

The Board's attitude to executive management's salaries is that they should be competitive and provide incentive, but not be at the very top end of the scale.

The incentive system consists of basic salary, bonuses, pensions, long-term incentive (LTI) schemes, severance arrangements and other benefits in kind.

The guidelines for determining salaries and other remuneration to executive management are presented to the General Meeting. The guidelines are binding for the LTI scheme and serve as guidelines for the rest.

### Performance-based compensation

In 2006, the Board introduced a new bonus system for executive management. Performance-based compensation is linked to the performance trend, profit margin and non-financial goals. The payment of performance-based salary has a ceiling of 50 per cent of the basic salary. A more detailed description of the arrangement is provided in Note 27 of the consolidated financial statements for 2015. The Group has approx. 90 (90) managers who are covered by an incentive plan that includes an element of individual performance.

### Long-term incentive (LTI)

The Board decided in 2012 to introduce a (LTI) scheme as part of the regular remuneration for the CEO and other members of corporate executive management. The remuneration constitutes 25 per cent of annual base salary for the CEO and 15–20 per cent for other members of corporate executive management. The rationale is to be competitive with comparable companies. A more detailed description of the arrangement is provided in Note 27 of the consolidated financial statements for 2015.

### Conditions

Remuneration to corporate executive management and the Board is described in Note 27 and Note 28 of the consolidated financial statements for 2015.

## 13 Information and communications

### Annual Report and accounts – interim reporting

The Group usually presents preliminary annual accounts in late February. "The Annual Report and Sustainability Report" are sent to shareholders and other stakeholders in March/April. Beyond this, the Group presents its accounts on a quarterly basis. Other information linked to sustainability and corporate social responsibility can be found on the Group's website. The Financial Calendar is published on the Group's website and in the Annual Report.

### Other market information

Open investor presentations are conducted in connection with the Group's annual and quarterly reports. 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 executive management from time to time. An annual Capital Markets Day will be held in which business area directors will participate.

The annual and quarterly reports are published on the Group's website at the same time as the presentation of the results. The annual and mid-year results are also presented through webcasts. Beyond this, the Group conducts an ongoing dialogue with and makes presentations to analysts and investors.

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

The Group has directives concerning communication with the investor market and handling of insider information. Special guidelines have also been drawn up for the Group's contact with shareholders outside the General Meeting. Emphasis is given to equal treatment of all shareholders.

## 14 Take-overs

There are no defence mechanisms against take-over bids in the Group's Articles of Association, nor have other measures been implemented to limit the opportunity to acquire shares in the company. The Norwegian government owns 50.001 per cent of the shares. The marketability of these shares is subject to parliamentary discretion. The Board's instructions contain an item that refers to the guiding principles for how the Board shall react in the event of any take-over bid. The Board is responsible for ensuring that KONGSBERG's shareholders are treated equally and that operations are not disrupted unnecessarily.

Where a bid is made for the company, the Board shall draw up a statement containing a well-grounded evaluation of the bid and, if need be, provide an independent third-party assessment.

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

If a bid is made for the Company's shares, the Company will not limit others from presenting similar bids for the Company's shares, unless this is clearly justified as being in the Company's and shareholders' common interest. In the event of a bid for the Company's shares, the Company will publish the required disclosures pursuant to legislation and regulations for companies listed on the Oslo Stock Exchange.

## 15 Auditor

### The auditor's relationship to the Board

The Group's auditor is elected by the General Meeting. A summary of the main aspects of the work planned by the auditor shall be presented to the Audit Committee once a year.

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

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

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

The auditor has presented a written declaration for the Board concerning the fulfilment of fixed independence requirements between the auditor and the Group pursuant to the Accountancy Act.

The Board has dealt with the guidelines for the business relationship between the auditor and the Group.

Ernst & Young AS is the Group auditor. Some smaller companies within the Group use other audit firms. In addition to ordinary auditing, the auditing company has provided consultancy services related to accounting. For further information, see Note 29 of the consolidated financial statements. At regular intervals, the Board evaluates whether the auditor exercises a satisfactory level of control and the auditor's competitiveness otherwise.

## 16 Management and internal routines

This point is not covered by the Code of Practice.

### Chief Executive Officer

The Board has adopted instructions for the CEO, cf. Item 9.

### Corporate executive management

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

Corporate executive management's main responsibility is the operational management of the Group, where KONGSBERG's overall situation is decisive for the decisions that are made. Corporate executive management's other responsibilities include strategic development of the Group, the evaluation and development of the Group's business areas, and issues of principle importance to the Group. Corporate executive management evaluates its own work and working methods annually.

The management team meets regularly and otherwise has regular contact on an operational basis. The management carries out monthly results and budget follow-ups with the profit centre units in the Group. The Group subscribes to the general principle of making binding commitments to agreed targets, so it practises a decentralised form of corporate governance that gives individual units considerable autonomy, accompanied by the responsibility that entails.

### Executive Steering Group (ESG)

In 2013, the Group established an Executive Steering Group (ESG) for each business area. The aim is to improve routines for decision-making and follow-up, among other things, by transferring several important decisions related to the individual business area to the relevant business area's ESG. The ESGs are chaired by the CEO. Other permanent members are the CFO and EVP Business Development and EVP staff. Participants in the ESGs include the head of the relevant business area as well as all or part of the business area's executive management.

### Intra-Group Boards

The Group's subsidiaries have their own Boards, which are comprised of internal managers and employees. The president of the holding company or a person authorised by the president will chair the Board of the subsidiary. Appointments of the Boards and the Board work in subsidiaries are handled pursuant to the Group's principles for good corporate governance.

### Guidelines for share trading

The company has stipulated in-house guidelines for trading in the company's shares. These guidelines are updated regularly to maintain compliance with the legislation and regulations that apply at any given time. The Group has in-house guidelines for primary insiders, which require internal clearance by the CEO before primary insiders can buy or sell KONGSBERG shares.


# SUSTAINABILITY

# About the Sustainability Report

*The purpose of this report is to give stakeholders who are affected by or interested in our activities information about KONGSBERG's approach to sustainability and corporate social responsibility.*

Kongsberg Gruppen (KONGSBERG) is an international technology corporation that supplies reliable, advanced technological solutions that improve the reliability, safety and efficiency of complex operations and under extreme conditions. KONGSBERG collaborates with global customers in the defence, maritime, oil and gas, and aerospace industries.

The report covers the period from 1 January 2015 to 31 December 2015, and addresses topics we feel are of importance to us and our stakeholders.

Any significant events from 1 January 2016 to 14 March 2016 will also be mentioned. All figures are related to the 2015 fiscal year.

**Changes in the reporting platform since the preceding report**

There were no major changes in the reporting platform from 2014 to 2015.

**Limitations of the report**

The report deals only with companies in which KONGSBERG owns 50 per cent or more. The environmental data includes all of our Norwegian units, as well as all our production units all over the world and the largest offices outside of Norway.

The information in the report is based on data obtained from different parts of the Group. Although importance is attached to ensuring that the data is complete and correct, some of the information will be based on estimates.

**Process to define the content**

The content of the report is largely defined based on what we have called 'Areas of Focus for 2014-2015'. The areas of focus are a response to a "materiality analysis" conducted in 2015. In addition, the areas of focus are derived from goals and lists of activities decided by executive management and, ultimately, by the corporate Board.

In this year's report, we have once again chosen to cite some examples of what we have called sustainable innovation. This is based on the 'perspective of opportunities' in the Group's Policy for Sustainability and Corporate Social Responsibility. The report is also formulated according to the principles in the Global Reporting Initiative (GRI) because we are affiliated with the UN Global Compact Initiative.

## Contents

# Framework for compiling the Sustainability Report

**White Paper No. 27 (2013-2014) – Diverse and value-creating ownership**
The Norwegian state owns 50.001 per cent of the shares in the company. The State's stake is managed by the Ministry of Trade and Fisheries. The process we have used to define the content of the report ensures that we are reporting in accordance with the expectations posed to us through the White Paper.

WE SUPPORT

**Global Compact**
The Group joined the UN Global Compact in 2006. Membership requires that we submit a report to the UN each year, describing our activities and the advances we have made in the field of sustainability. The Group's Sustainability Report serves as such a report – a COP (Communication on Progress). We would maintain that the report complies with Global Compact's criteria for 'Advanced Level'. For more details about the Global Compact, see their website at www.unglobalcompact.org

**Global Reporting Initiative (GRI)**
We use GRI's guidelines for voluntary reporting on sustainable development. The guidelines cover financial, environmental and social dimensions related to operations, and they are the leading global initiative in this field.

In 2013, GRI published a new version of its guidelines (GRI G4), calling for obligatory implementation as from the 2015 reporting year. As part of the transition to using GRI G4, a materiality analysis related to sustainability for KOG and our most important stakeholders was conducted in 2015. It is described in more detailed on the next two pages.

In our opinion, our reporting practice is generally compliant with GRI's reporting principles. GRI G4 uses a classification that indicates the extent to which a company applies GRI's definitions and disclosure requirements, Core or Comprehensive, respectively. KONGSBERG complies with the requirements for Core level.

The report's final pages contain a reference to the individual GRI indicators and where they are discussed in the report. For more details about GRI, see their website at www.globalreporting.org

**The Norwegian Accounting Act**
The Accounting Act requires large enterprises to report on their corporate social responsibility either in the Directors' Report or in a separate report. The report is to cover consideration for human rights, employee rights and social conditions, the outdoor environment and the programme to combat corruption.

Special regulations stipulate that reporting pursuant to the UN Global Compact or Global Reporting Initiative (GRI) can supersede the requirement for reporting in the Directors' Report.

It is our assessment that the Sustainability Report for 2015 is fully adequate and compliant with the requirements of the Norwegian Accounting Act.


**Board treatment**
The Group's Sustainability Report has in its entirety been reviewed and approved by Corporate Executive Management and the Board of Directors.

**External verification**
The report has been verified by a third party, the independent auditor Deloitte.
See the Auditor's Statement on page 157.

# KONGSBERG's materiality analysis 2015

KONGSBERG is reporting in accordance with the GRI Sustainability Reporting Guidelines. As from 2015, reporting must comply with version GRI G4.

One requirement for reporting under GRI G4 is that a materiality analysis must have been carried out to identify the most important sustainability topics for the Group and its main stakeholders. In turn, this should be reflected in the Sustainability Report.

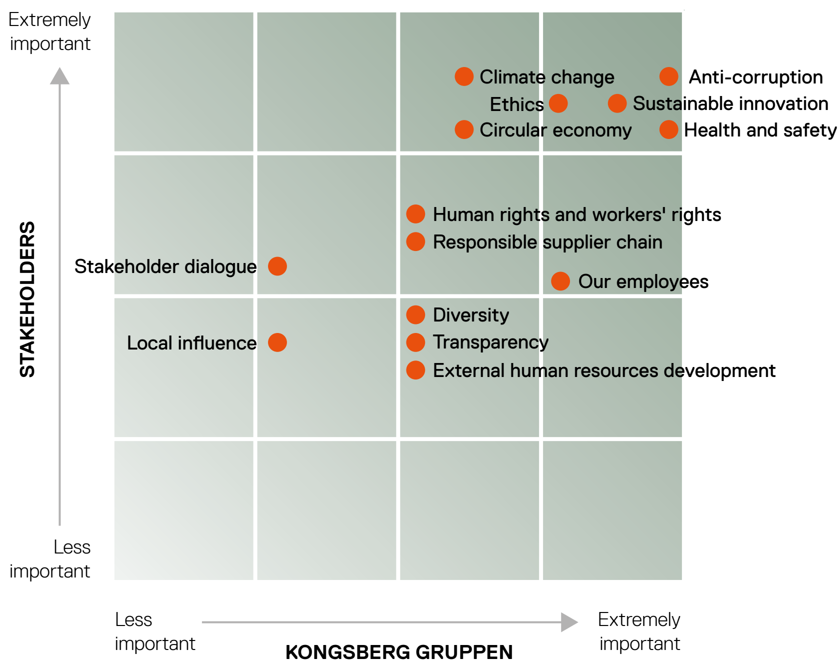
In 2015, we conducted such an analysis. The analysis was performed in two steps:

1. An internal analysis identifying what we believe are important sustainability topics for KONGSBERG. This included representatives of the business areas and the corporate experts in this area.
2. A corresponding analysis of what stakeholders maintain are important sustainability topics. The analysis was conducted based on some "one-to-one meetings", while others were analysed based on our knowledge of the stakeholders and information on their websites. The stakeholders included in the analysis were owners, customers, special interest/trade organisations and volunteer organisations.

The analysis indicates that the in-house assessments generally coincide with the emphasis attached by our stakeholders. However, the topics *climate* and the *circular economy* were deemed more important by our stakeholders than internally.

The next page describes how we define the various sustainability topics deemed most important, and we describe why they are important to us.

In addition to the topics mentioned above, a number of other topics are of importance to KONGSBERG, e.g. a healthy economy and value creation as the basis for the entire business, and the high quality of the products we deliver is also essential. The same applies to compliance with export regulations and IT security, to name just a few. These are central topics, but not in the context of sustainability and corporate social responsibility, so there is little mention of them in this report.



| | How we understand the concept | Why the topic is important to us |
|---|---|---|
| Anti-corruption | Corruption, bribes, facilitation payments, representation and gifts, follow up of market representatives, money laundering, etc. | Corruption is destructive for innovation, entrepreneurship, market mechanisms and financial stability, all of which are the very fabric of business and industry. In addition to serious penal sanctions and the loss of contracts, it can destroy reputations. |
| Sustainable innovation | The development of technology that helps us face the major global challenges, such as population growth, climate change, urbanisation and shortages of vital resources like minerals, water, food and energy. | The global challenges also create significant opportunities in new and existing markets. We have the expertise to make positive contributions to sustainable solutions in some of these areas. |
| Ethics | Ethics refers to our values, culture, and internal relations, e.g. human rights, the working environment, HSE, climate and the environment, etc. It also includes topics related to our external stakeholders. | Ethical behaviour is decisive for our long-term reputation and business operations. This is reflected in our corporate Code of Ethics which expresses our basic attitudes and indicates how we ought to show our respect for and relate to colleagues, customers and society-at-large. |
| Health and safety | Accidents, prevention, work-related illnesses, relations to third parties, business trips, etc. | KONGSBERG's co-workers are the Group's most important resource. We must give high priority to health and safety. |
| Climate change | Activities to reduce emissions of the greenhouse gas $CO_2$, related to energy use, flights, transport and in the supplier chain. | Our greatest contribution to the struggle against climate change is undoubtedly the development of products that enable our customers to reduce their emissions. That being said, we are also responsible for reducing our in-house emissions. |
| Circular economy | An economy that helps resources remain in the economy, even after a product is no longer used for its original purpose (as opposed to a more linear "disposable economy" that calls for resources that are unlimited and easily manageable as waste). | Efficient use of resources through reuse, recycling and a life-cycle mentality (energy, materials, water, etc.), are important in a financial sense and in the larger perspective with a view to shortages of essential resources. |
| Human rights and workers' rights | Child labour, rights for minorities, discrimination, conflict minerals, evaluation of possible violations of rights, the right to organise, working hours, a living wage, etc. | This is a moral and ethical obligation, and it is a matter of course that we comply with international guidelines on these topics, relative to our employees as well as our external stakeholders. |
| Responsible supplier chain | Covers areas anti-corruption, climate and the environment, human and workers' rights, health and safety, ethics, etc. | Systematic, good work with corporate social responsibility in the supplier chain is a moral imperative. Such work reduces risk and improves the quality of our procurement. |
| Our employees | Skills development, training, talent development, management, career development, job satisfaction, etc. | Our employees are of the utmost importance to KONGSBERG. We must give priority to human resources development. |
| Diversity | Age, gender, culture, etc. | Diversity opens up opportunities for a balanced approach to thinking and problem solving. We believe it leads to better solutions overall. |
| Stakeholders' dialogue | Systematic dialogue with stakeholders associated with the topic sustainability and corporate social responsibility. | Dialogue with stakeholders is considered profoundly important in the context of corporate social responsibility. It gives important information about expectations and opinions on how we run our businesses. |
| External competency building | Initiatives aimed at children, young people and students to motivate them to choose and complete educations in science and maths. | As a high-technology knowledge enterprise, we are dependent on being able to recruit employees with the right expertise. Scientific expertise is profoundly important to us. |
| Transparency | Transparent, responsible, correct information, country-to-country reporting. | Our stakeholders expect transparency from us regarding how we run our businesses. Transparency creates confidence, both internally and externally. |
| Local influence | Local jobs (direct and indirect), local procurements, infrastructure, investments and donations/sponsorship of local activities (culture, social objectives, etc.). | As an important player in many local communities, it is important for us to have a positive impact on the development of these communities. |

# CEO Walter Qvam

2015 has been yet another year with a high level of activity at KONGSBERG. We have managed to gain traction in new segments with our innovations, at the same time as we have had to adapt to a more challenging oil and gas market. After more than 200 years in operation, KONGSBERG is used to fluctuating markets and changes. We know that great changes invariably afford new opportunities for us, and we intend to take them. No matter what the Group's further trajectory, sustainability and corporate social responsibility will remain crucial topics for us.

KONGSBERG delivers solutions, products, services and systems to multiple industries and market segments. This leads to financial robustness and a valuable network of international customers. Although we are well diversified, the Group has a strong common core. Our business areas have many common denominators in respect of basic technology and expertise, shared fundamental values and common work processes. Large parts of our activities are related to ocean space. We have solutions and systems that can help solve the challenges of both today and tomorrow. We see that our opportunities to draw on expertise and technology across the Group are growing. We continue to engage in product development that costs the equivalent of about 10 per cent of our sales.

**Stronger international presence**

We have continued to expand our international presence, meaning more focus on corporate social responsibility, including anti-corruption, workers' rights, human rights, climate challenges and the follow up of a responsible and sustainable supply chain.

**Value platform**

The Group's value platform and the attitudes our values represent are the very essence of KONGSBERG's work with corporate social responsibility. An organisation characterised by wholesome attitudes promotes behaviour that means more than most regulations and procedures. In an ever more globalised competitive situation, where companies and products alike are becoming more and more similar, a strong and visible corporate culture is crucial for differentiation, market recognition and good relations with our customers and partners. Values are put on the agenda by our leaders and key personnel, and there is a genuine follow up of individuals' behaviour.

KONGSBERG's four values are:
*Determined, Innovative, Collaborative, Reliable*

Besides other specific activities associated with corporate social responsibility, like those described in this report, we work systematically to discuss and underpin the importance of our value platform in all parts of our organisation.

**Reliable (dependable, trustworthy)**

"Our customers and partners can count on KONGSBERG to deliver – always. Working with KONGSBERG means working with reliable individuals, a reliable enterprise and reliable products. KONGSBERG is a responsible organisation characterised by integrity and with respect for health, safety and the environment. We are reliable individuals. We are responsible members of society."

### The UN Global Compact Initiative

KONGSBERG joined the UN Global Compact in 2006. We have learned more about the topics covered by the initiative, both through direct contact and through national and Nordic networks. Each year, we draw up action plans for corporate social responsibility. The principles in Global Compact are the guiding principles for our plans. We will continue to support the important work done in association with the Global Compact.

### Sustainable innovation

Our ability to think new and innovate is essential if we are to continue this good corporate trend in the years ahead. As a technology enterprise, our most important contribution to the climate challenge and resource situation is to use our knowledge to develop products that can help address these challenges. This year's report discusses six examples of products we would describe as products of sustainable innovation.

### Areas of focus 2015

In 2015, KONGSBERG decided to focus on the following areas of corporate social responsibility:

*Strategy for sustainability*

It is just as important for us to have a strategy for sustainable development as for other important parts of the Group. The work to draw up the strategy began in 2015 and will conclude in H1 2016. The strategy will concentrate on sustainable business opportunities related to global megatrends and climatic change. Further, it will provide information about our in-house operations, including how we can make our buildings more climate-friendly and our procurements more sustainable, to name just a few areas.

*Anti-corruption*

KONGSBERG takes the prevention of corruption very seriously. KONGSBERG has zero tolerance for corruption among our employees, consultants and business associates. As an enterprise with significant international activities, KONGSBERG has implemented a comprehensive anti-corruption programme, and high ethical standards are an integral part of our business activities. In 2015, we continued the systematic efforts we have made in this area for many years, with particular focus on training management groups and courses in how to audit market representatives.

*Human Rights and Workers' Rights*

In 2015, for the first time, we made an annual evaluation of our businesses' possible breaches of human rights and workers' rights. The evaluation was based on our guidelines which are in turn based on the "UN Guiding Principles on Business and Human Rights". No serious breaches or shortcomings were revealed.

*Climate challenge*

Climatic change is the greatest threat facing the earth. This means that it is also the greatest threats facing the business community. We take that seriously. At the same time as this is a threat, it also represents opportunities for KONGSBERG. Technological solutions will be decisive for meeting this challenge. We are in the process of drawing up a Strategy for Sustainability where technological solutions to the global challenges will be at the forefront.

*Sustainability and corporate social responsibility in the supplier chain*

Our suppliers are important contributors to our value creation. Systematic efforts with corporate responsibility in the supplier chain reduce risk, and enhance the quality of the products we buy.

*Our employees*

It is important to us to attract us appropriate expertise, and to develop our employees at all levels of the organisation. We have numerous activities in this area, one of which is to enhance diversity by increasing the percentage of women in managerial positions.

### Charge, corruption case in Romania

In February 2014, charges were filed against Kongsberg Gruppen ASA, Kongsberg Defence & Aerospace AS and an individual employee, alleging corruption in conjunction with deliveries of communications equipment to Romania between 2003 and 2008.

KONGSBERG is cooperating closely with the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway to determine what actually happened, but it is expected that it will take time before the case is closed.

### Targets for 2016

In 2016, work on the Strategy for Sustainability will be a central task. Beyond this, we will generally continue to concentrate on the same areas of focus we worked on in 2015.

2016 will be yet another year characterised by opportunities and challenges for KONGSBERG. Through 2015, the Group has further reinforced our market-related, technological and financial positions, at the same time as we have to adapt both our business and capacity to a more difficult oil and gas market. We will actively continue our work with the further development of technology, products and systems that meet the extremely high standards posed by our customers. As an integral part of this work, we will continue our focus on sustainability and corporate social responsibility.

Walter Qvam

**Walter Qvam,**
*Chief Executive Officer*

# The World of KONGSBERG

## EUROPE

### Norway

- **Employees** 4,773 (4,770)
- **Number of suppliers**[1] 2,357 (3,117)
- **Added value**[2] MNOK 8,776 (MNOK 9,237)
- **Investments** MNOK 227 (MNOK 164)

**The Group's** head office is located in Kongsberg.
**Kongsberg Maritime** has operations for the development, production, testing, sales and service in Kongsberg, Horten, Skien, Ulsteinvik, Sandefjord and Trondheim.
**Kongsberg Oil & Gas Technologies** is located in Asker, Drammen, Horten, Kristiansand, Stavanger and Bergen. Operations there include sales, product development, project deliveries, service and production.
**Kongsberg Defence Systems** and **Kongsberg Protech Systems** account for the bulk of our defence activities, and most of their operations are in Kongsberg. We also have operations in Horten, Asker, Kjeller and Stjørdal. Operations include development, production, testing, sales and service.
KONGSBERG Spacetec and Kongsberg Satellite Services (of which we own 50 per cent) in Tromsø are both part of Kongsberg Defence Systems. Spacetec is a leading maker of ground stations for data from meteorological and earth observation satellites. Satellite Services has ground stations for downloading satellite data on Svalbard (Spitsbergen) and in Antarctica, as well as in South Africa, Dubai and Singapore, and on Mauritius.

### Great Britain

- **Employees** 215 (272)
- **Number of suppliers**[1] 185 (312)
- **Added value**[2] MNOK 610 (MNOK 639)
- **Investments** MNOK 21 (MNOK 17)

**Kongsberg Maritime**'s head office for offshore activities in Great Britain is located in Aberdeen, Scotland. We also have smaller offices in Wick, Scotland, and in Waterlooville and Great Yarmouth, England. Operations include product development, production, sales and support.
**Kongsberg Oil & Gas Technologies** has operations has operations for sales and project follow-up in Guildford, England and Aberdeen, Scotland.
**Kongsberg Defence Systems** has a sales and service office in Bristol through its subsidiary Kongsberg Norcontrol.

### Poland

- **Employees** 113 (144)
- **Number of suppliers**[1] 20 (18)
- **Added value**[2] MNOK 97 (MNOK 81)
- **Investments** MNOK 5 (MNOK 5)

**Kongsberg Maritime** has a company that is engaged in service and project support in Szczecin.
**Kongsberg Defence Systems'** subsidiary Kongsberg Defence Sp. Zo.o has a marketing office in Warsaw.

### Rest of Europe

- **Employees** 286 (206)
- **Number of suppliers**[11] 734 (688)
- **Added value**[2] MNOK 834 (MNOK 711)
- **Investments** MNOK 12 (MNOK 5)

The Group also has offices for sales, service and project support in Denmark, Finland, France, Greece, Italy, Ireland, the Netherlands, Russia, Spain, Sweden, Germany and Hungary.

1. Number of suppliers that invoiced KONGSBERG for more than NOK 50,000 in 2015. Certain suppliers have been counted two or more times if they are suppliers for two or more of our business areas. The figures do not include all suppliers dealt with directly by our international locations.
2. Added value shows the operating revenues generated in the legal units in the individual countries.

# ASIA

## China

- **Employees** 705 (683)
- **Number of suppliers**[1)] 196 (135)
- **Added value**[2)] MNOK 593 (MNOK 456)
- **Investments** MNOK 13 (MNOK 20)

**Kongsberg Maritime** has built up substantial operations in China. The business area operates as a local supplier to the Chinese shipyard industry, and currently has offices in Shanghai, Dalian, Guangzhou and Zhenjiang. In Zhenjiang, we have a production unit that includes electro-mechanical assembly lines for the manufacture of consoles, cabinets and sensors. We also have a CNC centre where we make mechanical components and do light engineering.

## India

- **Employees** 181 (223)
- **Number of suppliers**[1)] 10 (27)
- **Added value**[2)] MNOK 101 (MNOK 117)
- **Investments** MNOK 3 (MNOK 4)

**Kongsberg Maritime** has sales and service offices, software support and development activities in Mumbai. The business has grown in recent years. Increasing emphasis is being placed on maritime safety and on coastal and harbour vessel traffic monitoring in India.
**Kongsberg Oil & Gas Technologies** has operations in both Mumbai and Bangalore. The business in Mumbai offers sales support and project support. In Bangalore, the main responsibility is software development.
**Kongsberg Defence Systems** has a sales and service office in Ahmedabad through its subsidiary Kongsberg Norcontrol.

## Singapore

- **Employees** 222 (213)
- **Number of suppliers**[1)] 140 (131)
- **Added value**[2)] MNOK 1,179 (MNOK 1,007)
- **Investments** MNOK 2 (MNOK 6)

**Kongsberg Maritime** in Singapore has sales, installation, engineering, commissioning, service/support and training as its main duties. Singapore has one of the world's largest harbours and is a substantial shipping and shipyard nation.
**Kongsberg Defence Systems,** through the company Kongsberg Norcontrol IT, makes significant deliveries to Singapore's vessel traffic monitoring, and is also represented here.

## South Korea

- **Employees** 223 (231)
- **Number of suppliers**[1)] 110 (118)
- **Added value**[2)] MNOK 1,880 (MNOK 1,814)
- **Investments** MNOK 3 (MNOK 8)

**Kongsberg Maritime**'s main operations in South Korea are located in Jungkwan outside Busan. The main activities are sales, engineering, installation, commissioning and service/support, as well as local production. Moreover, we have offices in Gohyeon, Okpo, Ulsan, Jellanam-do and Gyeongsangnamdo. For years, we have been building up a local presence in the world's largest shipbuilding nation.
**Kongsberg Defence Systems** has a sales office in Seoul.

## United Arab Emirates

- **Employees** 43 (42)
- **Number of suppliers**[1)] 34 (35)
- **Added value**[2)] MNOK 144 (MNOK 93)
- **Investments** MNOK 1 (MNOK 1)

**Kongsberg Maritime** has a service office in Dubai.

## The rest of Asia

- **Employees** 6 (4)
- **Number of suppliers**[1)] 55 (52)
- **Added value**[2)] MNOK 40 (MNOK 17)
- **Investments** MNOK 0 (MNOK 0)

**Kongsberg Maritime** has set up a sales and service office for fisheries activities in Malaysia
**Kongsberg Defence Systems** has operations in the United Arab Emirates, Kuwait and Saudi Arabia. The main activities there are the operation and delivery of projects involving tactical radio and communications systems.
**Kongsberg Oil & Gas Technologies** has a sales and project office in Malaysia.

# NORTH AMERICA

## USA

| | |
|---|---|
| Employees | 626 (637) |
| Number of suppliers[1] | 476 (515) |
| Added value[2] | MNOK 2,044 (MNOK 1,863) |
| Investments | MNOK 61 (MNOK 94) |

**Kongsberg Maritime** has operations in Seattle (WA), Houston (TX), New Orleans (LA), Pocasset (MA), Salt Lake City (UT), West Mystic Groton (CT), Long Beach (CA) and Washington (VA). In Pocasset, operations include development, sales and support for autonomous underwater vehicles (AUV). The other units are mainly engaged in sales and customer support. The unit in Seattle is also engaged in technological development and the adaptation of existing products for the US market.
**Kongsberg Oil & Gas Technologies** has operations in Houston (TX) aimed at sales, support and project implementation.
**Kongsberg Defence Systems** has a marketing office in Alexandria (VA).
**Kongsberg Protech Systems** has a marketing office in Alexandria (VA). Johnstown (PA) is the site for the production and maintenance of the PROTECTOR weapon control system for the US market. The business area has a project office in Mount Arlington (NJ). In Bellport (NY), our subsidiary Kongsberg Integrated Tactical Systems (KITS) develops and manufactures parts and systems for infrastructure for military vehicles.

## Canada

| | |
|---|---|
| Employees | 146 (136) |
| Number of suppliers[1] | 42 (134) |
| Added value[2] | MNOK 392 (MNOK 319) |
| Investments | MNOK 9 (MNOK 2) |

**Kongsberg Maritime**'s largest operation in Canada is located in Vancouver. The company here is engaged in proprietary product development and production. The business in Vancouver is based on hydroacoustics-related technology, and is coordinated with Kongsberg Maritime's other subsea activities. The business area also has two sales and customer support locations on the east coast, in Nova Scotia and Newfoundland.
**Kongsberg Defence Systems** is represented by Gallium Visual Systems Inc. in Ottawa. The company is well-known for its map graphics tool for military command and control systems.
**Kongsberg Protech Systems** is located in London, Ontario. The plant was established to maintain and manufacture weapons systems for the Canadian market.

# CENTRAL AND SOUTH AMERICA AND ANTARCTICA

## Brazil

| |
|---|
| **Employees** 109 (12) |
| **Number of suppliers**[1] 55 (119) |
| **Added value**[2] MNOK 171 (MNOK 176) |
| **Investments** MNOK 5 (MNOK 8) |

**Kongsberg Maritime**'s business in Brazil comprises sales, service, engineering and the commissioning of systems for the merchant marine and offshore vessels, as well as user training. Business is booming on the oil fields outside Rio de Janeiro. The shipping industry has had formidable growth in tandem with the political and financial development in the country.
The training centre in Rio de Janeiro offers different training programmes for Brazilian crew members, including simulator practice. The unit also has an anchor handling simulator.
**Kongsberg Oil & Gas Technologies** has a sales and project office in Brazil.

## Mexico

| |
|---|
| **Employees** 27 (13) |
| **Number of suppliers**[1] 2 (9) |
| **Added value**[2] MNOK 53 (MNOK 35) |
| **Investments** MNOK 1 (MNOK 2) |

**Kongsberg Maritime** has set up a service office in Veracruz, Mexico.

## Rest of Central and South America

| |
|---|
| **Employees** 1 |
| **Number of suppliers**[1] 11 |
| **Added value**[2] MNOK 3 (MNOK 3) |
| **Investments** MNOK 0 (MNOK 0) |

**Kongsberg Maritime** opened a new service office in Panama in January 2016.

## Antarctica

**Kongsberg Defence Systems'** jointly- and equally-owned subsidiary Kongsberg Satellite Services has a ground station for satellite data on Antarctica.

## OCEANIA

### Australia

| | |
|---|---|
| Employees 12 (17) | |
| Number of suppliers[1] 30 (16) | |
| Added value[2] MNOK 115 (MNOK 45) | |
| Investments MNOK 0 (MNOK 1) | |

**Kongsberg Maritime** has sales and service activities in Perth.
**Kongsberg Oil & Gas Technologies** has a sales and project office in Perth.
**Kongsberg Protech Systems** has a marketing office in Adelaide.

## AFRICA

| | |
|---|---|
| Employees 0 (0) | |
| Number of suppliers[1] 16 (0) | |
| Added value[2] MNOK 0 (MNOK 0) | |
| Investments MNOK 0 (MNOK 0) | |

**Kongsberg Defence Systems** has offices for operations and the delivery of projects related to tactical radio and communications systems in Algiers, Algeria.

# Accountability

KONGSBERG has more than 200 years of tradition and history as a defence supplier and technology enterprise. Today, we are an important partner for customers in the defence, aerospace, maritime industries, oil and gas, fisheries and research industries.

### The defence industry

The Norwegian Armed Forces performs important tasks for society in times of peace, crisis, armed conflict and war. A modern total defence calls for state-of-the-art defence systems, and KONGSBERG's defence systems and products are an integral part of this. In 2015, defence operations accounted for 34 per cent of our sales. KONGSBERG's role as a supplier of defence products must be seen in the context of Norway's national security policy, and Norway's international obligations as a member of the UN and NATO. The Armed Forces and KONGSBERG cooperate closely to develop tailor-made systems to meet Norway's particular needs. KONGSBERG has also developed high-technology defence systems that are important in an international context. Our deliveries are subject to strict export rules in all the countries in which we operate. We are cognisant of the special responsibility that rests on us as a defence supplier.

### The export of defence materiel

Norway's rules for the export of defence materiel are among the most stringent in the world. The Norwegian parliament has resolved that defence products can only be sold to pre-approved countries. Transparency in respect of the export of defence materiel is an important principle in Norway. We consistently comply with the requirements posed by the Ministry of Foreign Affairs for the application process, reporting and statistics.

Export control implies that defence materiel, technology and services can only be exported with an export licence issued by the Ministry of Foreign Affairs. There are two reasons for controlling exports:

1. to ensure that the export of defence materiel from Norway takes place in compliance with Norwegian security and defence policy.
2. to ensure that the export of multi-purpose products does not contribute to the proliferation of weapons of mass destruction (nuclear, chemical and biological weapons).

Norway generally exports to allied forces. In 2014, 94 per cent of Norway's exports of Category A material and 95 per cent of the exports of Category B material went to NATO countries, Finland and Sweden. KONGSBERG has transparent cooperation with the Ministry of Foreign Affairs in connection with licence applications, and we have a comprehensive internal control and training systems in connection with our export activities.

KONGSBERG has partners, suppliers and customers in many countries. Consequently, we must also comply with other countries' export control regulations in connection with both re-exports from Norway and exports from the countries in which we operate.

### Oil, gas and the merchant marine

More than half of our Group is involved in the oil, gas and shipping industries. The global demand for energy and the need for transportation are growing, and although alternative energy carriers are rapidly moving into the market, oil and gas will continue to be the most important energy carriers for many years. KONGSBERG's systems and products are largely related to optimisation, safety, the operation and control of machinery, production processes and equipment. We supply systems and services that facilitate the effective use of resources, more efficient sailing routes and safer operation of complex vessels and installations. Thus, we help make improvements in industries that play a crucial part in future global development.

**What types of defence products does KONGSBERG sell?**
KONGSBERG does not manufacture the types of weapons that are blacklisted by ethical funds, e.g. cluster bombs, land mines, nuclear weapon, biological weapons or small firearms. Most of our defence businesses supply missiles, and systems for weapon command and control, decision-support and communications.

**Facts**
Category A materiel consists of weapons and ammunition.
Category B materiel comprises other military materiel.
Multi-purpose products are civilian products, technology and services with potential military applications.

# We encourage children and young people to choose science and maths

We believe that science is the key to solving some of the challenges facing the world. Consequently, we would like to motivate children and young people to see how useful physics, mathematics and science really are.

An interest in science usually starts in early childhood, so we support the Kongsberg Science Centre, which is open free of charge to daycare facilities and schools. Here, children are introduced to science and maths through play and experimentation. The offer also includes upper secondary schools. The Centre offers course modules in subjects such as energy, mechanics, mathematics, technology, animation and more.

We cooperate with a number of lower and upper secondary schools; we invite school classes to tour the company and we accept pupils for short-term internships.

We collaborate with colleges and universities in Norway, participate in career days, make company presentations, invite students to visit the companies and sponsor professorships and selected student projects when students would like to write their theses in collaboration with the Group.

In collaboration with other enterprises, the University College Southeast-Norway (Kongsberg campus) and the Norwegian Centre of Expertise, the Group has developed a master's degree programme in Systems Engineering. Under this programme, students have paid part-time positions at one of the enterprises. Along with other companies in Kongsberg, we offer a unique training programme for apprentices. Moreover, a special guild certificate in the subject of polymer composites has been established at the composite plant in Kongsberg.

High attrition is one of the challenges facing science and maths in Norway. In this context, KONGSBERG has voiced its support for a national technology campaign to strengthen the sciences and help retain engineering students. Summer jobs are an important part of this initiative. Each year, KONGSBERG accepts about 150 students for different departments and projects throughout the entire corporation.

Summer jobs are an important part of KONGSBERG's corporate social responsibility, recruitment and product development. We would like to help ensure that more engineering students get practical experience. For many, a summer job is the first step on the road to getting a permanent job at KONGSBERG.

Another important policy instrument in the national effort to promote technology is the student competition "Your Extreme". Here, in collaboration with Norwegian University of Science and Technology, KONGSBERG invites students to submit technological solutions to the challenges of tomorrow. This initiative is intended to motivate first and second year students to complete their two first years, since there are typically many dropouts during those years. See page 128.

The Kongsberg Science Centre introduces children to science and maths through play and experiments.

More than 150 students have summer jobs at KONGSBERG every year. Our goal is to strengthen the sciences and prevent attrition from engineering studies.

# Contributions to sports, culture and social causes

KONGSBERG contributes to value creation and economic development in local communities in which we operate. The Group is an integral part of these communities. This is because we take a genuine interest in our employees, and in supporting sports, culture and social causes. Here are a few examples.

**Brazil**
We provide support to the Bola pra Frente Institute, which offers poor children schooling and football training. The institute was founded in 2000 and since then, it has helped hundreds of children and young people to a better life. We are also part of the project "Dream Learn Work" that offers children from poor areas training and education that can help qualify them to work in the companies that take part in the project.

Additionally, support is given to the social project Karanba in Rio de Janeiro. Using football (soccer) as a tool, the project helps disadvantaged children from the slums with education, development and advancement. Today, Karanba organises more than 1 000 children and adolescents, boys and girls alike, from several different parts of Rio de Janeiro.

**India**
In India, we support AARAMBH, a charity that works in Navi Mumbai. The organisation is a service centre for the most disadvantaged families in the city's slums. In Bangalore, we sponsor an English teacher at the school Kanaka Vidya Mandir, and we help provide school uniforms and supplies for the pupils.

**Norway**
In Norway, we have concentrated our support on teams and associations in the local communities in which we are represented. Priority is given to sports and culture.

KONGSBERG is the main sponsor of the Gloger Festival and an annual sponsor of the Kongsberg Jazz Festival.

**Red Cross**
In 2015, KONGSBERG employees collected NOK 303,325 for the Red Cross. KONGSBERG matched that amount. The purpose was to support the work of the Red Cross with migrants and refugees in the Middle East and Europe.

In 2015, funds set aside for employee Christmas presents were donated in their entirety to the efforts of the Red Cross to help asylum-seekers.


Using football (soccer) as a tool, the project helps disadvantaged children from the slums with education, development and advancement.

KONGSBERG is the main sponsor of an annual classic music festival, the Gloger Festival in Kongsberg.

# Organisation and systems of governance

KONGSBERG's overall system of governance is closely linked to 'the Norwegian Code of Practice for Corporate Governance'. The following is an overview of systems of governance and organisation linked to sustainability and corporate social responsibility.

| | |
|---|---|
| Annual General Meeting (AGM) | The Annual General Meeting (AGM) is the Group's supreme governing body. Here, the shareholders can influence how sustainability and corporate social responsibility are practiced at KONGSBERG. |
| The Board of Directors | The corporate Board of Directors bears the ultimate responsibility for KONGSBERG's ethical behaviour and contribution to sustainable development. The Board adopts the Group's Code of Ethics and Policy for Sustainability and corporate social responsibility, and the Sustainability Report is reviewed and approved by the Board |
| Corporate management | Corporate Executive Management bears the ultimate responsibility for the Group's strategy, development and day-to-day work. The CEO is responsible for the content of the Group's Policy for Sustainability and Corporate Social Responsibility being followed up, complied with and integrated into the Group's ordinary strategic planning. |

| | |
|---|---|
| Business areas | The business areas are responsible for follow up and compliance with policy, targets and governance documents related to sustainability and corporate social responsibility. The practical aspects of the work are usually handled by the four business areas, with support from the Corporate Centre. |
| Ethics Council | The Group's Ethics Council is to help raise ethical awareness, ensuring good behaviour and KONGSBERG's good reputation. The Ethics Council's mandate is to deal with cases of a principle nature and questions about policies and provisions. The composition of the Ethics Council is subject to Board approval. |
| Forum for Sustainability and Corporate Social Responsibility | The Forum is a link between the business areas, Corporate Centre and Corporate Executive Management on questions related to sustainability and corporate social responsibility. Its main responsibility is to help promote, further develop and coordinate the Group's efforts in this field.<br><br>*Council for Climate and the Environment*<br>The Council is a link between the business areas, the Corporate Centre and Corporate Executive Management in respect of questions about climate and the environment. Its main responsibility is to help promote, further develop and coordinate the Group's efforts in this field.<br><br>*Council for Following Up CSR in the Supply Chain*<br>The Council is responsible for promoting and further developing the Group's work with corporate social responsibility in the supply chain, for ensuring coordinated skills upgrading, risk assessment and the coordination of audits. |
| Business Conduct Review Board | KONGSBERG has comprehensive guidelines for how we are to comport ourselves in business situations. The guidelines are adopted by the Board and the Business Conduct Review Board, which is the Group's compliance forum and bears the main responsibility for ensuring compliance. |

# Responsible taxation

KONGSBERG's international presence and the development of new markets mean that we must comply with a wide variety of tax legislation in many countries. In our opinion, a responsible approach to taxation is decisive for our long-term activities in the countries in which we operate.

This includes identifying and complying with current tax legislation, disclosing all the necessary information to the relevant authorities, and taking prudent tax positions where tax legislation allows different interpretations or choices. The commercial aspects of KONGSBERG's business activities are paramount, and all tax planning should be done with this in mind. A transaction shall only be made if it satisfies the requirements for form as well as content pursuant to the tax legislation of the countries in question. KONGSBERG employs no "artificial" structures in tax havens to avoid paying tax.

At the same time, KONGSBERG has a responsibility to its owners to optimise and manage the tax expenses ensuing from our business activities. Tax legislation may often be worded to stimulate a certain type of behaviour, e.g. to promote certain investments or create local jobs. In such situations, KONGSBERG can take advantage of the opportunities afforded by the rules for reducing its tax expenses.

KONGSBERG takes a transparent approach to taxation and our tax positions. Tax reporting complies with applicable local tax legislation, as well as with current reporting requirements and accounting standards such as IFRS.

# SUSTAINABLE INNOVATION


As a technology enterprise, our most important contribution to the climate challenge and resource situation is to use our knowledge to develop products that can help address these challenges. On the following pages, we discuss examples of products that exemplify sustainable innovation.

# Paving the way for climate technology

Technological advances and the prudent application of them are vital for carrying humanity forward and an important means of overcoming the global challenges we face.

Challenges related to climate change, population growth, resource utilisation, energy and the environment constitute serious threats to the Earth's population. Based on global megatrends, KONGSBERG has defined two areas for future growth and value creation: 'Ocean Space' and 'Smart Communities'.

Oceans cover roughly two-thirds of the Earth's surface and represent an enormous resource base. Norway's manufacturing industry is a world leader when it comes to technology related to Ocean Space. For generations, exploitation of the resources in the ocean and beneath the ocean floor has contributed to the development of affluence in Norway. Sustainable exploitation of new segments of ocean space will be decisive for meeting new challenges associated with food production, energy and the environment.

Pressures on urban areas will increase in tandem with global population growth. According to the UN, the world population residing in urban areas will increase from 54 per cent to 66 per cent by 2050. In 2045, more than six billion people may reside in cities. The sheer density of people will undoubtedly create challenges related to housing, infrastructure, transportation, energy and crime, to mention just a few.

At the same time, we see rapid technological progress, which we trust will solve many of the challenges facing the world today. Big Data, the Internet of Things, artificial intelligence, robotisation and 3D printing are examples of some areas of technology where tremendous advances are expected in the decades ahead. KONGSBERG will keep an alert eye on this trend and continue to develop sustainable technological solutions in collaboration with our customers.


## Sustainable fish farming

One of the assumptions underlying sustainable growth in the aquaculture industry is that one will get to use new areas with better biological conditions for the fish. The company Ocean Farming, a subsidiary of SalMar, has initiated a project for ocean-based fish farming based on experience and technology from offshore oil and gas activities.

With a diameter of 110 metres and a height of 67 metres, the cylindrical structure will accommodate more than eight times as many fish as today's conventional pens. Placing this innovative solution in harsher weather conditions will call for new technology and new solutions. KONGSBERG's extensive experience of maritime technology is an important contributor and supplier to what may become a paradigm shift in offshore fish farming. Ocean farming offshore installations will offer a number of environmental dividends. Sensor systems will provide continuous readings and information about the environment, and the sea lice problem is expected to be reduced significantly thanks to a constant current direction, fresh water and continuous cleaning of the mesh. Fish feeding will be more efficient due to underwater feeding combined with decision-support systems that will lead to less waste and prevent underfeeding. Moreover, the strain on the fish will be less inasmuch as the structure is not made with seine mesh, meaning that working conditions for those who service the facility will be far better than on today's pens.

According to plan, the first structures will be installed in 2017 out on the Frohavet Sea, west of North Trøndelag County.

## Technology for sustainable fisheries

In collaboration with the Institute of Marine Research, Kongsberg Maritime and Simrad have developed sonar technology that makes it possible to determine the size of a school of fish, what type of fish they are and the size of the fish. The technology helps make the fisheries more environment-friendly, sustainable and profitable.

Today's consumers want to know how fish are caught and where they come from. Trawling should not crush bottom-living fauna and bycatches must be released gently without harming the fish.

The fact that the size of a school can be estimated better than before means less danger of purse seines being ruined. Information about species and size will prevent time and fuel from being wasted on fish that have to be released.

Kongsberg Maritime and Simrad are part of the Centre for Research-Based Innovation in Sustainable Fish Capture and Processing Technology (CRISP). The Centre engages in research-driven innovation in sustainable capture, fish quality and fishery economy. The Centre's purpose is to boost value creation in the Norwegian seafood sector and mitigate environmental burdens relating to capture and production from wild fish stocks using smarter technology.

As part of the programme, an integrated system consisting of underwater video cameras, trawl sonars and echo sounders have also been developed to provide information to fishing vessels about what species of fish are caught, their size and how the trawl behaved.

Initially, Norwegian vessels will benefit from the newly developed technology, but eventually, it will make fisheries the world over more efficient, environment-friendly and sustainable.

Simrad has also developed a new autonomous echo sounder that can be positioned on the seabed for months and monitor life in the sea over time. The system uses broadband echo sounder technology to distinguish between plankton and different types of fish. The echo sounder has been developed in collaboration with US researchers to provide better input for setting sustainable catch quotas for the fisheries.



## More efficient windmills

In 2015, KONGSBERG launched its EmPower solution for windmills, and in June the same year, the first agreement was signed with a customer. The system has been installed at Arctic Wind's Havøygavlen Windmill Park in Finnmark County. Featuring a total of 16 wind turbines, the windmill park has been in operation since 2003.

KONGSBERG EmPower gives the status of each individual windmill, as well as the status and maintenance needs for everything from the individual windmill to an entire windmill farm. The system has been developed using KONGSBERG's leading global expertise in decision-support and sensor systems. By integrating both internal and external sources, as well as statistics and history, the system's user will be able to predict future energy production, plan maintenance and adjust production far more accurately than what has been possible previously. All this helps improve operations to ensure optimal energy production with minimal wear and tear on equipment. KONGSBERG EmPower is part of the newly established company Kongsberg Renewables Technology, which is working to develop products and solutions in the renewables segment. While Kongsberg Renewables Technology is currently involved in wind power through EmPower and other comparable solutions in wind energy, it also has ambitions related to other renewable energy sources, such as solar power and hydropower.


## Sensors and systems for integrated environmental monitoring

New, more demanding areas are being used for the production of natural resources, new transportation routes are being established at sea and our footprint on the environment is becoming increasingly more important. All of this calls for more stringent standards for sustainable solutions to monitor vulnerable areas in real time, adding to our knowledge of the environment.

Offering technologies stretching from the seabed to outer space, the technology enterprise KONGSBERG is in a unique position for providing integrated solutions for environmental monitoring. In recent years, KONGSBERG has carried out several major research and development programmes in environmental monitoring. Sensors and solutions that can help companies and research institutions use valuable instrumentation to collect, process and present environmental and climate data have become an ever-larger part of KONGSBERG's technology portfolio.

Two of these technological solutions refer to the ocean observatory "K-Lander" and the ground station services provided by Kongsberg Satellite Services (KSAT).

In summer 2015, the first two ocean observatories ordered by the Centre for Arctic Gas Hydrate, Environment and Climate (CAGE) were placed off Svalbard (Spitsbergen) to monitor overall emissions of methane from the sea floor to the atmosphere. This is the first time such measurements have been taken, and the data will be extremely important for understanding processes related to climate change. Measurement of these emissions requires instruments that are on the cutting edge of development; the ocean observatory K-Lander is self-contained and uses wireless technology to transmit data regularly.

In 2014, KONGSBERG concluded a contract with the European Space Agency (ESA) for Kongsberg Satellite Services (KSAT) to supply ground station services for the Sentinel satellites in ESA's Copernicus Programme. KSAT will be responsible for ensuring that all the data from the six Sentinel satellites are downloaded and transmitted to relevant European organisations. Data from this satellite are used in operative services for oil spills, ice and ship detection, offering an effective means of monitoring the High North.

## Europe's satellite programme for environmental monitoring and security

Copernicus is a comprehensive programme aimed at increasing our understanding of nature, climate and the environment. The programme has long been under development in cooperation with the European Space Agency (ESA), the EU Commission, the member states and the European Environmental Agency (EEA), among others.

Kongsberg Satellite Services (KSAT) is the main supplier of ground station services to the programme. KSAT will be responsible for ensuring that all the data from the six Sentinel satellites are downloaded and transmitted to relevant European organisations. In addition to KSAT, Kongsberg Spacetec has participated in deliveries to the ground segment for the first Copernicus satellites. Among other things, the satellites will be able to monitor vessel traffic, oil spills, vegetation, urban sprawl and ice caps. All these data will pave the way for a large number of new services that will add utility value to many areas of society in both Norway and abroad. Authorities will be provided with even more reliable information on which to base their decisions.

In the initial phase, the main focus of the Copernicus Programme has been on environmental and climate monitoring. However, Copernicus will also include the development of security applications.

## Reduced use of materials

A different production method for aircraft components made of titanium has reduced the need for raw materials by 341 kg per component. By challenging the design made by customer Lockheed Martin, KONGSBERG successfully introduced pre-forged titanium billets as the starting point for processing. Thus, substantially less titanium has to be purchased and machined off, without compromising on quality.

This results in net savings of 682 kg of titanium per F-35 aircraft. The production rate for the F-35 will soon reach 150 aircraft per year, resulting in annual savings of 102 metric tonnes of titanium thanks to the introduction of this change in the production method.

This initiative has brought the Aerostructures Division of Kongsberg Defence Systems and KONGSBERG a great deal of favourable attention from the customer, and it has been mentioned in several contexts at the highest level as a textbook example of cost-cutting initiatives in the F-35 programme.

The Aerostructures Division has been in charge of design and project implementation in collaboration with the German supplier Otto Fuchs.

Thus far, KONGSBERG's deliveries to the F-35 programme have comprised aircraft components made of composite and titanium.



## Blue sea – Green future

Transportation accounts for a considerable percentage of the climate challenges facing the world. Even though shipping is more climate- and environment-friendly than many other alternatives, this transport sector still has significant potential for reducing its climate footprint.

KONGSBERG works systematically to develop ever greener technological solutions for our customers, so that their ships, rigs and other vessels can become even more efficient, and thereby more environment-friendly. Greener solutions are also more cost-efficient, so this type of solutions is a win-win situation for our customers and the environment.

Many vessels currently have substantial excess capacity, resulting in poor combustion and higher emissions. KONGSBERG is developing hybrid solutions for vessels that use batteries to take the peaks off energy production and optimise the system.

Down time for vessels can translate into formidable expenses. Today, service engineers often have to make repair calls in the field. KONGSBERG has developed K-IMS, Kongsberg Information Management System, a solution that affords the operator of the vessel a complete overview of the various data and the sensing units on board. By monitoring energy use and other operating data, the individual vessel or a whole fleet of vessels can optimise operations and reduce their climate footprint. In addition, K-IMS allows operators to remotely access our 24/7 service centre to perform diagnoses and many repairs, and to get recommendations from their control room onshore. Thus down time is minimised at the same time as the need for travel to perform repairs is reduced significantly.

Using our data and systems, we help our customers optimise routes for individual vessels as well as for entire fleets. Route optimisation and route planning to arrive at destinations on schedule will help reduce unnecessary operations and energy consumption.

These are just a few examples of the technologies found in KONGSBERG's portfolio of green solutions for vessels, and new solutions are being developed continuously to determine how the seas can be used in even greener ways in future.

# Challenging students

YOUR EXTREME

**Your Extreme is an annual student competition open to all NTNU students. This year's assignment was to resolve challenges related to the first combined land- and sea-based city.**

The year is 2050 and 20 per cent of Trondheim's residents live in the Midfjord Complex, located out in the fjord that is self-sufficient in terms of food and energy. The students were invited to solve a number of problems and challenges related to this.

"Energy and food are two of the greatest challenges facing a world that has to deal with population growth, expectations of a higher standard of living and climate change. We wanted to see if the students had ideas about how these challenges could be solved in an 'autonomous', self-sufficient community. The solution was to be based on what they themselves know about what possibilities we have if we build further on today's known technologies", explains Sverre Gotaas, director of Innovation at the Kongsberg Group and jury member.

## Time pressure

Once the assignment is announced, the teams have a mere 48 hours before they have to submit their answers. Altogether, 97 responses were submitted to the jury, which consisted of the CEO of KONGSBERG, the rector of the Norwegian University of Science and Technology, the Executive Director of the Norwegian Defence Research Establishment, the vice president of Innovation at KONGSBERG and the editor of the technical journal *Teknisk Ukeblad.*

"Those of us serving on the jury were impressed by the vast array of good ideas the students came up with in just 48 hours. Some of the responses show that the groups must have worked intensely and contacted numerous sources to corroborate their solutions", says Sverre Gotaas.

## Demanding job

Three teams were selected to win the Grand Prize, the Prize for Innovation and the Prize for Sustainability. The winners won NOK 30,000 per team member, visits to Kongsberg and Horten, and the opportunity to demonstrate their winning entries at KONGSBERG's executive management meeting.

"We were looking for responses that stood out in terms of innovation, thoroughness and sustainability. Those that had the most innovative solutions were nominated in the class for innovation; those that had a distinct opinion about how their solutions contribute to a sustainable society in the class for sustainability, and those that covered a broad range were in the grand prize category", recounts Sverre Gotaas, continuing: "Selecting five in each class was challenging and it was not easy for the jury to decide on which entries should win the individual classes."


# WHAT HAVE WE ACHIEVED?


In 2015, KONGSBERG chose to focus on the following areas of corporate social responsibility:

- Strategy for Sustainability
- Ethics
- Anti-corruption
- Human rights and workers' rights
- Sustainability and corporate social responsibility in the supplier chain
- Climate challenge
- Our employees

AREA OF FOCUS 2015–2016

# Strategy for Sustainability

In 2015, the Group decided to draw up a sustainability strategy. The work will be completed in the early half of 2016.

**Our position**

KONGSBERG works with advanced technologies and has relevant expertise in several key areas of technology that can be used to develop sustainable and innovative products.

Although the Group's emissions of the greenhouse gas $CO_2$ are relatively modest, we need to shoulder our part of the responsibility for reducing global emissions of greenhouse gases.

**Our challenges**

The Group's work with sustainability and corporate social responsibility is currently an integral part of its other strategic processes. This work takes its point of departure in issues related to climate change and shortages of key resources and is related to problems linked to urbanisation, the loss of biodiversity, etc.

*The perspective of opportunities* – Technological innovation is an important element for helping to resolve the serious global problems facing the Earth. For KONGSBERG, this situation presents business opportunities on several markets, thanks to our broad technology and competency platform. This is the most important perspective in the sustainability strategy we will be drawing up.

*The perspective of risk* – Climate change and other issues related to megatrends present challenges linked to our own operations. The goal is to make a list of this type of risks and to initiate specific new initiatives to reduce our own emissions of $CO_2$ while continuing to operate the Group in an increasingly more sustainable direction.

**What have we achieved?**

*The perspective of opportunities* – The Group currently has numerous products in our portfolio that we define under the heading "Sustainable innovation", see pages 123–128. In the areas we have called 'Ocean Space' and 'Smart Communities', we envisage formidable growth opportunities and we continuously examine opportunities involving different technologies and business models.

*The perspective of risk* – The work on risk assessment and the preparation of climate measures has commenced. The results of this work will be part of our sustainability strategy.

**Our ambitions**

Our strategy is to identify directions based on the perspectives of both opportunities and risks. We aspire to apply our technological expertise in a growing 'green' market, and we will strive to be a group that maintains its 'license to operate' in a sustainable manner.

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# Ethics

KONGSBERG' corporate Code of Ethics express our basic attitudes and indicate how we ought to relate to colleagues, customers and society-at-large.

**Our position**

Our Code of Ethics makes up the backbone for how we conduct our operations, and the code applies regardless of where, when and which of our employees is doing business. This is to be communicated to and understood by all employees, thereby contributing to a strong corporate culture that will help prevent mistakes and irregularities from arising. Well-integrated values and the corporate Code of Ethics make up an important element of our risk management.

**Updating of our corporate Code of Ethics**
The corporate Code of Ethics is updated in keeping with national and international advances and was last updated in 2014.

**Our challenges**

Ethical behaviour is of the utmost importance to us. It is crucial that we remain focused on this at all times and that we do not lose sight of this basic tenet. This time-consuming work is done continuously.

**Sanctions in 2015**
In June 2015, Kongsberg Evotec AS was found guilty by the Sunnmøre District Court for breach of the Marketing Act, and Rolls-Royce Mariner was awarded compensation of MNOK 95.

**What have we achieved?**

**Notification of circumstances worthy of criticism**
The Group has special routines for notification of any breach of the corporate Code of Ethics. Employees have always had the right to issue alerts about circumstances worthy of criticism, and a duty to do so if there is a question of a violation of laws, rules or our corporate Code of Ethics. KONGSBERG will not tolerate that a person who blows the whistle is subject to reprisals/negative reactions.

The Group has two ombudsmen who can provide advice and receive alerts from employees. Internal and external questions about ethics, whistleblowing, etc., can be directed to the Group's compliance officer by sending an e-mail to: ethics@kongsberg.com.

In 2015, we received and processed four queries.

There is a web-based alert line for our employees in the US and Canada. The website address is https://kongsberg.alertline.com/

**In-house training**
All new employees go through a training programme (including e-learning) that deals with the Group's Code of Ethics. The programme is updated regularly, and it consists of e-learning courses and classroom courses for new employees and line supervisors. In addition, a complex training programme has been further developed in the field of ethics, business-related behaviour and special topics for susceptible target groups.

**Our ambitions**

KONGSBERG's corporate Code of Ethics applies to the Group's directors, management, employees, casual employees, consultants, market representatives (agents), lobbyists and others who act on behalf of KONGSBERG. We emphasise that that all employees and the Group's Board of Directors must maintain high ethical standards while performing their duties. The Group has developed special ethical guidelines for its suppliers.

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# Anti-corruption

"KONGSBERG takes the prevention of corruption very seriously. We have zero tolerance for corruption among our employees, consultants or business associates. As an enterprise with significant international activities, KONGSBERG has implemented a comprehensive anti-corruption programme, and high ethical standards are an integral part of our business activities."

Walter Qvam, Chief Executive Officer

**Our position**

KONGSBERG has zero tolerance for corruption. Our attitude is expressed clearly through our corporate Code of Ethics, and our endorsement of the UN Global Compact, the OECD's Guidelines for Multinational Enterprises and our membership of Transparency International. The Board and executive management devote considerable attention to this work.

**Our challenges**

We perform risk assessments in all our business areas and facilitate action plans to reduce identified risk

KONGSBERG operates in both the defence industry and the oil and gas industry, which, according to Transparency International, are two of the sectors most susceptible to corruption. Our activities involve the use of agents and market representatives. The use of third parties is generally known to imply a high risk of corruption, so we pay special attention to that part of our anti-corruption programme in particular. We have drawn up in-house regulations for signing and following up agreements with market representatives. The regulations include assessments of a market representative's ethical standards and reputation. Further, risk is assessed based on industry, country and company, and approval procedures have been introduced for the use of standard terms of business and verification of payments, as well as for follow up during the agreement period and including training and audits. In 2014, a charge was filed against Kongsberg Gruppen ASA, Kongsberg Defence & Aerospace AS and an employee of Kongsberg Defence & Aerospace, alleging corruption in conjunction with deliveries of communications equipment to Romania from 2003 to 2008. KONGSBERG is collaborating with the National Authority for Investigation and Prosecution of Economic and Environmental Crime in Norway (Økokrim) to clarify the factors in question. Otherwise, please see Note 33 to the accounts.

*Continues on the next page*

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*Continued from previous page*

**What have we achieved?**

In 2015, we focused in particular on training activities for all our management groups, courses for and audits of our market representatives (agents), dialogue meetings with business partners, and compliance surveys in connection with acquisition activities. We have further developed and strengthened our alert system by adding administrative procedures for management and the Board. In recent years, we have further developed the Group's compliance system, placing considerable emphasis on compliance being a line responsibility and part of day-to-day operations. In addition, we regularly perform in-house inspections to ensure compliance with our Code of Ethics in connection with the use of market representatives, including control of payments. Anti-corruption is an area in which we maintain continuous focus on prevention, risk mitigation measures and the identification of possible non-compliance.

We had an independent law firm evaluate our anti-corruption programme in 2014. The evaluation showed that our programme is satisfactory ("adequate" – ref. UK Bribery Act) in the light of internationally recognised laws and parameters. Transparency International has published a Defence Companies Anti-Corruption Index; KONGSBERG earned a satisfactory result, on a par with comparable international businesses.

**Our ambitions**

We base our efforts on systematic risk assessments, preventative activities, internal controls and reporting. We will continue to develop our training programme, revise our corporate code of ethics and further develop in-house guidelines for performing due diligence in respect of all our business partners. We will conduct independent evaluations of our anti-corruption programme at least every third year. Our ambition is to maintain a satisfactory level, compared with other respected international companies.


# Human rights and workers' rights

The Group's international activities make us susceptible to problems related to human rights and worker's rights, either directly through our own businesses or indirectly through our value chain.

**Our position**

KONGSBERG supports and respects international human rights and workers' rights such as the UN's Universal Declaration of Human Rights, the UN Convention on Children's Rights, the ILO core conventions (International Labour Organization) and the UN Global Compact Initiative. Respect and continuous improvement are important elements of our approach to human rights and workers' rights.

**Our challenges**

KONGSBERG's internationalisation, both its proprietary ventures and its use of suppliers, is expanding year by year. This means that we must also devote more attention to and learn more about dealing with human rights and workers' rights.

**What have we achieved?**

We have developed internal governance documents based on the "UN Guiding Principles on Business and Human Rights". In 2014 and 2015, we organised courses in human rights and workers' rights for 60 individuals, including many senior executives.

In 2015, for the first time, we conducted a systematic evaluation of our business activities related to human rights and workers' rights, including an audit of our business in Kuwait. In the Group as a whole, there were no serious breaches or non-conformances. Some less serious cases were registered, followed up and closed during the year.

In 2015, we also participated in a pilot project under the auspices of the Ministry of Foreign Affairs in conjunction with other Norwegian companies. The point of departure for the pilot project was how enterprises are to follow up the expectations in the "UN Guiding Principles on Business and Human Rights".

*Discrimination* – In 2015, we had no reports of cases of discrimination.

*Child labour and compulsory labour* – The Group's own activities are of such a nature that issues related to child labour and forced and compulsory labour are of little relevance. We are working to survey the situation in the value chain. There have been no reports of cases involving these topics.

*The use of security personnel at the international level* – We use security personnel in areas where we consider it necessary. Thus far, the scope of this has been very limited.

*Indigenous rights* – The Group has not been involved in violations of indigenous rights.

*Suppliers* – The follow up of human rights and workers' rights in the supplier chain follows current in-house procedures. Self-declarations and audits are important tools in these efforts.

**Our ambitions**

We will comply with international standards for human rights and workers' rights as expressed in our corporate Code of Ethics and our Policy for Sustainability and Corporate Social Responsibility. Further, we will develop our own processes and routines related to follow up.

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# Sustainability and corporate social responsibility in the supplier chain

Sustainability and corporate social responsibility in the supply chain cover suppliers' relationship to ethical guidelines, human rights, workers' rights, anti-corruption, the climate and the environment. We are of the opinion that systematic, good work with corporate social responsibility is a moral imperative. Meanwhile, this adds up to reduced risk, and improves the quality of the products we buy.

**Our position**

KONGSBERG uses more than 7,000 vendors the world over, of which about 3,000 in Norway. This means we help to safeguard jobs and build competence, not only where we have proprietary operations, but also to a large extent where we use suppliers. The suppliers are an important part of our value creation, at the same time as we are important and in many cases absolutely decisive for their value creation. This implies an obligation. Basically, we take responsibility for ensuring that the whole value chain linked to the Group's products complies with our standards for sustainability and corporate social responsibility.

**Our challenges**

There is still work to do before we have a satisfactory list of the overall risk identified in the supplier chain. The work is time-consuming.

**What have we achieved?**

We have drawn up principles and systems of governance for how we would like our suppliers to deal with sustainability and corporate social responsibility, and for how we will follow this up. In 2015, we conducted 18 audits focusing solely on sustainability and corporate social responsibility. In addition, a large number of quality audits were conducted where sustainability and corporate social responsibility were smaller parts of the audit. Health and safety work largely seems well in hand, but the knock-on effect of standards to the next step down the supplier chain seems lacking.

**Our ambitions**

One main principle is that we will collaborate with suppliers to seek continuous improvement. The goal is to ensure that elements that fail to meet the standards to which we aspire will be adapted and improved through dialogue. Further, we must ensure that we maintain close control of risk.

**Conflict minerals** are minerals extracted from conflict zones and sold by countries in conflict. The minerals are generally sold to perpetuate armed conflicts, oppression and violence perpetrated on the local population. This is a particular problem in the Democratic Republic of Congo and the adjacent countries (Angola, Burundi, the Central African Republic, Rwanda, South Sudan, Tanzania, Uganda and Zambia). The most important conflict minerals are tantalum, gold, tin and wolfram. As a result of the Dodd Frank Act that was adopted in the USA in 2010, and the OECD guidelines, companies are expected to be able to report which 'conflict minerals', if any, are used in their products, in which products, where the minerals originated and in which part of the value chain the minerals are introduced.
KONGSBERG has drawn up a policy and routines to meet the expectations described above.

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# Climate challenge

Global warming is most serious threat facing the Earth. 2015 was the first time the world has seen an increase in the mean global temperature of one degree compared with pre-industrial times. At the same time, 2015 was the warmest year ever recorded on Earth since measurements began in 1880. According to the UN's Intergovernmental Panel on Climate Change (IPCC), temperatures may rise more than four degrees by 2100 if emissions continue unabated. However, the report points out that there is still time to avoid the most extreme effects, but we must act quickly.

**Our position**

We are an enterprise with moderate emissions of greenhouse gases. Flights and emissions from the transport of goods account for about 70 per cent of our total emissions. Emissions per person-year of labour are estimated at 5.3 metric tonnes of $CO_2$.

**Our challenges**

More than 38 per cent of these emissions are related to air travel. Travel is an important part of the Group's operations and we face a challenge with a view to reducing this type of emissions. We have begun to use digital communications solutions often to replace some business travel.

Our targets for reducing emissions are relative, so that as we grow, actual emissions may increase even though we reach our targets for relative reductions in emissions. This is a dilemma, given that the global challenge is to reduce actual emissions of greenhouse gases (GHGs).

**What have we achieved?**

The Group has several product areas that have a positive impact on the environment in a variety of ways. Moreover, the Group has defined two new main targets for innovation that have substantial potential for sustainable growth. See the discussion in the chapter entitled 'Sustainable innovation'.

**Our ambitions**

KONGSBERG is to attain its long-term business objectives in a manner that minimises contributions to global warming. We will accomplish this by:

- Finding product solutions that can reduce our customers' greenhouse gas emissions
- Reducing direct and indirect greenhouse gas emissions from our own operations
- Using environmental profiling as one of several assessment criteria when choosing suppliers.

We will work systematically to reduce energy consumption and GHG emissions, with special focus on products, infrastructure and transportation.

Corporate Executive Management has adopted new targets for the reduction of $CO_2$ emissions for our in-house operations. By the end of 2020, our emissions are to be reduced by 20 per cent relative to sales, based on the figures that applied on 31 Dec. 2015.

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# Our employees

KONGSBERG's livelihood rests on the knowledge and expertise of our employees. It is important for us to attract appropriate expertise and to ensure that we continuously help our employees to develop.

**Leadership at KONGSBERG**

Leadership at KONGSBERG is a question of creating value. Leaders shall exercise leadership based on our values, code of ethics and leadership principles.

Leadership@KONGSBERG is our leadership platform. It is based on leadership development, talent management and management by objectives. This platform encompasses all the Group's managers and ensures a uniform process for the follow-up and development of leaders. Our leaders have clear goals and they have reconciled those goals with their superiors, including an assessment of the leader.

KONGSBERG has a global HR policy.

**Recruitment and development**

One prerequisite for achieving the Group's growth targets is our ability to attract and retain highly qualified co-workers.

Each individual business hires people locally with the assistance of local managers. Outside Norway, we usually hire local employees except in certain managerial positions and positions that call for special expertise.

The Group offers an extensive range of further and continuing education through a combination of in-house and external programmes and courses. Our employees' career paths should be open to lateral as well as vertical movement throughout the Group.

**Employee relations**

We believe in involving our employees and their union representatives in the development of the company.

KONGSBERG recognises employees' freedom of assembly and right to engage in collective bargaining in accordance with the ILO conventions. Where this conflicts with local legislation, local legislation shall have precedence. Where legislation prohibits the right to organise, efforts will be made to ensure alternative means of ensuring a good dialogue between management and employees.

In Norway, wage negotiations take place through central and local negotiations.

Every second year, a global job satisfaction survey is conducted to provide feedback on how employees experience working conditions and the working environment.

**Diversity**

In tandem with growing internationalisation and a global business model, we strive to make KONGSBERG a robust, widely diverse organisation. We work towards this end in a systematic, goal-oriented manner by recruiting, developing and retaining men and women of various nationalities and all age groups in all types of positions. One of our goals is to recruit more women to managerial positions. In our HR Strategy, for example, we have requirements for the percentage of women in recruitment processes, the summer student programme, talent surveys and management development programmes.

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| | |
|---|---|
| **Health, safety and environment** | All companies in the Group are to work systematically with HSE to ensure a good working environment, prevent injuries and accidents and work to reduce sickness absence. HSE work is organised through formal bodies made up of representatives of management and the employees. We have well-developed HSE routines in our Norwegian operations. All employees in Norway have access to company health services. This varies in accordance with local practices and legislation at our foreign businesses. In Norway, the formal bodies are the works council, joint consultative committees, divisional committees and working environment committees. Our international HSE work is based on our global HR policy, and on legislation and regulations in the country in question. Most countries require that a designated HSE manager be assigned responsibility for ensuring compliance with local and national legislation and regulations. KONGSBERG adapts to countries' national public health services and supplements them through special agreements as needed. Employees stationed abroad, their families and travelling personnel are given special attention by the company health service, offered seminars on the cultural differences, and they are covered by more comprehensive insurance schemes. KONGSBERG does not currently have permanent employees stationed in countries that require special safety measures for employees and their families. The Group has designated fora that determine how employees can travel as safely as possible all over the world. HSE data is collected from all companies in the Group and reported to Corporate Executive Management and the Board of Directors on a quarterly basis. The data are also reported to the appropriate authorities in compliance with statutory requirements in different countries. |
| **Sickness absence** | Systematic efforts are being made to follow up absence and we see that a good working environment, interesting work and good career development opportunities have a favourable impact on absence due to illness See the details on page 149. |
| **Injuries** | Injuries and near-accidents are registered in the individual unit and reported to the Group each quarter. See the details on page 149. |
| **Wages** | KONGSBERG will reward its co-workers on the basis of results achieved and desirable conduct. We want to be competitive but not a wage leader. Starting salaries will reflect this. With the exception of special positions, all employees in Norway are directly or indirectly covered by collective wage agreements. Wages are adapted to local market conditions in the areas in which we operate. |
| **Retirement age** | Retirement age for co-workers in Norway is 67, and we have a mandatory age limit set by the company of 70. |

# CLIMATE AND ENVIRONMENT

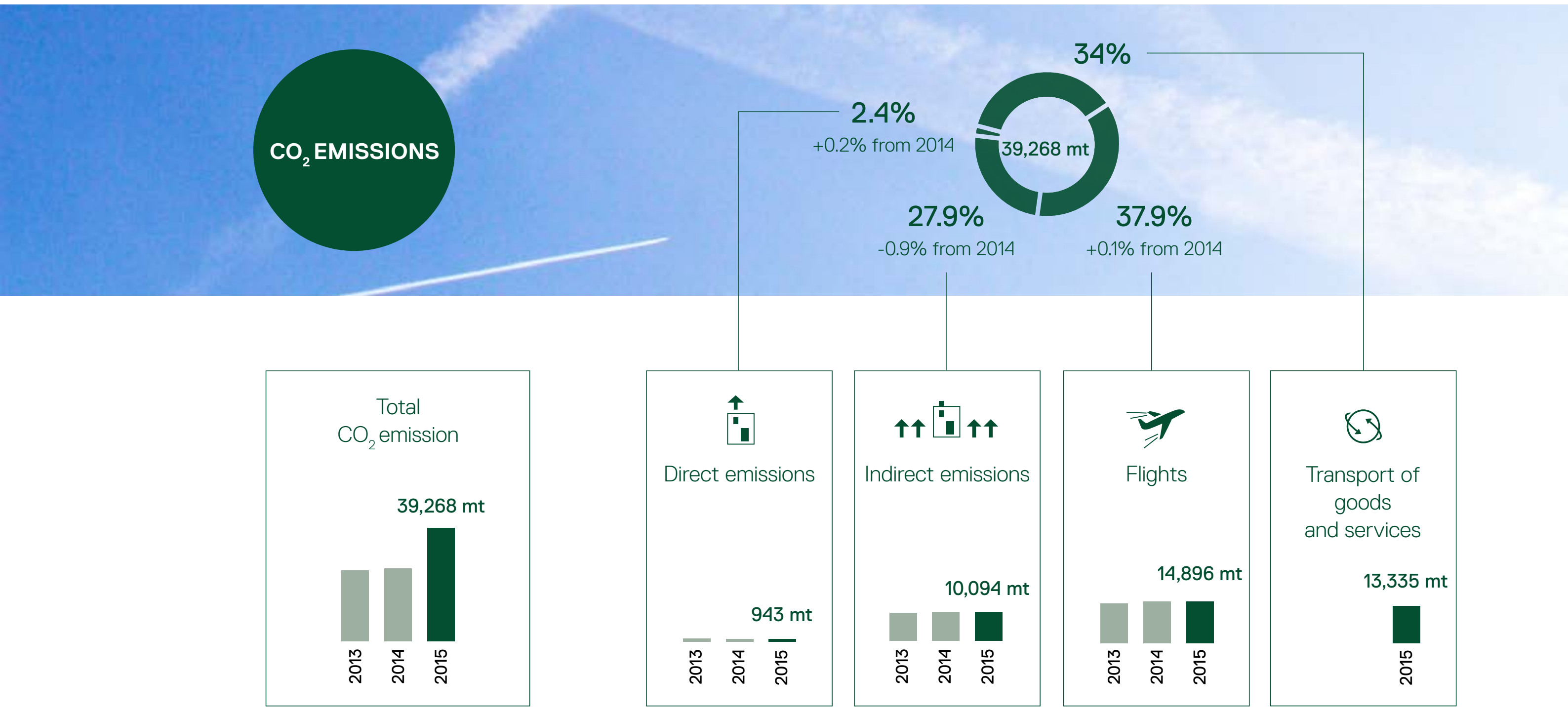
The Climate and Environmental Accounts give an overview of KONGSBERG's consumption of energy, emissions of $CO_2$, waste management and consumption of water. They cover all Norwegian units, all production units and major offices abroad.

# Climate and environmental accounts 2015

For 2015, for the first time, we reported $CO_2$ emissions linked to the transportation of goods and merchandise paid in Norway. This means that the reported $CO_2$ emissions for 2015 are somewhat less than 40,000 metric tonnes, an increase of 51 per cent from the year before. If we ignore the increase in the reporting of emissions due to goods and merchandise, emissions of $CO_2$ were reduced by 0.3 per cent from 2014 to 2015. There were no changes in the reporting production units from 2014 to 2015.


KONGSBERG uses energy in the form of electricity, district heating, remote cooling, gas and fuel oil in its activities. Kongsberg Technology Park provides district heating, remote cooling and compressed air for enterprises located in the technology parks in Kongsberg. About half is supplied to other enterprises in the technology park. District heating and remote cooling are produced using electricity, fuel oil, gas and heat recovery. Efficient technology allows 20 -25 GWh to be recovered annually by the heat recovery unit at the plant in Kongsberg Technology Park. In 2015, 22 GWh were recovered at the plant.

**Graphs:** Total energy use for KONGSBERG. The figures include electricity, oil and gas, as well as recovered energy used by Kongsberg Technology Park for the production of district heating, remote cooling and compressed air for companies that are not part of KONGSBERG.




KONGSBERG's $CO_2$ emissions have been calculated in accordance with the 'Greenhouse Gas Protocol' published by the World Business Council for Sustainable Development (WBCSD) and World Resources Institute (WRI). The environmental accounts encompass the following sources of $CO_2$ emissions:

- **Direct emissions (Scope 1):** Emissions from the use of fuel oil and gas to heat buildings, as well as from the production of district heating at Kongsberg Technology Park.
- **Indirect emissions from electricity (Scope 2):** Emissions from the consumption of electricity, as well as district heating or remote cooling from external suppliers. $CO_2$ emission factors used for electricity are location-based and in accordance with GHG Protocol Scope 2 Guidance*).
- **Emissions from flights and the transportation of goods and merchandise (Scope 3):** Emissions from flights emissions linked to the transportation of goods and property**)

*) Source: 2015 data from the Department for Environment, Food & Rural Affairs, UK. http://www.ukconversionfactors-carbonsmart.co.uk/. For Norway, a location-based factor of 50t $CO_2$/GWh (this pollution factor for Norway has also been used in earlier reporting years).

**) Reported $CO_2$ figures include import, export and inland, payable in Norway in 2015

As mentioned above, for the first time, we are reporting $CO_2$ emissions related to the transportation of goods and services. This means the actual increase in reported $CO_2$ emissions was no less than 51 per cent from 2014 to 2015. If we ignore this new fraction, $CO_2$ reduced by 0.3 per cent compared with 2014.

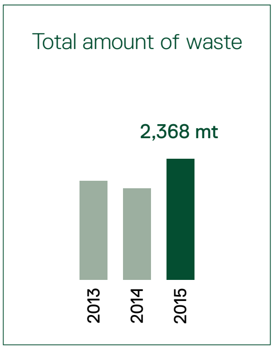
Emissions linked to flights are on a par with 2014, and now account for roughly 38 per cent of our total reported $CO_2$ emissions. Flights ordered abroad are still rather inadequately reported. The transport of goods and property accounts for about 34 per cent of our total reported emissions.

**$CO_2$ emissions**

| *Metric tonnes* [1] | *Change past year* | *2015* | *2014* | *2013* |
|---|---|---|---|---|
| **Scope 1 (Direct emissions)** | **0.2%** | **943** | **941** | **1 179** |
| Oil and gas (business area) | | 682 | 723 | 585 |
| Olje og gass (Kongsberg Technology Park) | | 261 | 218 | 594 |
| **Scope 2 (Indirect emissions)** | **-0.9%** | **10 094** | **10 185** | **9 921** |
| Electricity (business area) | | 8 064 | 8 071 | 8 244 |
| Electricity (Kongsberg Technology Park) | | 1 624 | 1 523 | 1 486 |
| District heating from external supplier | | 247 | 470 | 191 |
| District cooling from external supplier | | 159 | 121 | |
| **Scope 3 (Other emissions)** | **0.1%** | **14 896** | **14 879** | **14 194** |
| Flights purchased in Norway | | 11 296 | 11 144 | 10 588 |
| Flights purchased abroad | | 3 600 | 3 735 | 3 606 |
| **Total excl. shipping** | **-0.3%** | **25 933** | **26 005** | **25 294** |
| Shipping of goods paid for in Norway | | 13 335 | | |
| **Total incl. shipping** | | **39 268** | | |

**Graphs:** Emissions of $CO_2$ (metric tonnes) for KONGSBERG. Emissions from the consumption of fossil fuels for the production of district heating delivered by Kongsberg Technology Park are shown as direct emissions. Indirect emissions include the consumption of electricity, district heating and remote cooling from external suppliers in the business areas, as well as the consumption of electricity for the production of district heating and remote cooling at Kongsberg Technology Park.

mt = metric tonnes





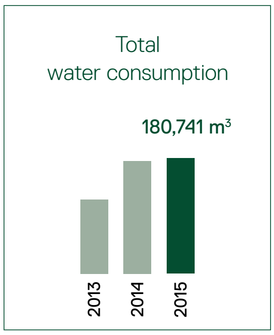
KONGSBERG generates waste from production and from office activities. Waste volumes are part of KONGSBERG's in-house environmental reporting. The reports cover generated waste broken down by category of waste and waste for recycling sorted by recycling fractions.

The total volume of waste for KONGSBERG increased in 2015 by 32 per cent from preceding years. The increase is primarily attributable to underreporting of hazardous waste and waste for recycling in 2014.

**Graphs:** Total waste production (metric tonnes) at KONGSBERG.

mt = metric tonnes


Reported water consumption remains stable from 2014 to 2015. Total reported water consumption was 180,741 cubic metres of water, an increase of 2.3 per cent relative to 2014. We must assume that there is still some uncertainty associated with the reporting, as long as water consumption is a relatively new fraction being reported.




Water is the lifeblood of all life on earth. It is crucial to support good eco-systems so they can keep the Earth's environment in balance. Meanwhile, access to clean water is in short supply many places. Getting access to clean water is and will increasingly be one of the main challenges facing sustainable value creation. Flooding and droughts are also growing global problems. The UN's World Water Development Report 3 points out that initiatives are needed urgently if we are to avert a global water crisis. Population growth, rising consumption and climate change are three of the main explanations for this serious situation.

# GOALS AND REPORTING

# Targets and activities for sustainability and corporate social responsibility

The Group gives priority to its work with sustainability and corporate social responsibility, with special attention being paid by executive management and the Board. Activities marked with 😐 or ☹ continue to be targets, but completion has been postponed somewhat. Activities with 🙂 were completed on schedule. All activities will continue to be high-priority areas in 2016.

| | What we said – activities | Targets for 2015 | What we did – status | |
|---|---|---|---|---|
| Policy | Follow up the intentions in the Policy for Sustainability and Corporate Social Responsibility, including assessments of risk and opportunities related to global megatrends | · Continue innovation work related to the two main strategic areas for sustainable product development<br>· Assess the risk related to global megatrends in the light of a "license to operate" | · Considered several cases involving technologies and business models<br>· The work with risk associated with global megatrends was continued and will be completed in 2016 | 😐 |
| Anti-corruption | Continue communication regarding a clear attitude against corruption in all forms | · Further develop routines and tools for risk assessment, and for the approval and follow up of business partners | · Completed training of market representatives<br>· In-house training focusing on management groups<br>· Conducted meetings with partners | 🙂 |
| | Further develop and maintain in-house policies and routines. | · Further develop internal routines for surveys and for following up individual cases. | · Established Management Response Plan<br>· Initiated an in-house project to further develop Integrity Due Diligence | 🙂 |
| | Carry out risk analyses, internal controls and audits to confirm compliance with legislation, rules and internal routines. Carry out risk reduction measures as needed. | · Carry out systematic risk analyses in all business areas.<br>· Carry out evaluations of selected subsidiaries | · Carried out risk analyses and action plans based on this.<br>· Evaluated selected subsidiaries | 🙂 |
| | Further develop and carry out continuous training. | · Revise and distribute e-training programmes for ethics and compliance for all employees.<br>· Conduct training programmes for new employees, new line supervisors, management and susceptible sales staff in marketing, procurements, etc. | · E-training programme revised and developed<br>· Training programme was completed | 🙂 |
| | Further develop good forms of co-operation with business partners and other external parties. | | · Carried out meetings with important business partners, which has strengthened the anti-corruption programmes. | 🙂 |

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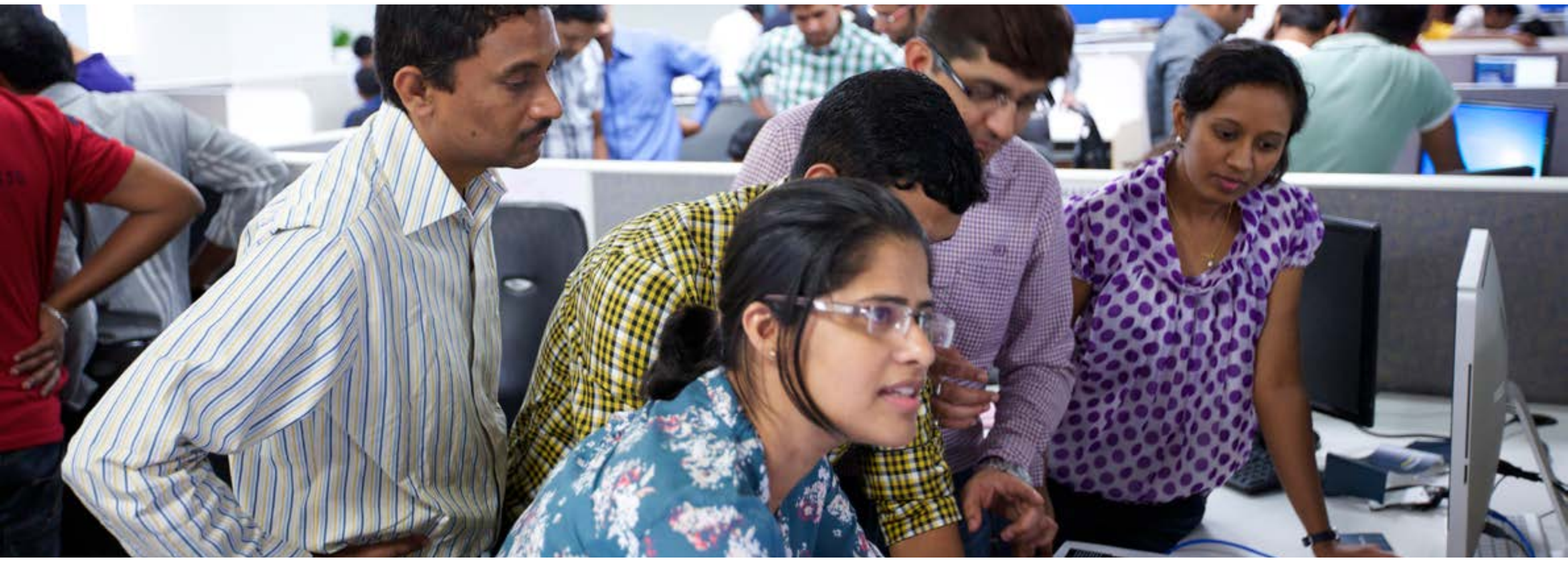
| | What we said – activities | Targets for 2015 | What we did – status | |
|---|---|---|---|---|
| **Routines for sustainability and CSR** | Preparation and implementation of routines in connection with venture creations, new buildings and product development | · Draw up and implement routines for starting ventures in new geographical areas and routines for erecting new buildings. | · The work on routines for new buildings is being carried out and will be completed in 2016<br>· Routines for establishing ventures in new geographical areas were postponed until 2016 | 😐 |
| **Human rights and workers' rights** | Carry out routines for analysis, control and the reporting of possible abuses of human rights | · Carry out due diligence for all major units and assess overall corporate risk | · First analysis has been completed for the business areas and the Group as a whole | 🙂 |
| **Suppliers** | Carry out routines and processes to follow up suppliers as regards sustainability and corporate social responsibility | · Carry out routines and processes for all units in the Group<br>· Follow up of the action plans that have been drawn up for each business area | · Processes and routines have been implemented<br>· Action plans have been followed up on a regular basis | 🙂 |
| **Climate strategy** | Draw up a new climate and environmental strategy | · Draw up a new climate and environmental strategy | · New targets have been set for the reduction of $CO_2$<br>· The new climate and environmental strategy will be part of the Group's sustainability strategy scheduled for completion in the early half of 2016 | 😐 |
| | Climate and environmental accounts | · Improve the quality of reported data for the climate and environmental accounts | · Transition to a new system for reporting<br>· Adjust in-house routines | 🙂 |
| **Stakeholder dialogue** | Conduct systematic stakeholder dialogue related to sustainability and corporate social responsibility | · Consider a new approach – draw up strategy policy for dialogue | · Policy for dialogue not drawn up | 😐 |



### The targets for 2016

The targets for 2016 will be to continue working on the areas of focus we had in 2015. We have also set some new targets in new areas of focus as a result of the materiality analysis we conducted in 2015.

| | Activities | Targets for 2016 – 1 year | Targets for 2018 – 3 years | Targets for 2020 – 5 years |
|---|---|---|---|---|
| **Strategy for Sustainability** | New strategy for sustainability to be drawn up in 2016 | • Complete a new strategy | • Follow up initiatives and actions related to the strategy<br>• Evaluate and further develop | • Follow up initiatives and actions related to the strategy<br>• Evaluate and further develop |
| **UN's sustainability development goals** | UN's 17 new sustainable development goals | • Consider KONGSBERG's approach to the UN's 17 new sustainable development goals | | |
| **Anti-corruption** | Ensure an efficient risk-based anti-corruption programme | • Continue communication regarding a clear attitude against corruption in all forms<br>• Further develop and maintain in-house policies and routines<br>• Carry out risk analyses, internal controls and audits to confirm compliance with legislation, rules and internal routines. Carry out risk reduction measures as needed<br>• Further develop and carry out continuous training<br>• Further develop good forms of co-operation with business partners and other external parties | • Further develop and maintain:<br>  • Communications internally and externally about our attitude to corruption<br>  • Policies and routines<br>  • Risk analyses<br>  • Action plans<br>  • Reporting<br>  • Training<br>  • Collaboration with external parties<br>• External evaluation of compliance and the anti-corruption programme, planned for 2017. | • Further develop and maintain:<br>  • Communications internally and externally about our attitude to corruption<br>  • Policies and routines<br>  • Risk analyses<br>  • Action plans<br>  • Reporting<br>  • Training<br>  • Cooperation with external parties |
| **Human rights and workers' rights** | Conduct due diligence for all major units and assess collective corporate risk | • Assess the quality of the analyses carried out in Q1 2016<br>• Carry out initiatives where needed | • Evaluate and further develop routines | • Evaluate and further develop routines |
| **Suppliers** | Follow up annual action plans prepared by each individual business area | • Focus on the implementation of planned audits<br>• Focus on drawing up a satisfactory overview of the risk in the portfolio | • Evaluate and further develop work with a sustainable supplier chain | • Evaluate and further develop work with a sustainable supplier chain |
| **Climate strategy** | New climate strategy will be incorporated into the Group's sustainability strategy<br>• Goals for $CO_2$ emissions<br>• Goals for the CDP score | • Draw up and communicate basic data for the new goal period<br>• Carry out measures that allow us to obtain A/B score for 2016's reporting to CDP - including a risk analysis related to climate change | • Follow up and evaluate the strategy and the goals that have been set | • Follow up and evaluate the strategy and the goals that have been set |

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**Our employees**

| Activities | Targets for 2016 – 1 year | Targets for 2018 – 3 years | Targets for 2020 – 5 years |
|---|---|---|---|
| **Diversity**<br>We strive to have a well-diversified organisation. There is currently special focus on the percentage of women employees and women in leading positions | • Establish objectives and processes to maintain focus on more diversity<br>• Focus on female talents through our leadership development programmes<br>• Focus on the recruitment of women | • Evaluate and follow up goals and processes for ensuring more diversity | • The goal is for the share of female managers to reflect the percentage of women in the Group |
| **HSE**<br>Ensure a good working environment, prevent injuries and accidents, and prevent high absence due to illness | • Continue systematic HSE work<br>• Follow up established goals<br>• Maintain low absence due to illness<br>• Work pro-actively to prevent injuries and accidents | • Further develop and improve established routines and objectives | • Further develop and improve established routines and objectives |
| **Our employees**<br>To reach the Group's growth goals, we must attract, retain and develop our employees. We emphasise both professional and personal development, as well as leadership development. Job-satisfaction and working conditions are measured through a global employee survey carried out every other year. | • Ensure that all employees at every level and in different disciplines have development and career plans<br>• Focus on further developing the Leadership@Kongsberg process and increase the completion rate<br>• Evaluate internal management training to ensure that the content is in keeping with ambitions, needs, our values and leadership principles<br>• Define obligatory training | • Evaluate and follow up objectives and processes | • Evaluate and follow up objectives and processes |

# Key sustainable figures

## Financial value added

| MNOK | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|
| **Added value** | | | | | | | |
| Wages/salaries | 4 725 | 4 537 | 4 304 | 3 894 | 3 515 | 3 172 | 3 003 |
| Dividends | 510 | 1 110 | 630 | 450 | 450 | 450 | 240 |
| Interest to lenders | 24 | 30 | 43 | 37 | 35 | 41 | 115 |
| Retained earnings | 245 | (230) | 595 | 854 | 980 | 1 050 | 558 |
| **Other key financial figures** | | | | | | | |
| Acquired goods and services | 9 554 | 8 817 | 7 918 | 8 300 | 8 300 | 9 500 | |
| Financial support received from authorities | 18 | 21 | 14 | 16 | 17 | 29 | |
| **Tax** | | | | | | | |
| Norway | 85 | 291 | 332 | 416 | 513 | 528 | 270 |
| Rest of Europe | 9 | 27 | 11 | 14 | 17 | 18 | 23 |
| North and South America | 49 | 50 | 55 | 32 | 24 | 26 | 19 |
| Asia | 46 | 37 | 21 | 43 | 24 | 25 | 29 |
| **Total** | **189** | **405** | **419** | **505** | **578** | **597** | **341** |

The Board will propose a dividend for 2015 of NOK 4.25 per share to the AGM. Providing the proposal is adopted at the AGM on 9 May 2016, the dividends will be paid as follows, provided the ownership structure is the same as on 29 February 2016:

| MNOK | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|
| **Dividends** | | | | | | | |
| Norwegian State | 255.0 | 555.0 | 315.0 | 225.0 | 225.0 | 225.0 | 120.0 |
| Organisations/enterprises | 88.5 | 191.0 | 111.8 | 90.6 | 97.4 | 97.6 | 56.4 |
| Securities funds | 44.0 | 107.1 | 63.7 | 47.1 | 45.2 | 48.4 | 27.6 |
| Insurance/pension funds | 23.6 | 59.1 | 34.0 | 25.0 | 25.0 | 24.4 | 12.5 |
| Private individuals | 24.3 | 52.8 | 29.2 | 20.9 | 19.9 | 20.2 | 12.0 |
| Foreign owners | 74.8 | 145.0 | 76.3 | 41.4 | 37.5 | 32.6 | 11.5 |
| **Total** | **510** | **1 110** | **630.0** | **450.0** | **450.0** | **450.0** | **240.0** |

## Social investments

| MNOK | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|
| Financial support to organisations, etc. | 9.3 | 8.8[1)] | 7.3 | 6.7 | 3.0 | 3.0 | 2.9 |

1) Including sponsoring three professorships at NTNU and the University College of Southeast Norway.

## Employees

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|
| **Level of education** | | | | | | | |
| Master's degree (%) | 28 | 28 | 29 | 28 | 26 | 28 | 29 |
| – of which doctorates (PhD) | 1 | 1 | 1 | 2 | | | |
| Bachelor's degree (%) | 37 | 36 | 34 | 36 | 35 | 35 | 33 |
| Technicians (%) | 15 | 14 | 14 | 14 | 14 | 11 | 12 |
| Production workers % | 11 | 11 | 11 | 10 | 12 | 13 | 13 |
| Other (%) | 10 | 11 | 11 | 12 | 12 | 13 | 13 |
| **Number of employees** | | | | | | | |
| Number of employees, total | 7 688 | 7 726 | 7 493 | 7 259 | 6 681 | 5 681 | 5 423 |
| Number of full-time equivalents (FTEs) | 7 571 | | | | | | |
| Number of full-time employees | 7 364 | 7 470 | 7 171 | 7 003 | 6 393 | 5 442 | 5 195 |
| Number of part-time employees | 324 | 256 | 322 | 256 | 286 | 239 | 228 |
| **Age** | | | | | | | |
| Average age | 41 | 41 | 41 | 40 | 42 | 42 | 42 |
| Employees under age 30 (%) | 19 | 21 | 21 | 22 | 21 | 19 | 19 |
| Employees between ages 30 and 50 (%) | 56 | 55 | 56 | 55 | 55 | 57 | 55 |
| Employees over age 50 (%) | 25 | 24 | 23 | 23 | 23 | 24 | 26 |
| **Percentage of women** | | | | | | | |
| Women as a % of the number of employees | 21.0 | 20.9 | 21.4 | 21.2 | 20.9 | 19.5 | 18.8 |
| Women in managerial positions as a % of total managerial positions | 18 | 18 | 21 | 19 | 14 | 13 | 15 |
| Shareholder-elected women on the Board (%) | 40 | 40 | 40 | 40 | 40 | 40 | 40 |
| **Turnover** | | | | | | | |
| Turnover (employees who have resigned) | 430 | 516 | 587 | 459 | 424 | 346 | 250 |
| Turnover (%) | 5.6 | 6.7 | 7.8 | 6.3 | 6.4 | 6.1 | 4.6 |
| – Men | 4.2 | 5.5 | 5.9 | 5.2 | 4.4 | 4.9 | 3.4 |
| – Turnover men, of total men | 5.4 | 6.9 | - | - | - | - | - |
| – Women | 1.4 | 1.2 | 1.9 | 1.1 | 2.0 | 1.2 | 1.2 |
| – Turnover women, of total women | 6.4 | 5.8 | - | - | - | - | - |

## Health and safety

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|
| Sickness absence as a % of hours worked | 2.6 | 2.6 | 2.5 | 2.4 | 2.2 | 2.5 | 2.6 |
| Sickness absence for the Norwegian companies | 2.8 | 3.0 | 3.1 | 2.8 | 2.8 | | |
| Number of reported injuries per million hours (TRI) | 4.1 | 4.7 | 3.7 | 1.5 | 1.7 | 6.3 | 5.5 |
| Number of lost time days per million hours (ISR) | 14.2 | 45.3 | 15.6 | 13.6 | 1.1 | 22.3 | 58.2 |
| Total number of injuries among co-workers | 196 | 240 | 86 | 54 | | | |
| Total number among employees and co-workers | 140 | 140 | 158 | 78 | | | |
| Registered occupational diseases | 0 | 0 | 0 | 0 | | | |
| Registered work-related fatalities | 0 | 0 | 0 | 0 | | | |

## Climate and the environment

| | *2015* | *2014* | *2013* | *2012* | *2011* | *2010* | *2009* |
|---|---|---|---|---|---|---|---|
| ▶ **$CO_2$ emissions** *(metric tonnes)* | | | | | | | |
| $CO_2$ emissions not from goods and property *(metric tonnes)*[2) 3)] | 25 933 | 26 006 | 25 294 | 19 579 | 22 747 | 20 005 | 12 980 |
| $CO_2$ emissions from the transport of goods and property | 13 335 | | | | | | |
| **Total $CO_2$ emissions** | **39 268** | | | | | | |
| $CO_2$ emissions relative to sales *(metric tonnes/MNOK)* | 2.4 | | | | | | |
| $CO_2$ emissions relative to man-years of labour *(metric tonnes/man-years of labour)* | 5.3 | | | | | | |
| ▶ **Energy use** | | | | | | | |
| Electricity *(MWh)*[1)] | 91 582 | 91 340 | 94 802 | 79 218 | 77 625 | 66 256 | 57 053 |
| Gas/oil *(MWh)* | 4 400 | 4 123 | 4 601 | 6 092 | 13 257 | 12 968 | 21 324 |
| Heat recovery, district heating and remote cooling *(MWh)* [1) 4)] | 23 366 | 26 733 | 20 342 | 20 844 | 20 041 | 23 903 | 1 739 |
| Energy consumption *(MWh)* per employee | 15.5 | 15.8 | 16.0 | 14.6 | 16.6 | 18.2 | 14.8 |
| Energy consumption *(MWh / /MNOK)* | 7.0 | 7.4 | 7.3 | 6.8 | 7.3 | 6.7 | 5.8 |
| ▶ **Waste** *(metric tonnes)* | | | | | | | |
| Waste for recycling | 1 410 | 1 048 | 1 100 | 1 100 | 1 191 | 1 330 | 827 |
| Residual waste | 560 | 604 | 550 | 200 | 131 | 265 | 594 |
| Hazardous waste | 398 | 136 | 285 | 484 | 300 | 177 | 52 |
| ▶ **Water** *($m^3$)* | | | | | | | |
| Water consumption (process and sanitary water) | 180 741 | 176 743 | 115 968 | | | | |

1) Reporting on the distribution of power between KTP and the business areas changed in 2010, so that the figures are not directly comparable with previous years.
2) Since 2010, air travel has been included in the Group's Climate Accounts.
3) Most of the flights ordered from our international locations are included in the $CO_2$ accounts for 2013, accounting for a significant share of the increase from 2012 to 2013.
4) Energy recovery at Kongsberg Technology Park as well as purchased district heating and remote cooling from external companies. A change in the method of calculation from 2014 means that the figures are not directly comparable with previous years.

From a 40,000 $m^2$ environment-friendly facility in Pocasset, Massachusetts.

# External reporting

KONGSBERG also reports to various external organisations. We do this to ensure that the information we provide is structured, transparent and relevant in the light of international guidelines for reporting sustainability.

**Global Reporting Initiative (GRI)**
GRI is a voluntary international framework for how companies should report on their work with corporate social responsibility and their vision and strategy for sustainable development. KONGSBERG has reported pursuant to the GRI index since 2004.

**FN's Global Compact**
The Global Compact is the UN's initiative for cooperating with business and industry to promote sustainable development. The initiative was taken by then UN Secretary-General Kofi Annan in 1999. The principles consist of 10 points related to human rights, labour rights, the environment and anti-corruption. KONGSBERG joined the initiative in 2006.

**Carbon Disclosure Project (CDP)**
CDP is an international framework that encourages companies to measure and report externally on the company's strategy in relation to climatic change and to publish the figures for the company's emissions of greenhouse gases. KONGSBERG has reported to CDP since 2011.

## Global Compact

| *Topic* | | *GC Principles* | *References 2015, page* |
|---|---|---|---|
| Human rights | Principle 1 | Support and respect the protection of internationally proclaimed human rights | 26, 97, 111-112, 121, 131, 134-135, 145-147 |
| | Principle 2 | Make sure the company is not complicit in human rights abuses | 26, 97, 111-112, 121, 131, 134-135, 145-147 |
| Labour rights | Principle 3 | Uphold the freedom of association and the right to collective bargaining | 26, 97, 111-112, 121, 131, 134-135, 145-147 |
| | Principle 4 | Uphold the elimination of all forms of forced and compulsory labour | 26, 97, 111-112, 121, 131, 134-135, 145-147 |
| | Principle 5 | Abolish child labour | 26, 97, 111-112, 121, 131, 134-135, 145-147 |
| | Principle 6 | Eliminate discrimination in respect of employment and occupation | 26, 97, 111-112, 121, 131, 134-135, 145-147 |
| Environment | Principle 7 | Support a precautionary approach to environmental challenges | 27, 97, 111-112, 121, 130-131, 135-136 |
| | Principle 8 | Undertake initiatives to promote greater environmental responsibility | 27, 97, 111-112, 121, 130-131, 135-136, 145-146 |
| | Principle 9 | Encourage the development and diffusion of environmentally friendly technologies | 27, 97, 111-112, 121, 124-127, 130-131, 135-136 |
| Anti-corruption | Principle 10 | Work against corruption in all its forms, including extortion and bribery | 26, 97, 103, 111-112, 121, 130-133, 135, 144, 146 |

# Global reporting initiative index (GRI)

**KONGSBERG's reporting routines on sustainability and corporate social responsibility are based on Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, version G4. In our opinion, our reporting is generally commensurate with GRI's reporting principles and that the reports comply with level Core pursuant to the guidelines.**

On the following pages, we list the GRI indicators with references to where they are discussed in the report, regardless of whether they are wholly or partially answered relative to GRI. For a full description of the individual indicator, see GRI's website at www.globalreporting.org.

We have engaged Deloitte AS for independent assurance of the company's reporting routines on sustainability and corporate social responsibility under GRI G4. The assurance is based on the International Standard on Assurance Engagements ISAE 3000 "Assurance engagements other than audits or reviews of historical financial information", published by the International Auditing and Assurance Standards Board, and is issued with a moderate degree of certainty. The Auditor's Statement is reproduced on page 157.

| | *Indicator* | *Reference and/or response* |
|---|---|---|
| **Strategy and analysis** | | |
| G4-1 | Statement from the CEO | 111-112 |
| **Organizational profile** | | |
| G4-3 | Name of the organization | Kongsberg Gruppen ASA |
| G4-4 | Primary brands, products and/or services | 3, 14-23 |
| G4-5 | Location of organization's headquarters | 35, 113 |
| G4-6 | Countries in which the organization's operations are located | 4, 113-117 |
| G4-7 | Nature of ownership and legal form | 4, 35, 68 |
| G4-8 | Markets served | 3, 14-23, 113-117, 118 |
| G4-9 | Scale of the reporting organization (employees, operations, net sales, capitalization, products and services) | 7-9, 14-23, 30-32, 149 |
| G4-10 | Scale of the reporting organization (employees by contract and gender, region etc.) | 149 |
| G4-11 | Scale of the reporting organization (employees covered by collective bargaining agreements) | 137 |
| G4-12 | The organization's supply chain. | 135, 145-146 |
| G4-13 | Significant changes during the reporting period | 107 |
| G4-14 | Explanation of whether and how the precautionary approach or principle is addressed | 130, 151 |
| G4-15 | Externally developed economic, environmental, and social charters, principles, or other initiatives endorsed | 108, 122, 141, 151 |
| G4-16 | Memberships in associations and/or national/international advocacy organizations | 108, 111-112, 151 |
| **Identified material aspects and boundaries** | | |
| G4-17 | Operational structure of the organization | 3-4, 14-17 |
| G4-18 | Process for defining report content | 107, 109-110 |
| G4-19 | Process for defining report content – material Aspects | 107, 109-110 |
| G4-20 | Boundary of the report - within the organisation | 107, 129-138, 139 |

| | *Indicator* | *Reference and/or response* |
|---|---|---|
| G4-21 | Boundary of the report, outside the organisation | 107, 129-138 |
| G4-22 | Explanation of the effect of any re-statements of information | 107 |
| G4-23 | Significant changes from previous reporting periods | 107, 141-142 |
| Stakeholder engagement | | |
| G4-24 | Stakeholder groups engaged by the organization | 107-109, 118-120, 125-126, 128, 151 |
| G4-25 | Identification and selection of stakeholders engaged | 109, 145 |
| G4-26 | Approaches to stakeholder engagement | 107-110, 119-120 |
| G4-27 | Key topics and concerns raised through stakeholder engagement | 107-110 |
| Report profile | | |
| G4-28 | Reporting period | 2015 |
| G4-29 | Date of most recent previous report | KONGSBERG's Annual Report and Sustainability Report for 2014 |
| G4-30 | Reporting cycle | Annual |
| G4-31 | Contact point for questions regarding the report | 156 |
| G4-32 | "In accordance" option, GRI content index, and reference to the External Assurance Report | 108, 152-156, 157 |
| G4-33 | Policy and current practice with regard to seeking external assurance | 108, 157 |
| **Governance** | | |
| G4-34 | Governance structure of the organisation | 28, 93-105, 121 |
| Ethics and integrity | | |
| G4-56 | Values, principles, standards and norms of behavior such as codes of conduct and codes of ethics | 5-6, 26-28, 111, 131-132 |
| Specific standard disclosures | | |
| | **Category: Economic** | |
| | **Aspect: Economic performance** | |
| G4-DMA | Generic Disclosures on Management Approach | 28, 93, 96-105, 109-112, 121-122, 130 |
| G4-EC1 | Direct economic value generated and distributed | 30-34, 113-117, 148 |
| G4-EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change | 124-127, 136 |
| G4-EC3 | Coverage of the organization's defined benefit plan obligations | Note 10, page 48 (KOG Group)<br>Note 5, page 82 (KOG ASA) |
| G4-EC4 | Financial assistance received from government | 148 |
| | **Category: Environment** | |
| | **Aspect: Energy** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130 |
| G4-EN3 | Energy consumption within the organization | 140, 150 |
| G4-EN4 | Energy consumption outside of the organization | 140 |
| G4-EN5 | Energy intensity | 150 |
| G4-EN6 | Reduction of energy consumption | 140 |
| G4-EN7 | Reductions in energy requirements of products and services | 125 |
| | **Aspect: Water** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130, 142 |
| G4-EN8 | Total water withdrawal by source | 142, 150 |
| | **Aspect: Emissions** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130, 136, 145-146 |
| G4-EN15 | Direct greenhouse gas (GHG) emissions (Scope 1) | 141, 150 |

| | *Indicator* | *Reference and/or response* |
|---|---|---|
| G4-EN16 | Energy indirect greenhouse gas (GHG) emissions (Scope 2) | 141, 150 |
| G4-EN17 | Other indirect greenhouse gas (GHG) emissions (Scope 3) | 141, 150 |
| G4-EN18 | Greenhouse gas (GHG) emissions intensity | 150 |
| | **Aspect: Effluents and waste** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130, 142 |
| G4-EN22 | Total water discharge by quality and destination | 142, 150 |
| G4-EN23 | Total weight of waste by type and disposal method | 142, 150 |
| G4-EN24 | Total number and volume of significant spills | No significant spills recorded in 2015 |
| | **Aspect: Compliance** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130 |
| G4-EN29 | Fines and sanctions for non-compliance with environmental laws and regulations | No cases recorded in 2015 |
| | **Aspect: Transport** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130 |
| G4-EN30 | Significant environmental impacts of transporting products and materials for the organization's operations, and transporting members of the workforce | 141, 150 |
| | **Aspect: Supplier environmental assessment** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130, 135, 145-146 |
| G4-EN32 | Percentage of new suppliers that were screened using environmental criteria | 135. All new suppliers are evaluated for environmental criteria as part of the procure-ment process |
| G4-EN33 | Significant actual and potential negative environmental impacts in the supply chain and actions taken | 135 |
| | **Category: Social** | |
| | **Sub-category: Labour practices and decent work** | |
| | **Aspect: Employment** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130-131, 134, 137-138, 147 |
| G4-LA1 | New employee hires and employee turnover | 149 |
| | **Aspect: Labor/Management relations** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130-131, 134, 137-138, 146-147 |
| G4-LA4 | Minimum notice periods regarding significant operational changes | Comply with national rules in the countries in which we operate |
| | **Aspect: Occupational health and safety** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130-131, 134, 137-138, 147 |
| G4-LA5 | Percentage of total workforce represented in formal joint management-worker health and safety committees | 138 |
| G4-LA6 | Fatalities, injuries and occupational diseases, lost days, and absenteeism, and total number of work-related fatalities | 149 |
| G4-LA7 | Workers with high incidence or high risk of diseases related to their occupation | 138 |
| G4-LA8 | Health and safety topics covered in formal agreements with trade unions | 138 |
| | **Aspect: Training and education** | |
| G4-DMA | Generic Disclosures on Management Approach | 26, 109-112, 121, 130-131, 137-138, 147 |
| G4-LA10 | Skills management and lifelong learning that support the continued employability of employees | 137-138 |
| | **Aspect: Diversity and Equal Opportunity** | |
| G4-DMA | Generic Disclosures on Management Approach | 27, 109-112, 121, 130-131, 137-138, 147 |

| | Indicator | Reference and/or response |
|---|---|---|
| G4-LA12 | Composition of governance bodies and breakdown of employees per employee category according to gender, age and other indicators of diversity | 149 |
| | **Aspect: Supplier assessment for labor practices** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130-131, 135, 145-146 |
| G4-LA14 | Percentage of new suppliers that were screened using labor practices criteria | 135. All new suppliers are evaluated for workers' rights criteria as part of the procurement process |
| G4-LA15 | Significant actual and potential negative impacts for labor practices in the supply chain and actions taken | 135 |
| | **Sub-category: Human rights** | |
| | **Aspect: Investment** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130, 134-135, 145-146 |
| G4-HR2 | Percentage of employees trained and total hours of employee training on human rights policies or procedures | 134 |
| | **Aspect: Non-discrimination** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130, 134-135, 145-146 |
| G4-HR3 | Total number of incidents of discrimination and corrective actions taken | 134 |
| | **Aspect: Freedom of association and collective bargaining** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130, 134-135, 145-146 |
| G4-HR4 | Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk | No incidents recorded in 2015 |
| | **Aspect: Child Labor** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130, 134-135, 145-146 |
| G4-HR5 | Operations and suppliers identified as having significant risk for incidents of child labor | 134. No cases recorded in 2015 |
| | **Aspect: Forced or compulsory labor** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130, 134-135, 145-146 |
| G4-HR6 | Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor | 134 |
| | **Aspect: Security practices** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130, 134-135, 145-146 |
| G4-HR7 | Percentage of security personnel trained in the organization's human rights policies or procedures | 134 |
| | **Aspect: Indigenous rights** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130, 134-135, 145-146 |
| G4-HR8 | Total number of incidents of violations involving rights of indigenous peoples and actions taken | 134 |
| | **Aspect: Assessment of human rights** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130, 134-135, 145-146 |
| G4-HR9 | Total number and percentage of operations that have been subject to human rights reviews or impact assessments | 134, 145 |
| | **Aspect: Supplier human rights assessment** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130, 134-135, 145-146 |
| G4-HR10 | Percentage of new suppliers that were screened using human rights criteria | 135. All new suppliers are evaluated for human rights criteria as part of the procurement process |

| | Indicator | Reference and/or response |
|---|---|---|
| G4-HR11 | Significant actual and potential negative human rights impacts in the supply chain and actions taken | 135 |
| | **Sub-category: Society** | |
| | **Aspect: Anti-corruption** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 121, 130-132, 144, 146 |
| G4-SO3 | Total number and percentage of operations asessed for risks related to corruption and the significant risks identified | 132-133, 144 |
| G4-SO4 | Communication and training on anti-corruption policies and procedures | 132-133, 144 |
| G4-SO5 | Confirmed incidents of corruption and actions taken | 112, 132 |
| | **Aspect: Public Policy** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 118, 121, 130-131 |
| G4-SO6 | Total value of political contributions by country and recipient/beneficiary | Our Code of Ethics preclude supporting political parties |
| | **Aspect: Anti-competitive behavior** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 118, 121, 130-131 |
| G4-SO7 | Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices | 131 |
| | **Aspect: Compliance** | |
| G4-DMA | Generic Disclosures on Management Approach | 109-112, 118, 121, 130-131 |
| G4-SO8 | Significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | 131 |

## Sustainability and Corporate Social Responsibility, contact

**Nils Molin**
*Group Vice President Sustainability & CSR*
Telephone: (+47) 32 28 64 01
Mobile phone: (+47) 920 60 113
E-mail: nils.molin@kog.kongsberg.com

# Auditor's Statement 2015

Deloitte.

Deloitte AS
Dronning Eufemias gate 14
Postboks 221 Sentrum
NO-0103 Oslo
Norway

Tel: +47 23 27 90 00
Fax: +47 23 27 90 01
www.deloitte.no

**To the management of Kongsberg Gruppen ASA**

## Independent Auditor's Report on the KONGSBERG – Sustainability Report 2015

We have reviewed certain information presented in the KONGSBERG Sustainability Report 2015 ("the Report"), presented on pages 106 – 157 in the KONGSBERG – Annual and Sustainability Report 2015. The Report is the responsibility of and has been approved by the management of the Company. Our responsibility is to draw a conclusion based on our review.

We have based our work on the international standard ISAE 3000 "Assurance Engagements other than Audits and Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board. The objective and scope of the engagement were agreed with the management of the Company and included the subject matters on which we provide our conclusion below.

Based on an assessment of materiality and risks, our work included analytical procedures and interviews as well as a review on a sample basis of evidence supporting the subject matters. We have conducted interviews of managers responsible for sustainability aspects at corporate and at Kongsberg Defence Systems – Arsenalet (Norway), as well as comparing reported data with source documentation for this unit and for the reporting units Kongsberg Maritime South-Korea and Kongsberg Oil & Gas Technologies – Kongsberg Software & Services PVT Ltd (India).

We believe that our work provides an appropriate basis for us to draw a conclusion with a limited level of assurance on the subject matters. In such an engagement, less assurance is obtained than would be the case had an audit-level engagement been performed.

**Conclusions**
Based on our review, nothing has come to our attention causing us not to believe that:

- Kongsberg Gruppen has applied procedures to collect, compile and validate sustainability information for 2015 from its reporting units to be included in the Report, as summarised on pages 107 – 108. Information presented for 2015 is consistent with data accumulated as a result of these procedures and appropriately presented in the Report.
- Data reported for 2015 from the reporting units specified above, has been reported according to the procedures noted above and is consistent with source documentation presented to us.
- Information about attainment of targets, as presented on pages 144 – 145, appropriately reflects performance related to the objectives for 2015.
- The Report fulfils the content requirements for reporting in regards to sustainability as stated in the (Norwegian) Accounting Act, § 3-3c, article one.
- Kongsberg Gruppen applies a reporting practice for its sustainability reporting that is aligned with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (version G4) reporting principles and the reporting fulfils the in accordance level Core according to the GRI guidelines. The GRI Index presented on pages 152 – 156 appropriately reflects where relevant information on each of the standard disclosure elements and performance indicators of the GRI guidelines is presented. The Company's reporting on the UN Global Compact is consistent with the description on page 108 and the UN Global Compact table presented on page 151 appropriately reflects where relevant information on each of the UN Global Compact principles is presented in the Report.

Oslo, 17 March 2016
Deloitte AS

Eivind Skaug
State Authorized Public Accountant (Norway)

Frank Dahl
Deloitte Sustainability



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**Disclaimer:** In the event of any discrepancy between the Norwegian and English versions of KONGSBERG's Annual Report and Sustainability Report, the Norwegian version is the authoritative one.