KONGSBERG

200

KONGSBERG 200 YEARS

A WORLD CLASS JOURNEY

ANNUAL REPORT 2013

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 Maritime
- Offshore
- Merchant Marine
- Subsea
- Emerging Business

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

Kongsberg Protech Systems

Kongsberg Oil & Gas Technologies

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KONGSBERG 200. From celebrations in Bergen, Norway (left) and Bangalore, India (right).

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KEY FIGURES 2013

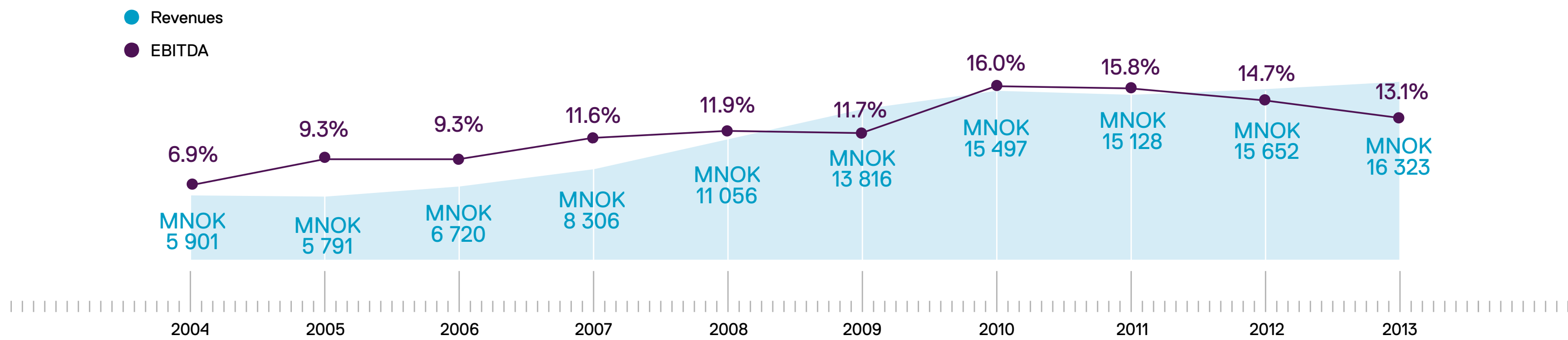
MNOK	2013	2012[1]	2011[1]	2010	2009	2008	2007	2006	2005	2004
Operations										
Revenues	16 323	15 652	15 128	15 497	13 816	11 056	8 306	6 720	5 791	5 901
- Revenues, outside Norway %	76	78	82	84	80	77	71	72	67	69
- Revenues, civilian %	61	56	47	45	52	62	62	57	59	54
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	2 142	2 294	2 385	2 485	1 619	1 319	966	627	536	410
Earnings before interest, taxes, depreciation and amortisation (EBITDA) %	13.1	14.7	15.8	16.0	11.7	11.9	11.6	9.3	9.3	6.9
Earnings before interest, taxes and amortisation (EBITA)	1 797	1 971	2 123	2 216	1 376	1 122	796	464	378	239
Earnings before interest, taxes and amortisation (EBITA) %	11.0	12.6	14.0	14.3	10.0	10.1	9.6	6.9	6.5	4.1
Earnings before interest and taxes (EBIT)	1 659	1 840	2 026	2 113	1 263	1 038	1 346	448	371	221
Earnings before interest and taxes (EBIT) %	10.2	11.8	13.4	13.6	9.1	9.4	16.2	6.7	6.4	3.7
Earnings before taxes (EBT)	1 644	1 809	1 991	2 097	1 169	861	685	390	314	180
Profit for the year	**1 225**	**1 304**	**1 418**	**1 500**	**828**	**587**	**490**	**252**	**262**	**118**
Net interest-bearing debt	(1 935)	(1 198)	(2 191)	(1 813)	(634)	(1 439)	(242)	294	282	1 101
Working capital	3 319	3 528	2 250	1 957	1 183	(217)	1 425	1 249	1 325	1 430
New orders	15 043	14 605	15 016	13 584	17 605	14 635	14 338	7 672	5 683	5 947
Order backlog	15 687	16 523	17 839	17 759	19 892	16 692	12 646	6 472	5 416	5 425
Book-to-Bill Ratio	0.9	0.9	1.0	0.9	1.3	1.3	1.7	1.1	1.0	1.0
Employees	7493	7 259	6 681	5 681	5 423	5 243	4 205	3 650	3 372	3 495
Owners' value										
Market capitalisation	15 300	14 940	13 920	15 960	10 590	9 840	10 170	5 250	3 720	2 970
Earnings per share after tax (EPS) in NOK	10.24	10.91	11.83	12.46	6.83	4.86	4.04	2.08	1.80	0.92
P/E in NOK	12.49	11.46	9.82	10.64	12.92	16.87	20.96	21.08	17.24	27.62
Equity	6 657	6 274	5 484	4 881	3 726	1 894	2 758	1 684	1 505	1 626
Equity ratio %	38	39	35	35	30	15	30	23	23	26
Dividend per share in NOK	5.25[2]	3.75	3.75	3.75	2.00	1.38	1.25	0.63	0.54	0.50

1) The numbers have been restated as described in Note 33 "Change in comparative figures". For the other years, this change has not been taken into account.

2) The dividend consists of NOK 4.25 per share in ordinary dividends and NOK 1.00 per share as an extraordinary dividend to celebrate the Group's 200th anniversary.

Key figures by business area

	Revenues			EBITDA		
MNOK	2013	2012	2011	2013	2012	2011
Kongsberg Maritime	8 264	7 485	6 693	1 179	1 050	1 183
Kongsberg Defence Systems	4 554	4 654	3 895	520	478	351
Kongsberg Protech Systems	2 420	2 876	4 185	419	727	815
Kongsberg Oil & Gas Technologies	1 077	702	528	49	44	49
Other/elimination	8	(65)	(173)	(25)	(5)	(13)
Total	**16 323**	**15 652**	**15 128**	**2 142**	**2 294**	**2 385**



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EXTREME PERFORMANCE FOR EXTREME CONDITIONS

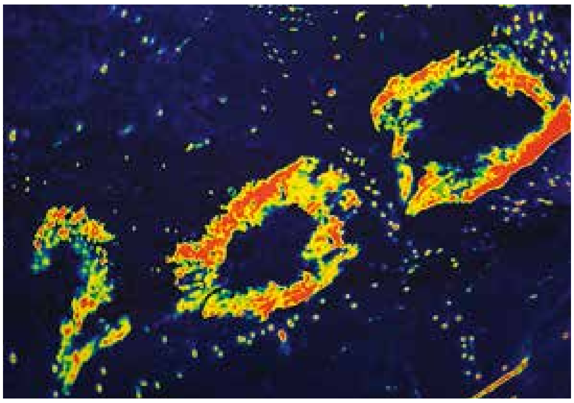
KONGSBERG develops and delivers advanced systems and technologies for extreme conditions. Our solutions ensure efficiency, safety and high performance in operations ranging from deep sea to outer space.

Vision

We have a strong, value based culture that drives our business performance. Our corporate vision reminds us where we are heading, our horizon and the point we always aim for in our work.

WORLD CLASS – through people, technology and dedication

KONGSBERG 200. From celebrations in Horten, Norway (left) and Kjeller, Norway (right).



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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.

Ambitions

KONGSBERG shall be a leading technology industrial group with World Class positions, driving a proactive growth agenda. We aspire to achieve a sustainable development with a good balance between financial performance, value creation and social and environmental responsibility.

KONGSBERG shall develop value adding solutions for our customers in key technology intensive industries. We shall 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.

- Group ambition is an annual average growth of 10 per cent over a five year period, of which about half is organic
- We shall be a "double digit" EBITA-margin business
- Through accelerated efforts to increase shareholder return and improve competitiveness, we have the ambition to achieve annual cost improvements by 2016 of NOK 1 billion
- KONGSBERG will target a return on capital employed matching historic levels - new projects and initiatives will be evaluated against a 10–15 per cent requirement dependent upon project risk

KONGSBERG 200. From celebrations in Bellport, USA (left) and Kongsberg, Norway (right).

Our values are our guidelines – they make us what we are and have been the basis for our corporation for 200 years. The KONGSBERG values are normative for how we behave and work, and characterise our cooperation within and outside the company.

Values

Determined

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

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 relentlessly pursue improvements,
new ideas and new solutions.**

Collaborative

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

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.

PRESIDENT AND CEO WALTER QVAM

In 2014, KONGSBERG celebrates 200 years, and this is also the starting point for the next 200 years of our history. At such a milestone, we wish to honour and acknowledge what one of the world's oldest high-tech companies has achieved, and also look ahead and prepare the foundation for the next 200 years.

2014 represents an important milestone in KONGSBERG's history – together with the Norwegian Constitution we celebrate 200 years. Not many companies in the world can demonstrate 200 years of continuous operations. We are very proud of this fact and also humble. Our duty is to carry on our unique history, and to make KONGSBERG even stronger and better for the generations to come.

Our history is recognised by the fact that we have gradually built a solid foundation over time. Our technological innovations are based on solid competence, good customer relations and a strong culture. In a globalised competitive environment, where both companies and products are becoming more and more alike, a powerful and visible corporate culture is essential to create differentiation and recognition in the markets. In today's international and relatively diversified KONGSBERG, this strong corporate culture is creating fellowship and unity across the borders, segments and technical environments. Therefore, the KONGSBERG identity and the belonging is an important element in the celebration of our anniversary. The anniversary is first and foremost a celebration for all present and former employees.

The history we can look back on, when we today have become a global high-tech group with offices in more than 25 countries, is impressive. We need to go back as long as to the early 17th century to find the origin and background for today's KONGSBERG. The discovery of silver in the mountains at Kongsberg made the city an important mineral resource for the Danish-Norwegian union. At the dissolution of the union with Denmark about 200 years later, the need arose to build a strong defence that could contribute to independence and safety for Norway. This required a separate defence industry, and on the basis of the competence already available in Kongsberg, one of the Eidsvoll "fathers", Poul Steenstrup, established Kongsberg Vaabenfabrik on 20 March 1814.

From that date, it has been a long journey, a journey through Norway's initial industrial revolution, through the building of the post-war technological industrial Norway and to the internationalisation of Norwegian technology and competence in the last decades up until today. Throughout the entire journey, KONGSBERG has been an important strategic resource for Norway, and later also for other nations as a supporting party within defence, maritime and space technology, as well as within oil and gas.

During 200 years, KONGSBERG has developed and changed through good as well as bad times. Our most important experience from all these years is that our employees' knowledge is the one sustainable resource over time. Ever since Poul Steenstrup established KONGSBERG in the year of the Constitution, knowledge has been our most important resource, and this is very much so also today.

2013 became a good year for KONGSBERG. We have continued to grow and experience a strong demand for our technological solutions in all our market segments.

In recent years, KONGSBERG's maritime business has experienced solid growth, and 2013 was no exception. Our deliveries to subsea, offshore and the merchant fleet constituted in 2013 over half of the Group's total operating income. As the exploration and production activity moves further away from shore and into more difficult and deeper waters, the demand for advanced technology increases. Due to KONGSBERG's considerable investments in product and technology development, we have a modern and world-leading product portfolio well positioned to meet these challenges. MUNIN, our newest module based autonomous underwater vehicle, manufactory calibrated for navigation and easy to transport and launch, represent one of many examples of this innovative strength.

In 2013, we experienced an all-time high intake of orders in our maritime segment, and operating income continued to increase. It was the activity within the offshore segment in particular that caused this growth, in terms of revenues as well as incoming orders. During long periods of the year, KONGSBERG delivered one dynamic positioning system every day.

Within oil and gas, the growth curve continues since this segment became a separate business area in 2010. In relatively short time, KONGSBERG has built a solid portfolio within our software based decision-making support systems SiteCom, K-Spice and LedaFlow. During 2013, our oil and gas subsea segment has concentrated on the integration of KONGSBERG Nemo, acquired at the end of 2012. In August, this segment was awarded an important contract to Statoil's Polarled project. In addition, the subsea segment is involved in the development of several new product opportunities in close cooperation with customers.

In the defence area, 2013 has been a very intense and eventful year. In spite of cuts in the defence budgets worldwide, we are experiencing that several of our products have an increased demand, and 2013 became a relatively good year. Our modern, advanced and cost-effective solutions have a considerable potential both in the short and long term.

Naval Strike Missile (NSM) is fully operative, and Joint Strike Missile (JSM) has during 2013 come closer to a full scale production. Considerable efforts have been made on the market side for the air defence system NASAMS including being chosen by Oman in January 2014, KONGSBERG's largest contract ever with a total framework value of 3.7 billion kroner.

Our product range within remotely controlled weapon systems continues to enhance its world leading position by being the preferred system. In total, approximately 1,000 new weapon systems were delivered in 2013. Our most important development program within this area in recent years, Medium Caliber RWS (Remote Weapon Station) has been received with significant interest in the market.

The technology group KONGSBERG is facing an exciting future with many opportunities. We are growing, we have a strong position, and the demand for our solutions as well as our competence is considerable. Competition and demands are increasing for all our segments.

One of the most important initiatives in this respect is to continue to work to improve our competitiveness. In 2013, we decided to strengthen this even further by implementing a group-wide efficiency program with the main objective to secure our international competitiveness. The program called DELTAONE has a goal to improve costs by one billion Norwegian kroner per year before the end of 2016.

Knowledge is another important area, the competition for the best engineers is becoming increasingly tough, especially in Norway. We are making considerable efforts in schools and universities in Norway, by the campaign "Your Extreme" in cooperation with NTNU, as an example. In Universum's annual survey of the engineers' preferred employer, we came on a very respectable third place in 2013.

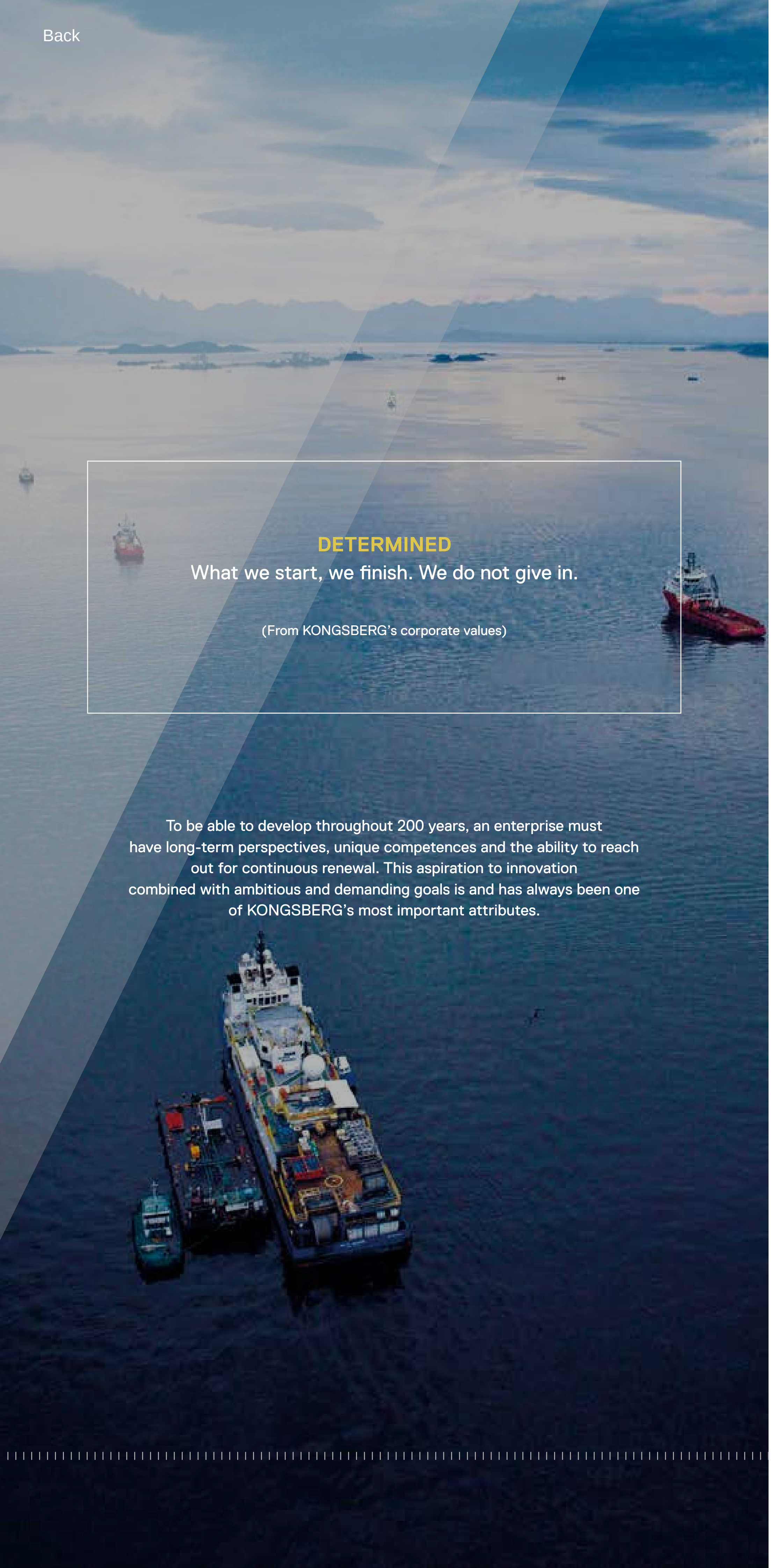
I would take this opportunity to express my gratitude to all KONGSBERG's employees for their unique engagement and go-ahead spirit, which is the main reason for everything we have achieved. I would also like to express appreciation to our customers for the confidence you place in us, and thank our suppliers, partners and owners for excellent cooperation and support.

Finally, I would like to wish everyone a happy anniversary.

Walter Qvam

Walter Qvam,
President and CEO
March 2014

KONGSBERG 200 YEARS



DETERMINED

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

(From KONGSBERG's corporate values)

To be able to develop throughout 200 years, an enterprise must have long-term perspectives, unique competences and the ability to reach out for continuous renewal. This aspiration to innovation combined with ambitious and demanding goals is and has always been one of KONGSBERG's most important attributes.

KONGSBERG 200 YEARS

KONGSBERG was set up on 20 March 1814 by Poul Steenstrup, a mining supervisor, based on his desire to create new jobs at a time when the town of Kongsberg was suffering from hardship and poverty. The establishment of the factory can also be seen in the context of the fact that a desire for national independence was then sweeping through the country.

A World Class Journey

Kongsberg Våpenfabrikk started manufacturing rifles for the Norwegian Armed Forces and a number of different models were developed and supplied during the 1800s. The company's big international breakthrough occurred in 1888 when Director Ole Hermann Johannes Krag and the gunsmith Erik Jørgensen presented their prototype for a new repeating bolt action rifle.

This rifle had a mechanism which was completely revolutionary in the field of weapons production. It was initially adopted as an army rifle by the Danish Army in 1889. Three years later, the Krag-Jørgensen rifle become a world-famous concept when the USA decided to equip its soldiers with this weapon.

The Krag-Jørgensen rifle dominated manufacturing operations at Kongsberg Våpenfabrikk right up until the end of the 1st World War in 1918 when the factory commenced civilian production. The weapons factory was granted a licence to manufacture civilian weapons, tools and components for the shipping industry and the whaling fleet.

During the 1930s the threat of war was once again hanging over Europe. The Spanish Civil War had shown the world the type of destruction that could be caused by aerial bombing and the Norwegian authorities ordered the production of anti-aircraft guns. Some of these were involved in battles when Nazi Germany invaded Norway on 9 April 1940.

Throughout the war years, from 1940 to 1945, Kongsberg Våpenfabrikk was under German control. During this period the factory manufactured 40 mm Bofors guns, rifles, medium machine guns and pistols. However, production never reached the desired targets of the occupying forces. This was partially due to a lack of access to raw materials, but also to resistance from the factory workers.

After the 2nd World War, Kongsberg Våpenfabrikk was designated as one of Norway's major industrial developers. The weapons factory was no longer under military control and in 1953 the Norwegian government (the Storting) voted to initiate large-scale modernisation of the company.

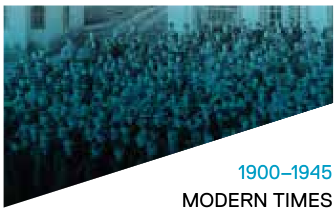
KONGSBERG 200

1814–1890
THE BEGINNING

- Established 1814 by Poul Steenstrup
- One of Norway's first industrialised factories
- Several centuries of mining traditions
- A knowledge-based business from the start
- Developed entirely new sets of skills and innovative products

1890–1900
WORLD'S BEST

- Innovation at it's heart, international success in it's sights
- Norway's first large-scale industrial export
- International recognition with the Krag-Jørgensen rifle



1900–1945
MODERN TIMES

- Capitalised on our established expertise in the defence arena to enter new markets and seek fresh business opportunities
- Continual development of the company and brand
- Creating of our civilian divisions
- Investing in our people, fulfilling our potential

This was based on a desire to develop a high-tech national defence industry which could meet the requirements of the Norwegian Armed Forces and provide NATO with technological assistance.

The establishment of the Defence Research Institute at Kjeller in 1947 was part of the same strategy. The Norwegian authorities believed that it would be an advantage if the Armed Forces could have a national industrial partner that would be able to realise the technology involved. Between the 1950s and today's date, this cooperative venture has produced a number of defence systems, including the Penguin missile, the NASAMS air defence system, the HUGIN autonomous underwater vehicle and the Naval Strike Missile.

The maritime aspect of Kongsberg Våpenfabrikk's history commenced in earnest during the 1970s and coincided with the discovery of oil in the North Sea. Companies which subsequently joined the Kongsberg Group, such as Simrad and Norcontrol, had already been supplying echo sounders and automation systems to the fishing fleet and the merchant navy for several decades.

However, the 1970s was the decade when Kongsberg Våpenfabrikk acquired its standing in both the maritime industry and the petroleum sector. Dynamic positioning and underwater installations were revolutionary technology which provided the industries in Kongsberg with a technological advantage which still applies today.

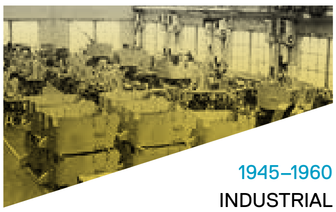
1987 marked a turning point in the history of Kongsberg Våpenfabrikk when the company was divided into manufacturing divisions for automotive components, aircraft components, gas turbines, oil installations, maritime equipment, drawing machines and defence equipment. Innovation was high – profitability, however, was not. Consequently the State, which owned all the shares in the company, decided to sell everything apart from the Defence Division which continued under the name of Norsk Forsvarsteknologi (Norwegian Defence Technology).

In 1995 the company became known as KONGSBERG. This was followed by numerous acquisitions, including the re-acquisition of the Maritime Division. In 1997 KONGSBERG assembled the operations of its subsidiaries, Kongsberg Maritime AS and Kongsberg Defence & Aerospace AS.

At the turn of the millennium KONGSBERG seized the opportunity when a requirement emerged for a remotely controlled weapons station for wheeled vehicles. KONGSBERG's solution proved to be so effective that the US Armed Forces soon became a major customer. In 2008 these operations were separated out into a separate business area under the name of Kongsberg Protech Systems. The group's other defence activities continued under the name of Kongsberg Defence Systems which supplies anti-aircraft missiles, command and control systems, aircraft components and communications equipment.

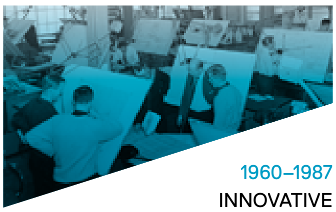
During the same year Kongsberg Oil & Gas Technologies was also formed. The operational units at Kongsberg Maritime, which had been working on oil and gas simulation technology, were reorganised under new management. During the course of just a few years, Kongsberg Oil & Gas Technologies has expanded its operations to include subsea hardware solutions, well-drilling software and decision-making support services.

At the beginning of 2014 KONGSBERG has a turnover of MNOK 16,323 and 7,493 employees in more than 25 different countries. KONGSBERG currently has four business divisions: Kongsberg Maritime, Kongsberg Defence Systems, Kongsberg Protech Systems and Kongsberg Oil & Gas Technologies.



1945–1960
INDUSTRIAL LOCOMOTIVE

- Driving force in the restructuring and development of Norwegian industry
- Collaboration with the best to be the best
- Working with the aim of producing defence systems of the highest quality and effectiveness for the nation



1960–1987
INNOVATIVE BREAKTHROUGHS

- A golden age of innovation at the company
- Breaking new ground with DP and revolutionary missile technology
- Gaining recognition as a global leader
- Rapid international growth creates challenges as well as opportunity – a need for restructuring emerges

1987–1993
REBIRTH

- Creating long-term stability through focusing on core strengths
- Successfully balancing business caution with continual innovation and ambition
- The creation of a new, publicly listed business – proud of our past, focused on our future

1993–2014
A GLOBAL LEADER

- World class solutions to global challenges
- An established international technology leader with a reputation for innovation, determination and reliability

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KONGSBERG 200 YEARS

A strong culture and clear values

DETERMINED

"Follow the Sun"

Irrespective of where you are in the world, and around the clock, KONGSBERG's high-tech support centers are always available. Centers in Singapore, Kongsberg and New Orleans provide expertise within all the major product areas KONGSBERG is engaged in. Today, more than 15,500 vessels worldwide have equipment from KONGSBERG, and during a normal day, the centers handle approximately 1,000 e-mails, in addition to telephone calls. Some of the vessels also have the capability to connect the systems directly and thereby enable to centers to perform remote diagnostics and deliver services, advice and guidance directly to each vessel, wherever it is. This functionality is being installed in an increasing number of vessels.

INNOVATIVE

Missiles

With its unique ability to localise and recognise different types of targets, Naval Strike Missile (NSM) is the world's only fifth-generation long-ranging precision missile. The missile's low radar signature and outstanding manoeuvring qualities makes it difficult to discover, and thereby very effective. NSM can be used from land, vessels as well as helicopters. The development of NSM is founded on more than 50 years of innovation and experience, all the way back to the beginning of the Penguin missile developed by KONGSBERG. This started already at the end of the 1950s, with Norwegian Defence Research Establishment (FFI) as partner. The technology of NSM has also been carried forward to the development of Joint Strike Missile (JSM), a missile specially manufactured for the new F-35 fighter. JSM is the only missile developed to fit into the F-35 aircraft body, and is thereby the only missile in the world to apply the plane's low radar signature.

Every day of the year, KONGSBERG is engaged in making the most advanced and technologically demanding solutions for our customers. This requires a unique culture with a strong set of values.

COLLABORATIVE

RELIABLE

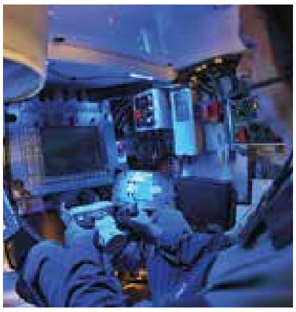
WellAdvisor

SiteCom WellAdvisor has been developed in cooperation between KONGSBERG and British Petroleum (BP). BP has defined the development project as one of the companys' flagship projects, even acknowledged as such by BP's Board of Directors. By making key information available in real time, through visualisation and analyses, as examples, WellAdvisor contributes to better and safer decisions in drilling and well constructions. In addition, WellAdvisor supports the standardisation of work processes in the entire company, which is important for more effective and secure drilling operations.

In BP, the project has been given the name BP WellAdvisor, and so far, BP has successfully applied the system in connection with several of their drilling operations worldwide.

Remote Weapon Station

Since 2001, KONGSBERG has produced more than 15,000 PROTECTOR Remote Weapon Stations (RWS). This advanced weapon system allows the user to operate the weapon from within the vehicle, and thereby provide better protection and reduced risk for military personnel as well as the civilian population. As of today, PROTECTOR RWS has been sold to 17 countries, and KONGSBERG is the world's leading supplier of remote-controlled weapon systems. PROTECTOR RWS has an "Operational Readiness Rate" of over 99 per cent, and with more than 30 million hours of logged operations and 20 million hours in use in the field and military operations, the system has proved to be extremely reliable.



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KONGSBERG 200 YEARS

Competence and high technology

CYBERNETICS

eBird

Cybernetics is about managing systems that change or move. One of the products KONGSBERG delivers and that concerns cybernetics is eBird. The eBird technology is revolutionary and patented and produced to control seismic cables dragged by a seismic vessel in order to map oil and gas reserves. With eBird, the vessel can drag up to 24 parallel cables, each with a maximum length of twelve kilometres. Several hundred "eBirds" are used to control that the cables do not twist, regardless of how the vessel is manoeuvring. With eBird, seismic mapping can be carried out much quicker than before. Since eBird came on the market in 2009, the product has gained recognition for its functional design, innovative technology and reliability. In 2011, eBird was awarded The Norwegian Design Council's prize for Design Excellence.

UNDERWATER ACOUSTICS

Hugin

Underwater acoustics are used to map, observe and monitor under water. HUGIN is a Norwegian developed, world-leading, autonomous underwater vehicle that by using a number of various censors and cameras, including underwater acoustics, can map in detail ocean depths down to 4,500 meters and find small objects under water. HUGIN is developed in cooperation between the Norwegian Defence and Research Establishment, the Royal Navy, Statoil and KONGSBERG. The cooperation started in 1995, and in 1997 the first HUGIN was used for commercial purposes in the North Sea. It has investigated the sea bottom before the exploration of both Åsgard, Snøhvit, Ormen Lange and most of the deep-sea oil fields in the world, and it has also been developed for military mine searching. KONGSBERG is the global leader in autonomous underwater vehicles, and Seaglider, REMUS and MUNIN are other autonomous underwater vehicles in KONGSBERG's product range.

Back

In KONGSBERG, we develop and apply world-leading high technology to solve challenges, even if the technology does not exist and the solutions are not obvious. As technology can be copied, and knowledge is made available faster, it is the ability to transfer knowledge and competence to new products and services that counts. We in KONGSBERG are better equipped than most to manage such a challenge.

SYSTEM INTEGRATION

NASAMS

KONGSBERG has long experience in integrating complex systems. National Advanced Surface-to-Air Missile System (NASAMS) is one of the most advanced and flexible wholly integrated anti-aircraft defence systems in the world. The system has been developed by KONGSBERG in cooperation with the Norwegian army and American Raytheon, and is a wholly integrated anti-aircraft system to defend civilian and military installations on the ground against threats from the air. NASAMS consists of one or several radar units and launching stations and applies open IT architecture to make it possible to integrate the system with already existing systems. In the USA, NASAMS has protected the airspace over the capital Washington D.C. around the clock for the last eight years. In addition to the USA, other countries including Norway, Finland, the Netherlands, Spain and Oman has selected NASAMS as an anti-aircraft defence system.

SIGNAL CONDITIONING

Space

Satellites are to an increasingly larger extent applied for information collection, everything from weather data to emergency signals. Satellite equipment from KONGSBERG provides the new European navigation satellites Galileo with vital signal conditioning and receiver systems for emergency signals. The Galileo system, Europe's answer to the American GPS system, shall include 30 satellites in total. The new satellites are equipped with advanced signal conditioning providing the highest possible precision in time and frequency for an optimal determination of position. KONGSBERG also supplies the same satellites with "Search & Rescue" receivers, which can receive very weak, but critical signals, from life buoys and other emergency transmitters.

KONGSBERG 200 YEARS

Long-term perspectives

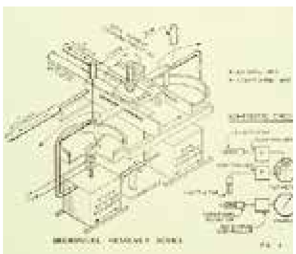
The history of dynamic positioning is a small piece of Norwegian engineering and industry history. Norway and KONGSBERG today are global leaders within dynamic positioning, and more than 3,000 installations and vessels over the entire world have installed Dynamic Positioning from KONGSBERG today.

The starting point

Dynamic positioning arose from a need to keep a vessel still in the sea when performing core drilling on the sea bottom in order to investigate plates in the earth's crust outside California early in the 1960s. The traditional method used earlier was to anchor the vessel, but little by little one tried to use manually operated thrusters to keep the vessel still. This new method proved effective, and Howard Shatto, a young engineer at Shell, had the idea to automate the vessels' ability to keep still in the water. In 1961, the automation was made on the vessel Eureka, and the concept dynamic positioning was born.

KONGSBERG explores technology

One of those fascinated by the technology that began to be developed in the USA was Professor Jens G. Balchen at NTNU while he spent a sabbatical year in California at the end of the 1960s. As the "oil fever" with the accompanying offshore industry not yet had reached Norway, the interest was rather low, but the research was nevertheless started. As the market for offshore service vessel grew in line with the oil discoveries on the Norwegian shelf, several Norwegian ship owners became interested in the opportunities such a system could give. The ship owners Stolt-Nielsen in Haugesund were the first with a vessel that had a system for dynamic positioning, delivered by the American company Honeywell. As the interest increased and NTNU had started to explore the technology, Kongsberg Våpenfabrikk also engaged in cooperation with other Norwegian actors to investigate the technology.



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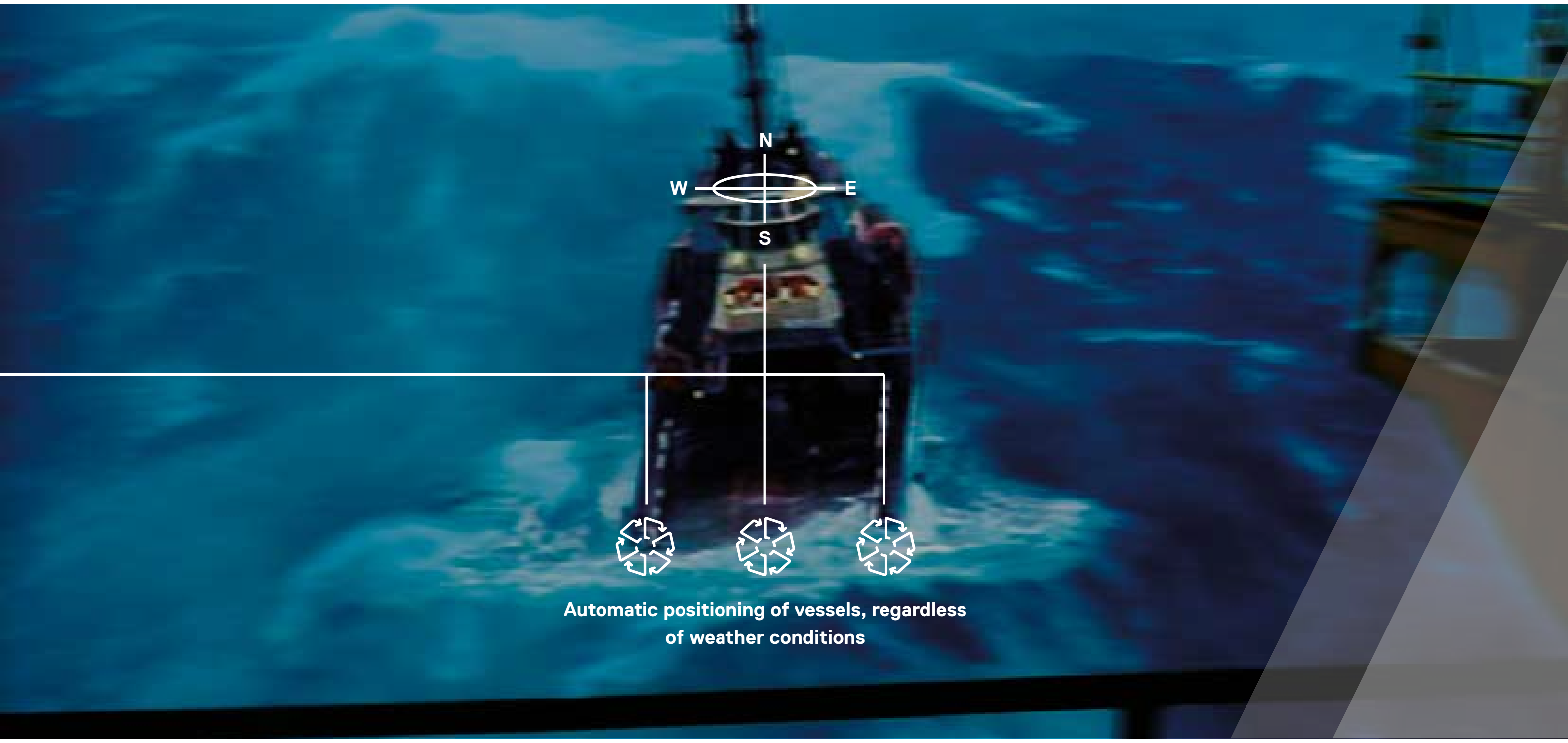
We make use of the experiences 200 years of history have given us, and we also look ahead to the future to understand and develop technology that can create improvements for our customers. It is a combination of these long-term perspectives that has enabled us to develop, and continue to develop, world-leading products like Dynamic Positioning (DP).



Unique and world-leading technology

When Kongsberg Våpenfabrikk in 1975 signed the contract for the delivery of Stolt-Nielsen's second dynamic positioning system, the adventure took off, and Norway had a leading role. Based on Kongsberg Våpenfabrikk's experiences from defence technology and inspired by Professor Balchen, KONGSBERG cooperated with SINTEF in starting to make a system that was to have extraordinary qualities. On 17 May 1977, the first Norwegian developed system was in operation on Stolt-Nielsen's diving vessel "Seaway Eagle".

The technology delivered by KONGSBERG was unique and world-leading, but expensive. In the beginning of the 1980s came en new, much less expensive technology relevant for dynamic positioning systems on the market. As a result, manufacturing costs could be considerably reduced. The consequence was that dynamic positioning became available for a larger part of the market, including supply ships where the price previously had been too high. The supply ships did not require the same level of integrated security as the diving vessels, and the "DP family" was therefore extended with a new and simpler system.

"The Full Picture"

In line with the increasing speed within technology, KONGSBERG continued to develop the dynamic positioning portfolio with new solutions and new generations. The technology development also accelerated in the development of the offshore vessels.
The vessels became increasingly complex, and with that, the need for more integrated solutions. Hence, the system was further developed into the concept "The Full Picture", an integrated system to operate and monitor thrusters, power systems, general engine room automation, ballast systems and a number of other functions.

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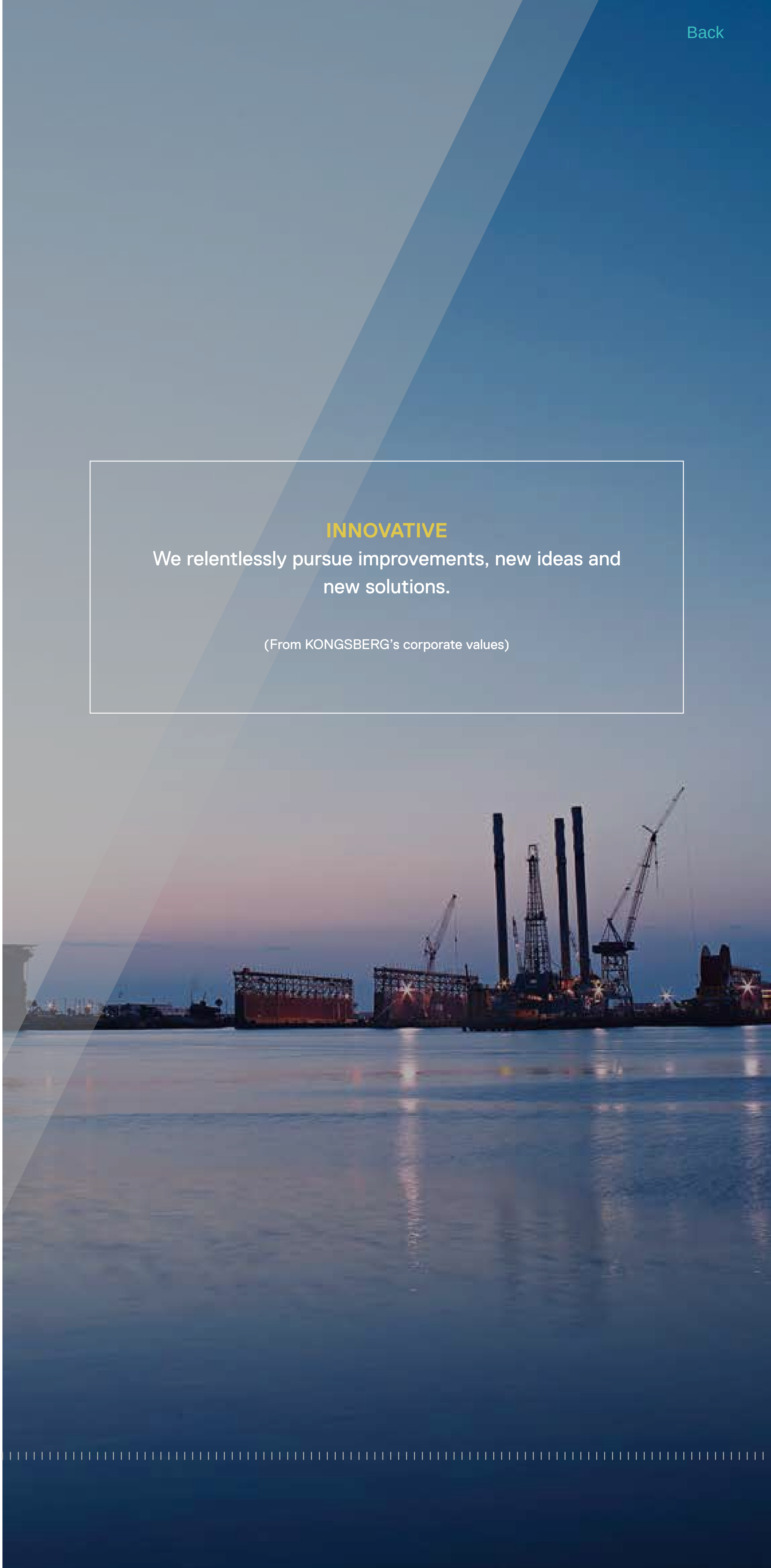
DIRECTORS' REPORT AND FINANCIAL STATEMENTS



INNOVATIVE
We relentlessly pursue improvements, new ideas and new solutions.

(From KONGSBERG's corporate values)

DIRECTORS' REPORT 2013

Revenues constituted MNOK 16,323, an increase of 4.3 per cent compared to 2012. During 2013, there was considerable growth in both Kongsberg Maritime (KM) and Kongsberg Oil & Gas Technologies (KOGT). Kongsberg Defence Systems (KDS) achieved an increase in the EBITDA margin from 10.3 per cent to 11.4 per cent, while Kongsberg Protech Systems (KPS) experienced a reduced level of activity, but with good margins. EBITDA for the Group reached MNOK 2,142 compared to MNOK 2,294 in 2012.

Profit for the year after tax amounted to MNOK 1,225 (MNOK 1,304), corresponding to NOK 10.24 per share (NOK 10.91). The Board of Directors will, on this basis, propose to the Annual General Meeting an ordinary dividend per share of NOK 4.25 (NOK 3.75). In connection with KONGSBERG's 200th anniversary, the Board proposes an extraordinary dividend of NOK 1.00 per share. In total, this constitutes NOK 5.25 per share, which corresponds to a dividend ratio of 51.3 per cent.

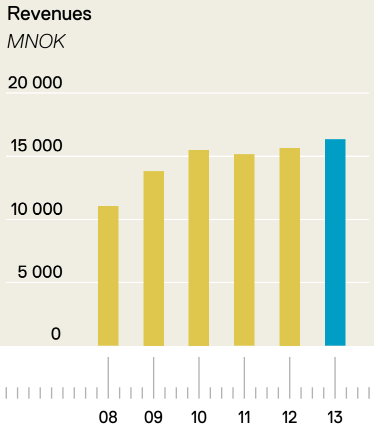
Important events in 2013

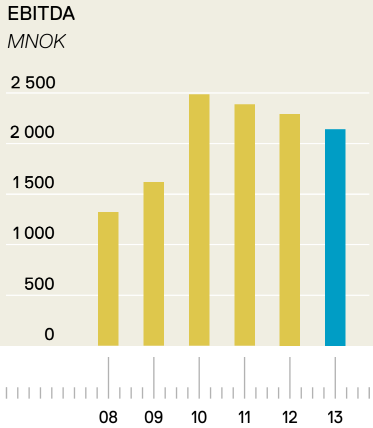
The Group increased revenues by 4.3 per cent in 2013. KM and KOGT experienced increases, while KDS and KPS had reduced revenues. EBITDA increased in all business areas except KPS. KM and KDS also were more profitable, whereas KPS and KOGT had lower margins than in 2012. However, the underlying operations in KOGT improved.

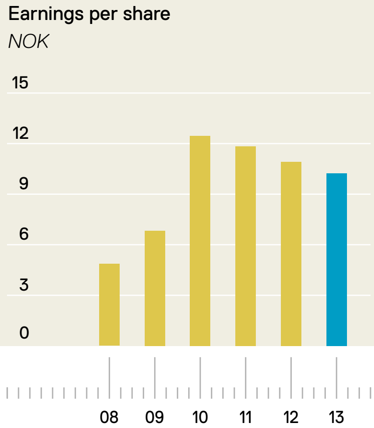
At KDS the year has been characterised by the implementation of major projects. The projects for delivery of coast artillery to Poland, NSM (Naval Strike Missile) to Norway and the air defence system NASAMS to Finland have all performed according to plan and contributed to the increased profitability. The business area's development project, JSM (Joint Strike Missile), follows the determined development plan, and in the fourth quarter a bridging phase financing was signed for JSM level III. At KM, the year has been influenced by a high level of activity throughout the global network. Margins and EBITDA increased compared to 2012. KM confirmed its strong market positions throughout the year, and despite increasing competition in several markets, the order inflow reached an all-time high. At KPS both revenues and EBITDA are reduced compared to 2012. KPS is experiencing a period of reduced demand as its largest customer no longer has major immediate needs. The leading position on the world market for remote-controlled weapon systems (RWS) was maintained also in 2013. The product range has been extended with, i.a., Medium Caliber Remote Weapon Station (MCRWS), a product with considerable market potential. In 2013, KOGT has had commercial success with several of its solutions based on the core products Sitecom, K-Spice and Ledaflow, and increased orders for software and related services by approximately 30 per cent compared to 2012. In the subsea area, considerable efforts were put into the integration of Kongsberg Nemo in 2013. In August, the subsea business area was awarded an important delivery to the Polarled project by Statoil.

Future strategy and priorities in 2014

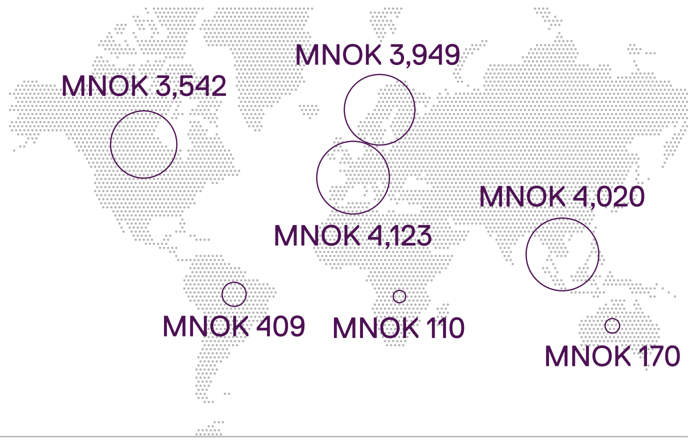
Although the growth in KM, KDS and KOGT was satisfactory, the Group in total has had limited growth in recent years. Over time, KONGSBERG shall generate solid and profitable growth. In November 2013, the Group presented new and ambitious goals, related to growth as well as return on capital. In 2013, an adjusted steering model has been implemented, implying a clearer distinction between operat-







Operating revenues distributed on the customers' geographical location



ing mandates in the business areas and strategic mandates among the Group's executives and board. Future focus will to an even larger extent than previously be to secure increased competitiveness and also create the basis for further growth.

The Group's ambition is to grow by an average of ten per cent annually over the next five year period. This growth shall be achieved by a combination of organic growth and acquisitions. The basis for the organic growth is a further development and extension of existing products, services and market position. Hence, the Group will continue to invest considerably in product development, but also through further market adjustments of the international business model. 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 defence, maritime and offshore, oil and gas.

In the international defence market, KONGSBERG is well positioned with its modern product portfolio. Focus in this market is growth in selected geographical areas both by own activities, together with partners and acquisitions to strengthen our presence. KONGSBERG has a successful and long cooperation with the Norwegian defence. This is important for a continued international success. Within KONGSBERG's maritime product range, the emphasis is on achieving growth through further developing leading positions, as well as extending the range of deliveries by continued innovation and acquisitions. KONGSBERG's portfolio within oil and gas is relatively small, but comprises unique and newly-developed solutions. The main efforts in this area will be concentrated on contributing to new growth through innovation and acquisitions, both in order to extend existing deliveries, but also to establish new bases for growth.

The Group's growth shall generate satisfactory return for the company as well as our owners. In recent years, the Group has achieved EBITA margins well over ten per cent, a fact to be maintained also over the next five year period. Return on capital is also an important parameter for measuring profitability. KONGSBERG has in the last few years had a satisfactory return on employed capital, and it is an expressed goal that the return shall be on the same levels as we have experienced historically.

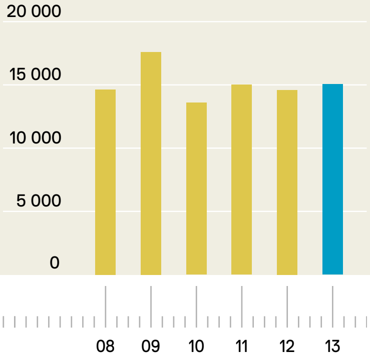
As part of securing the Group's future competitiveness, "DELTAONE", an efficiency program at group level, was started in the autumn of 2013. The ambition for the program is a realised efficiency gain on NOK 1 billion per year before the end of 2016. This will make the Group well equipped to meet the increasing international competition and also secure a satisfactory return for our owners. DELTAONE shall focus on a wide range of areas. The program shall stimulate to realising fundamental and permanent improvements. The aim is to be able to adapt internal and external best practices further, concentrating on the areas of process improvements, supplier chain and product design. In addition, a strong emphasis will be on making administrative processes more effective.

The business areas' priorities in 2014

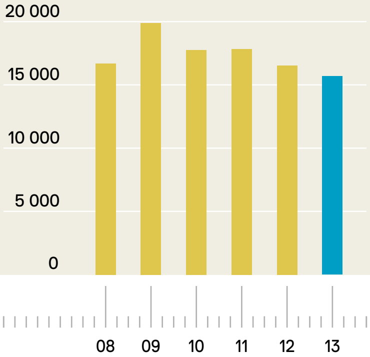
Kongsberg Maritime

- Ensure additional efficiency and productivity improvements in the delivery models
- Continue the efforts on aftermarket activities
- Secure market positions, particularly in the offshore market
- Continue developing the product and service portfolio

New orders
MNOK



Backlog of orders
MNOK



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.

Headquarter	Kongsberg
Number of employees	7 493
Share of employees outside Norway	36%
Number of locations, countries	25
Revenues outside Norway	76%

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Kongsberg Defence Systems

- Ensure a continued satisfactory completion of the large, ongoing programs in missiles, air defence systems and other delivery projects
- Secure good progress in developing JSM
- Maintain a high market activity related to the entire product range
- Secure a strengthened strategic foundation in key markets

Kongsberg Protech Systems

- Work towards achieving the first contract on the MCRWS
- Continue to concentrate on costs to secure margins in a period of reduced growth in the core markets
- Establish positions in new markets, geographically as well as with new products.

Kongsberg Oil & Gas Technologies

- Strengthen the position for the business area niche products within the oil & gas market
- Concentrate on effectiveness and productivity in the operating model
- Ensure competence to carry out EPC projects
- Expand the product range against the subsea market
- Strengthen the position within solutions for decision making support/software solutions for drilling operations

Comments to the 2013 financial statements

Revenues

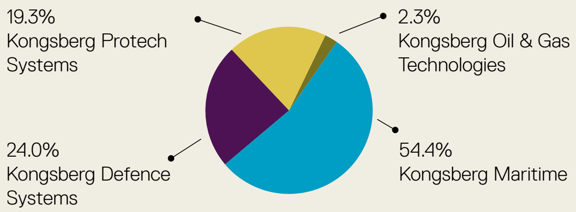
The Group's revenues were 4.3 per cent higher in 2013 compared to 2012. In KM this is due to the increasing activity level resulting from a strong order inflow in recent years. In KOGT the increase is largely related to the acquisition of companies, but also a general increase within the area Software & Services. KDS experienced a small reduction in revenues. The activity level is satisfactory, but accruals in the large projects result in somewhat reduced revenues. KPS has reduced revenues mainly as a consequence of a lower activity level related to the largest customer.

EBITDA development

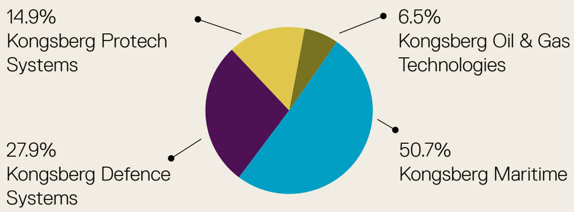
EBITDA in 2013 constituted MNOK 2,142 (MNOK 2,294). Apart from KPS, all business areas have increased their EBITDA in 2013. The reduction in KPS is due to smaller volumes and deliveries on contracts with lower margins.

	KONGSBERG consolidated	*Kongsberg Maritime*	*Kongsberg Defence Systems*	*Kongsberg Protech Systems*	*Kongsberg Oil & Gas Technologies*
Revenues					
2013	16 323	8 264	4 554	2 420	1 077
2012	15 652	7 485	4 654	2 876	702
Change in per cent	4.3%	10.4%	(2.1%)	(15.9%)	53.4%
EBITDA					
2013	2 142	1 179	520	419	49
2012	2 294	1 050	478	727	44
Change in per cent	(6.6%)	12.3%	8.8%	(42.4%)	11.4%
EBITDA margin					
2013	13.1%	14.3%	11.4%	17.3%	4.5%
2012	14.7%	14.0%	10.3%	25.3%	6.3%

Distribution of EBITDA



Distribution of revenues



Results

Profit before tax amounted to MNOK 1,644 (MNOK 1,809), after tax MNOK 1,225 (MNOK 1,304), equivalent to NOK 10.24 (NOK 10.91) per share. Return on capital employed (ROCE) was 21.5 per cent in 2013 (26.6 percent).

In November 2013, KONGSBERG announced a new dividend policy implying that dividend over time shall constitute between 40 per cent and 50 per cent of the company's profit for the year. On this basis, the Board proposes an ordinary dividend for the accounting year 2013 of NOK 4.25 per share (NOK 3.75), equivalent to a dividend ratio of 41.5 per cent. In addition, the Board proposes an extraordinary dividend in connection with KONGSBERG's 200th anniversary of NOK 1.00 per share. In total, this gives NOK 5.25 per share, equivalent to a dividend ratio of 51.3 per cent.

Cash flows

In 2013, KONGSBERG improved net cash flows from operations by MNOK 1,776 compared to 2012, to MNOK 1,983 (MNOK 207). This primarily include operating profit before depreciation and amortisation (EBITDA) of MNOK 2,142 net of taxes and adjusted for changes in net current assets and accruals. The cash flows were particularly strong in the second half of the year. MNOK 775 of cash flows from operating activities were spent on investments, of which MNOK 356 concerned purchases of property, plant and equipment, MNOK 343 constituted disbursements related to the acquisition of subsidiaries and MNOK 80 was spent in capitalising in-house developments. In 2013, a dividend of MNOK 450 was paid to the shareholders. The net change in cash and cash equivalents in 2013 amounted to MNOK 763.

Capital structure

The Group's equity at 31 December 2013 was MNOK 6,657 or 38.2 per cent of total assets. The equity book value increased by MNOK 383 during 2013. The Group's cash balance (cash less interest-bearing debt) at 31 December 2013 was negative (positive net cash balance) by MNOK 1,935 (MNOK 1,198). Gross interest-bearing debt mainly consists of three bond loans totalling MNOK 1,250. One of these loans, with a nominal value of MNOK 500, is due in 2014. In addition, the Group has an undrawn syndicated loan facility of MNOK 1,000, which expires in July 2015. The loan facility requires that net debt does not exceed three times EBITDA, but can be up to 3.5 times EBITDA for a maximum of three quarters. KONGSBERG's 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 a 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.

Currency

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

At the end of 2013, the balance of forward contracts related to project hedges was MNOK 8,496 measured at hedged rates. At 31 December 2013, these forward contracts had a less value of MNOK 105. The Group also had MNOK 10,373 in forecast hedges measured at hedged rates, constituting forward contracts. At 31 December 2013, the forecast hedges had a less value of MNOK 37.

SELECTED KEY CONTRACTS AND EVENTS IN 2013

- Bridging-phase contract with FLO for further development of JSM and contract for delivery of Penguin missiles to the armed forces in New Zealand
- Cooperation agreement with AgustaWestland about an expansion of the helicopter business
- Satisfactory launch tests with the NSM missile
- Contract on upgrading of NASAMS II anti-aircraft defence system with the Norwegian air defence
- Maintained a strong market position for weapon stations, but generally lower demand in the market
- Contracts for PROTECTOR weapon stations to a number of countries, including the USA, France, Sweden, Croatia and Switzerland
- MCRWS – ready for the market – considerable interest

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Development in the business areas

Kongsberg Maritime

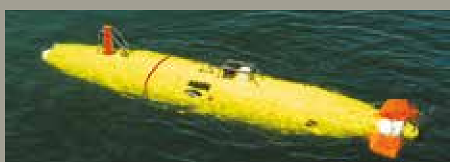
MNOK	*2013*	*2012*
Revenues	8 264	7 485
EBITDA	1 179	1 050
EBITDA margin	14.3%	14.0%

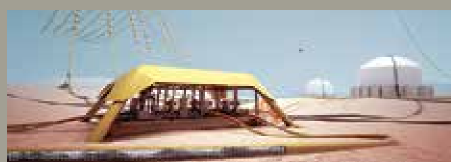
KM experienced satisfactory operations and a significant inflow of orders in a market characterised by strong competition. Revenues increased by 10.4 per cent to MNOK 8,264 (MNOK 7,485). The EBITDA margin was 14.3 per cent, compared to 14.0 per cent last year. New orders constituted MNOK 8,455 in 2013, the same level as in 2012. All divisions except Merchant Marine had increased revenues in 2013 compared to 2012. The offshore division's activity level increased as a consequence of the generally strong order inflow from the most important vessel segments in later years. Parts of the subsea division, i.a., subsea navigation, is also influenced by the high activity level in the offshore market. Together with satisfactory activities both within autonomous underwater vehicles (AUV) and fisheries, this result in an increase in Subsea's revenues in 2013 of more than 11 per cent compared to last year. The Merchant Marine division experienced a decline in revenues compared to last year. The shipping market has been relatively weak in recent years, a fact that has had an impact also on KM. Nevertheless, the division has maintained its strong position throughout the recession and appears to be well positioned in the future. There have been signs in 2013 indicating that this market is improving.

KM has installed equipment in more than 15.500 sailing vessels. This has resulted in a stable increase in the activities related to aftermarket and customer support, considered to be an important part of KM's product range and also added value for the customers. The continued development of this segment is an important part of KM's future strategy. The activities within the segments seabed mapping, inspection, oceanography and fisheries are, together with the aftermarket activities, to a limited extent affected by the level of contracting at the shipyards. More than 60 per cent of KM's deliveries are related to the oil and offshore market.

At the beginning of 2014, KM has an order backlog of MNOK 6,529, an increase of MNOK 487 compared to the beginning of 2013. During 2013, KM maintained and strengthened its market position. The order inflow has been good particularly for offshore related deliveries, both from the offshore and the subsea divisions, and the business area is well positioned also in view of future offshore projects. Efforts towards the offshore support market have been successful, and KM has increased its range of deliveries in this market. The satisfactory contracting, together with the business area's good order reserve, diversified product portfolio and expanding aftermarket, provide a good basis for 2014.

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





Considerable amount of orders on "Full picture" delivery contracts to offshore vessels

American climate project chooses Kongsberg technology

Improvement in the merchant fleet market. Kongsberg has signed a contract concerning container ships that are to become the largest and most advanced in the world

Satisfactory orders for the subsea business, in particular for the underwater navigation and acoustic "blow out prevention" systems

Successful integrations of newly acquired companies position KOGT within segments previously difficult to access

Polarled contract with Statoil

KOGT has commercial success with several solutions based on the core products SiteCom, K-Spice and LedaFlow

Kongsberg Defence Systems

MNOK	*2013*	*2012*
Revenues	4 554	4 654
EBITDA	520	478
EBITDA margin	11.4%	10.3%

KDS has experienced significant activity both within development, deliveries and markets in 2013. Revenues constituted MNOK 4,554, MNOK 100 lower than in 2012. The EBITDA margin increased from 10.3 per cent to 11.4 per cent, resulting in an EBITDA of MNOK 520 (MNOK 478). The activity has been high in the development program JSM in 2013. In the spring of 2013, Norway received the important confirmation from the F-35 program's Joint Executive Steering Board that JSM shall be integrated in the airplane. Potential customers, also outside Norway, have shown considerable interest for the missile. In November, the business area received a bridging phase financing contract for Level III in the development of the missile. A signing of the final Level III of the development contract is expected in 2014. On the delivery side, there is still significant activity both in the coast artillery project to Poland, anti-aircraft defence to Finland and NSM to Norway. The projects have developed as anticipated and passed important milestones in 2013. The anti-aircraft defence to Finland and the coast artillery to Poland are in their final delivery phases

KDS has a modern product portfolio with several newly developed systems and products considered to be at the beginning of their life cycle. These include the anti-aircraft system NASAMS and NSM, both regarded to have a great market potential. The market activities around these projects and the remaining systems of the business area have been high in 2013. During the year several important contracts were signed, of which the following are mentioned below:

- Upgrading of NASAMS II air defence system to Norway
- Rudders and structure parts to F-35
- Penguin sea goal missiles to New Zealand
- SeaProtector to the Norwegian naval defence
- Bridging phase contract to Level III development of JSM

KDS enters 2014 with an order backlog of MNOK 5,489, compared to MNOK 6.817 at the beginning of 2013. In January 2014, the business area signed its largest single contract so far, NASAMS to Oman, at a contract value of NOK 3.7 billion. As a consequence, the order reserve increases, as opposed to the decreases during the last years. The backlog is considered to be satisfactory 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 orders are regarded to be normal.

KONGSBERG has over time, 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 a possibility to develop and deploy technology that is particularly suitable for Norwegian conditions as well as maintaining a quality and cost that allows for it to succeed in the international competition. In 2013, the naval defence carried out two test launches as part of a technical evaluation program (TekEval) of the NSM missile. The TekEval program comprises a total of eight launches. The first test launch was made with a sharp warhead, with a simultaneous demonstration of the missile's accuracy and its advanced tactual manoeuvring capabilities. In the other test, the missile was launched from a vessel at high speed. This is the most demanding NSM launch so far, where several of the missile's performance parameters were tested to the utmost limits. Both tests were very successful.

The international defence market is influenced by politics where the customers of large defence systems are the defence authorities in the respective countries. These customers consider national security and domestic economic development as a significant factor, 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 and agreements that ensure market access. When the Norwegian Armed Forces make significant investments through foreign suppliers, this tie up a significant part of the defence budget, and purchases from domestic suppliers may be negatively affected. To ensure military supplies that are well adapted to Norwegian conditions and a sustainable and competitive Norwegian defence industry, we emphasise the importance of Norwegian participation in such programs. 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 activities in 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

MNOK	*2013*	*2012*
Revenues	2 420	2 876
EBITDA	419	727
EBITDA margin	17.3%	25.3%

After many years of strong growth, KPS entered into a phase with lower volumes in 2011. Revenues were further reduced in 2012 and 2013, mainly caused by reduced demand and the fact that the largest customer no longer had major immediate requirements. Revenues totalled MNOK 2,420, down from MNOK 2,876 in 2012. EBITDA amounted to MNOK 419 (MNOK 727). The EBITDA margin in 2013 ended at 17.3 per cent (25.3 percent). Although the margin was lower than in 2012, the business area still achieves a satisfactory EBITDA margin. This is due to several factors, but can mainly be attributed to a favourable product and project mix, adjustment of the cost level and reversal of accruals due to product improvements and changes in accounting judgements related to guarantee liabilities.

Total orders received in 2013 amounted to MNOK 2,005 (MNOK 1,957). The following are some of the contracts signed:

- Orders under CROWS III framework agreement, total value MNOK 900
- A contract with the department for defence materials (Försvarets Materialverk (FMV)) in Sweden – deliveries of weapons system PROTECTOR "Nordic"
- A contract with Duro Dakovic for delivery of weapon systems to the Croatian army
- A framework agreement with the French defence department for repairs, maintenance and logistics support
- Delivery contract with the Swiss army for weapon systems and logistics support

KPS has during the last decade grown to become the world leader of remote-controlled weapons systems (RWS). Contractual deliveries amount to more than 17,000 systems, of which 15,000 are delivered to customers in 17 countries. The USA is, both directly with the U.S. Army and via vehicle suppliers, the largest customer. In recent years there has been a clear shift concerning the origin of the revenues, both geographically and in relation to the portion of new sales /aftermarket. From 2009 to 2011, the USA accounted for almost 90 per cent of the business area's revenues. In 2013, this was reduced to 60 per cent. Revenues from other countries than USA have more than doubled in the last five years. The share of new systems compared to aftermarket activities is also changing. In 2010, over 4,000 new systems were delivered, compared to approximately 1,000 in 2013. The aftermarket activities have, however, been more stable in the period, but vary somewhat from one year to another as a consequence of the customers' patterns in purchasing spare parts.

KPS is starting 2014 with an order reserve of MNOK 2,805. The business area has a product range considered to be well adjusted to future market requirements. In later years, the product portfolio has been developed with several variances around the core product, both lighter and heavier versions, but also solutions for markets outside the vehicle segment. The most important development program has been MCRWS. This is an innovative, new remote-controlled tower solution. MCRWS is considered to have great market potential, also in new markets, and the interest for the product is significant. The product is now ready for sale. Decision-making processes in this market, however, seem to take more time than what has been experienced in the past few years, and there may still be some time before the first contract is signed.

Kongsberg Oil & Gas Technologies

MNOK	*2013*	*2012*
Revenues	1 077	702
EBITDA	49	44
EBITDA margin	4.5%	6.3%

KOGT has had a positive development in 2013 and demonstrates a satisfactory increase in revenues compared to 2012. Revenues in 2013 totalled MNOK 1,077, an increase of MNOK 375 compared to 2012. The increase is mainly due to the acquired companies Apply Nemo (Kongsberg Nemo) and Advali, but KOGT's software business has also improved. EBITDA in 2013 was MNOK 49 compared to MNOK 44 in 2012. The area Software & Services contributes to a considerable improvement of results compared to 2012 and accounts for the largest part of the business area's results. Within the subsea area, considerable efforts have been made to integrate Kongsberg Nemo. The Subsea area was in August awarded the important Polarled project by Statoil. In January 2014, KOGT's share of the Polarled contract was reduced by approximately MNOK 200, as Statoil cancelled parts of the Polarled project. The remaining part of the contract nevertheless represents a significant contract for KOGT.

KOGT constitutes a strategic priority for KONGSBERG with high-technology niche products for the oil and gas segment. The business area is in a development phase and positioned towards further growth. Earnings can fluctuate as a consequence of progress in individual larger projects and more licence sales of software products. In 2013, the business area had commercial success with several of its solutions based on the core products SiteCom, K-Spice and LedaFlow, resulting in approximately 30 percent more orders from software and related services compared to 2012. Since 2011, KOGT has been BP's cooperating partner in the development program BP Well Advisor, which BP have had good experience with in 2013. The parties have agreed to carry on the cooperation also in 2014.

In 2013, KOGT has further improved its position in the oil and gas market and is by its solutions for safer and more efficient operations well positioned to take further stakes in this market.

Other activities

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

Events subsequent to the balance sheet date

In February 2014, charges were taken out 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. KONGSBERG is cooperating with The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) to clarify the actual circumstances, but it must be expected to take time before the case can be closed.

KONGSBERG has zero-tolerance for corruption, and high ethical standards are an integrated part of our 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 Board of Directors' Report.

At this point in time, it is not possible to estimate the result of Økokrim's investigation or other effects of the charge and the circumstances on which is has been based. Accordingly, it is not possible to estimate any possible financial effects for KONGSBERG.

Prospects for 2014

Kongsberg Maritime is expecting a continued high activity level for the divisions offshore as well as subsea in 2014. The Merchant market has shown positive tendencies in 2013, a fact that eventually should have a favourable influence on the merchant market. Continued efforts within the global aftermarket and customer support will be important also in 2014. Together with the strong influx of orders over the past years, this gives a good basis for Kongsberg Maritime's activity level in 2014.

Kongsberg Defence Systems is in the final phase of several large delivery programs. In January 2014, KDS signed a new and very significant agreement for the delivery of the air defence system NASAMS. There are several important long-term opportunities for the sale and further development of missiles, submarine systems, air defence and communication in the year to come. These factors, together with a satisfactory order reserve, provide a satisfactory basis for the business area's activity level.

Kongsberg Protech Systems has maintained a globally leading position within remote-controlled weapons systems and has further expanded its product range. Hence, KPS is considered to be well positioned to meet expected future needs. The business area is, however, exposed to generally lower demands in its markets, particularly in relation to the USA, together with the fact that the customers' decision-making on purchases are more time-consuming than before. The activities in 2014 are therefore expected to be somewhat lower than in 2013, and the margins from ordinary operations declining compared to 2013.

Kongsberg Oil & Gas Technologies is a business area in development and a niche supplier to the oil and oil service industry in Norway and internationally. Increased demands for efficiency in the drilling and production phases are considered to give good opportunities for the business area's products. The business area is well positioned towards several important areas within the oil and gas industry.

KONGSBERG has a solid order backlog and maintains strong market positions within the shipping, offshore and defence markets. This provides a good foundation for operations in 2014.

The KONGSBERG share and shareholders

The price of the KONGSBERG's share increased from NOK 124.50 at the end of 2012 to NOK 127.50 at the end of 2013. This provides a market capitalisation at the end of 2013 of MNOK 15,300. Including the dividend of NOK 3.75 per share, the return was just above 5 per cent in 2013. During the same period the All-Share Index (OSEBX) on the Oslo Stock Exchange had a positive trend of 23.6 per cent. As of 31 December 2013, KONGSBERG had 7,746 shareholders, an increase of 337 from the previous year. The Group had 975 (858) foreign shareholders who collectively owned 10.85 per cent (9.19 per cent) of the shares. The Norwegian State, represented by the Ministry of Trade, Industry and Fisheries, is the largest shareholder with a stake of 50.001 per cent of the shares. The 10 largest shareholders had at the end of the year a total of 77.76 per cent (79.22) of the shares. The number of shares outstanding is 120 million, each with a nominal value of NOK 1.25.

In November 2013, KONGSBERG introduced a new dividend policy. The wording of the new policy is: "Dividend shall over time constitute between 40 and 50 per cent of the company's ordinary profit after tax. In determining the size of the dividend, the expected future capital requirements shall be considered". KONGSBERG has paid dividend to the shareholders every year since the stock exchange listing in 1993, with the exception of 2000 and 2001. At the Annual General Meeting on 3 May 2013, it was decided to pay a dividend of NOK 3.75 per share for 2012. For 2013, the new dividend policy shall be the basis, and on this background, the Board proposes for the Annual General Meeting to approve an ordinary dividend for 2013 of NOK 4.25 per share (NOK 3.75). In addition, the Board proposes an extraordinary dividend in connection with KONGSBERG's 200th anniversary of NOK 1.00 per share. In total, this gives NOK 5.25 per share, and a dividend ratio of 51.3 percent (33.9 per cent).

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KONGSBERG 200. From celebrations in Sandefjord, Norway (left) and Rome, Italy (right).

In 2013, a total of 14.0 million (9.9 million) KONGSBERG shares were traded in 38,205 (28,949) 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 2014 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, 12 securities firms had active coverage of the share. In 2013, KONGSBERG was nominated to the price for the best "Investor Relations Officer" in class Mid Cap in the IR Nordic Markets competition.

The Board of Directors believes that employee share ownership is positive. At 31 December 2013, more than 2,000 employees held approximately 3.5 million shares in total in KONGSBERG. This represents approximately three per cent of the shares. During the spring of 2013, the Group's annual share program for employees was carried out for the 17th time. A total of 590.890 (623.887) shares were sold at a price of NOK 86.40 (20 per cent discount on the market price). 1,914 (1,821) employees took advantage of the offer.

Risk factors and risk management

KONGSBERG is exposed to different types of risks, and the Board of Directors closely monitors trends in the various risk areas. The Board of Directors 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 of Directors. In addition, the Board of Directors and the administration perform risk analyses when considering major investments, tenders, initiatives and acquisitions. The Board of Directors 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 value creation primarily comprises delivery of systems of high technological complexity. Deliveries are generally organised as projects. An effective management of projects is a key success factor in reducing operating risk. KONGSBERG has established goals for project management based on internal and external "best practice", and project managers attend an internal training program concerning this matter. The projects' revenues are based on contracts, and the uncertainty is mainly related to estimating the remaining costs and determining the percentage of completion. The Group has established principles for categorising projects in terms of technological complexity and development content. This forms the basis for an assessment of "profit at risk" and recognition of revenue in the projects. "Profit at risk" is the result retained in the projects until any uncertainty is resolved. KONGSBERG has a range of projects in progress and a strong order backlog. Cancellations within the shipyard industry, increased competition, declining defence budgets in several countries and a general and lasting economic downturn have, however, increased the Group's risk and may over time influence the Group's level of activity. The Group operates in several markets which to a large extent are affected by independent drivers. Cyclical fluctuations will influence these markets, both to various degrees and points in time.

Financial risk at KONGSBERG is managed centrally by guidelines for financial risk management adopted by the Board of Directors 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. The development in the global economy in general and shipbuilding and shipping industry in particular, has to some extent increased the credit risk in recent years. As a result, measures are taken to limit the risk exposure.

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 (project hedges). In addition, the Group hedges a portion of the expected new orders according to the established policy (forecast hedges). The policy regulates how much of the expected orders shall be hedged, depending on the timing of the expected orders and currency levels. In this manner, the Group seeks to mitigate the effects of currency fluctuations of up to two years.

KONGSBERG has for several years established and developed compliance functions at group level and within the business areas. Regulations and monitoring systems are established for managing risks related to areas such as anti-corruption, supply chains, whistle-blowing. Key policy documents are reviewed and updated on a regular basis. Training within the area of ethics and compliance is carried out in the entire organisation, both in Norway and abroad. The Board of Directors considers KONGSBERG's compliance program to hold good international level. The section "Events subsequent to the balance sheet date" has more details.

Technology, research and development

A significant portion of the value created by KONGSBERG consists of the development of high-tech solutions to the domestic and international market. High competence and knowledge sharing are essential to the competitiveness. KONGSBERG's extensive knowledge 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 programs. 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.

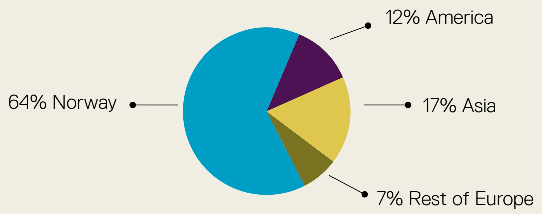
In 2012, the Board of Directors adopted a revised policy for sustainability and corporate responsibility. The policy is built around two main elements: commercial opportunities related to global megatrends and sustainable technology, and risk related to "license to operate" and global megatrends. In 2014, KONGSBERG will continue to focus on anti-corruption, monitoring the supplier network in relation to social responsibility, human and employee rights and to follow-up our climate strategy. 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 of Directors.

Health, safety and the environment (HSE)

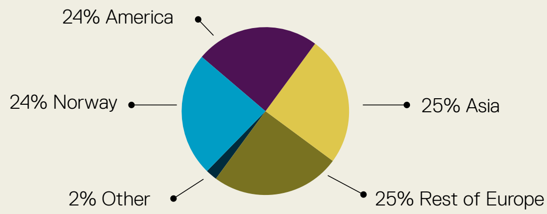
The Board of Directors is of the opinion that health, safety and environment is handled in a manner that promotes job satisfaction and a sound working environment. One basic principle is that the HSE work should be preventive.

The Board of Directors is closely monitoring the work by quarterly reviewing HSE reports. During 2013, effort has been put into the HSE training and further improving HSE reporting routines. The reporting routines of the foreign subsidiaries are good, and figures on sickness absence and

Geographical distribution of employees



Geographical distribution of revenues



accidents from the offices abroad are a natural part of the HSE report.

During 2013 there were 244 accidents within the Group. Recorded injuries resulting in absence were 27, while 176 injuries did not lead to absence. 41 events required treatment. The total number of work related injuries with and without absence, TRI, constituted 3,69 per cent in 2013, an increase from 1,48 per cent in 2012.

There are no registered occupational diseases or work-related fatalities during 2013. Total absence due to illness increased from 2.4 per cent in 2012 to 2.5 per cent in 2013. 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, the percentage (36 per cent) at the end of 2013 was the same as in 2012. 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 production, and for the first time this year, our consumption of water.

During 2013, the Group has improved the reporting basis for the statement, as more locations submit reports and the sources on which we base our reporting, have been expanded. There are still elements not included in the statement, like emissions related to the transport of goods and material. We shall increase our efforts to map this part of our global footprint.

KONGSBERG's activities only to a small extent contribute to the emission of greenhouse gas. The Group's growth in recent years, however, has caused that our total impact on the external environment has increased. According to the climate statement, our CO_2 emissions increase in fact as well as relatively (tons/MNOK), both compared to 2012 and 2010, being the basis year for our measurement figures. We will analyse this development and consider our future objectives and all relevant initiatives. A detailed overview of the statement for 2013 can be found in the Group's report on sustainability for 2013, pages 30–32.

The Groups' most significant positive contribution to the climate challenges is parts of our product portfolio, which in various manners helps to reduce emissions. This is accounted for in more detail in the sustainability report under the chapter "Sustainable Innovation".The Group also reports to the international framework "Carbon Disclosure Project" on issues related to climate changes and level of greenhouse gas related emissions.

No serious incidents related to environmental pollution has been reported during 2013.

Personnel and organisation

Number of employees	*31 Dec 13*	*31 Dec 12*
Kongsberg Maritime	4 260	4 163
Kongsberg Defence Systems	1 761	1 747
Kongsberg Protech Systems	644	724
Kongsberg Oil & Gas Technologies	709	506
Group centre	57	56
Kongsberg Teknologipark	62	63
Totalt Group	**7 493**	**7 259**
Share outside Norway	**36%**	**36%**

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 our international subsidiaries as far as possible should be staffed with local employees.

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

An important condition for long-term success is that KONGSBERG manages employees' competence in a good manner. A goal is to develop and increase the diversity within the Group, so that different experience, culture, education 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 KOGNSBERG's employees have college or university level education.

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

The Group educates skilled workers within several technical areas in cooperation with the education company Kongsberg Technology Training Centre AS, partly owned by KONGSBERG. During 2013 there were 12 apprentices in total. In addition, the company facilitates and stimulates for employees to acquire certificates of completed apprenticeship as private candidates, so called practice candidates. In 2013, 7 employees acquired certificates of completed apprenticeship by this program.

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.

The Board of Directors has decided to pay a bonus of NOK 4,000 to all employees and wishes to thank all staff for their hard work during the year. In addition, it has been decided to pay an anniversary bonus in 2014 of NOK 2,000 to all employees.

Equal rights

KONGSBERG has a personnel policy designed to ensure equal opportunities and rights, and to prevent discrimination on the grounds of ethnicity, national origin, skin colour, language, religion, philosophy of life, age or gender. A total of 21.4 (21.2) per cent of the employees are women, and two of five shareholder-elected directors on the Board of Directors are women. As of 1 January 2014, three women are represented in corporate executive management. The company considers it important to promote gender equality and prevent discrimination in conflict with the Gender Equality Act. In the opinion of The Board of Directors', the Group complies with current regulations.

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

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

Corporate governance

KONGSBERGS's objective is to protect and enhance stakeholder value by engaging in a profitable, growth-oriented industrial development in a long-term, international perspective. Good corporate governance and leadership shall ensure the best possible value creation, and the Group's resources shall be used in an efficient, sustainable manner. Values created should benefit shareholders, employees, customers and society in general.

The Board of Directors 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 the Accounting Act section 3-3b, the company shall prepare a statement on corporate governance. The statement will, pursuant to the Public Limited Companies Act section 5-4, be discussed at the Annual General Meeting. The description on pages 94–109 is based on the latest revised version of the Norwegian Code of Practice for Corporate Governance of 23 October 2012.

Salaries and other remuneration to senior executives

The Board of Directors 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 of Directors. In line with the Norwegian Companies Act, the Board of Directors has also prepared a statement on the Group CEO and Executive Management remuneration included in Note 27 to the consolidated financial statements.

Profit for the year and allocation of net profit

The parent company Kongsberg Gruppen ASA had a net profit of MNOK 764 in 2013. The Board of Directors proposes the following allocation of net profit in Kongsberg Gruppen ASA:

Dividends	MNOK 630
To other equity	MNOK 134
Total allocated	MNOK 764

The proposed dividend accounts for approximately 41,5 per cent of the Group's net profit and is in line with the Group's dividend policy. In addition, the Board proposes an extraordinary anniversary dividend of NOK 1.00 per share related to KONGSBERG's 200th anniversary. In total, the dividend for 2013 constitutes 51.3 per cent of the Group's profit for the year.

The Group's liquidity and financial position is satisfactory, and the future prospects are stable. There are no immediate significant cash requirements for ordinary operations in excess of the cash holdings currently available.

Going concern

In compliance with the Norwegian Accounting Act section 3-3a, 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 27 March 2014

Finn Jebsen, *Chairman*
Anne-Lise Aukner, *Deputy chairman*
Irene Waage Basili, *Director*
Roar Flåthen, *Director*
Morten Henriksen, *Director*
Magnar Hovde, *Director*
Helge Lintvedt, *Director*
Roar Marthiniussen, *Director*
Walter Qvam, *President and CEO*

FINANCIAL STATEMENTS AND NOTES

Kongsberg Gruppen (Group)

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CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

Kongsberg Gruppen (Group)

MNOK	*Note*	*2013*	*2012*
Revenues	6	16 323	15 652
Total revenues		**16 323**	**15 652**
Cost of sales	7	(5 415)	(4 760)
Personnel expenses	8	(5 742)	(5 251)
Other operating expenses	29	(3 024)	(3 347)
Operating profit before depreciation and amortisation (EBITDA)	6	**2 142**	**2 294**
Depreciation	6, 10	(345)	(323)
Operating profit before amortisation (EBITA)	6	**1 797**	**1 971**
Amortisation	6, 11	(138)	(119)
Impairment	6, 11		(12)
Operating profit (EBIT)	6	**1 659**	**1 840**
Finance income	13	95	59
Finance expenses	13	(110)	(90)
Profit before tax		**1 644**	**1 809**
Income tax expense	14	(419)	(505)
Profit for the year		**1 225**	**1 304**
Attributable to			
Equity holders of the parent		1 228	1 309
Non-controlling interests		(3)	(5)
Earnings per share in NOK			
- profit for the year/profit for the year, diluted	15	10.24	10.91

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY–31 DECEMBER Kongsberg Gruppen (Group)

MNOK	*Note*	*2013*	*2012*
Profit for the year		**1 225**	**1 304**
Items to be reclassified to profit or loss in subsequent periods			
Change in fair value			
– Cash flow hedges, currency	20C	(465)	111
– Interest rate swaps		4	(1)
– Available-for-sale shares	16	(7)	16
Income tax effect on cash flow hedges and interest rate swaps		129	(30)
Translation differences, currency		123	(63)
Net total items to be reclassified to profit or loss in subsequent periods		**(216)**	**33**
Items not to be reclassified in profit and loss			
Actuarial gains/losses	9	(239)	(117)
Income tax on items remaining in equity	14	67	32
Net total items not to be reclassified in profit and loss		**(172)**	**(85)**
Total comprehensive income for the period		**837**	**1 252**
Of which			
Equity holders of the parent		840	1 257
Non-controlling interests		(3)	(5)

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER

Kongsberg Gruppen (Group)

MNOK	*Note*	*2013*	*2012*
Assets			
Non-current assets			
Property, plant and equipment	10	2 655	2 602
Goodwill	11, 12	2 308	2 010
Other intangible assets	11	829	740
Available-for-sale shares	16	140	125
Other non-current assets	17	155	155
Total non-current assets		**6 087**	**5 632**
Current assets			
Inventories	7	2 944	3 465
Receivables	18	2 996	2 559
Construction contracts in progress, asset	19	1 963	1 327
Derivatives	20A	173	782
Cash and cash equivalents	21	3 272	2 509
Total current assets		**11 348**	**10 642**
Total assets	6	**17 435**	**16 274**
Equity, liabilities and provisions			
Equity			
Issued capital		982	982
Other capital reserves		(94)	122
Retained earnings		5 761	5 159
Equity attributable to owners of the parent		**6 649**	**6 263**
Non-controlling interests		8	11
Total equity	22	**6 657**	**6 274**
Non-current liabilities and provisions			
Long-term interest-bearing loans	20D	811	1 311
Pension liabilities	9	757	532
Derivatives	20A	8	9
Provisions	23	116	114
Deferred tax liability	14	1 001	847
Other non-current liabilities		56	73
Total non-current liabilities and provisions		**2 749**	**2 886**
Current liabilities and provisions			
Construction contracts in progress, liability	19	2 548	2 284
Derivatives	20A	312	49
Provisions	23	953	990
Short-term interest-bearing loans		526	-
Other current liabilities	24	3 690	3 791
Total current liabilities and provisions	6	**8 029**	**7 114**
Total liabilities and provisions		**10 778**	**10 000**
Total equity, liabilities and provisions		**17 435**	**16 274**

Kongsberg 27 March 2014

Finn Jebsen, *Chairman*
Anne-Lise Aukner, *Deputy chairman*
Irene Waage Basili, *Director*
Roar Flåthen, *Director*
Morten Henriksen, *Director*
Magnar Hovde, *Director*
Helge Lintvedt, *Director*
Roar Marthiniussen, *Director*
Walter Qvam, *President and CEO*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 1 JANUARY–31 DECEMBER

Kongsberg Gruppen (Group)

		Equity attributable to owners of the parent							Non-controlling interests	Total equity
		Issued capital		Other capital reserves			Retained earnings	Total		
MNOK	*Note*	*Share capital*	*Other issued capital*	*Hedge reserve*	*Shares at fair value*	*Translation difference, foreign exchange*				
Equity at 1 January 2012		**150**	**832**	**112**	**-**	**(22)**	**4 392**	**5 464**	**20**	**5 484**
Profit for the year							**1 309**	**1 309**	**(5)**	**1 304**
Statement of comprehensive income				**79**	**16**	**(63)**	**(84)**	**(52)**		**(52)**
Trading in treasury shares	22	-	-				(6)	(6)	-	(6)
Dividends paid							(450)	(450)		(450)
Purchase/sale, non-controlling interests							(2)	(2)	(2)	(4)
Dividends, non-controlling interests									(1)	(1)
Translation differences, non-controlling interests								-	(1)	(1)
Equity at 31 December 2012		**150**	**832**	**191**	**16**	**(85)**	**5 159**	**6 263**	**11**	**6 274**
Equity at 1 January 2013		**150**	**832**	**191**	**16**	**(85)**	**5 159**	**6 263**	**11**	**6 274**
Profit for the year							**1 228**	**1 228**	**(3)**	**1 225**
Statement of comprehensive income				**(332)**	**(7)**	**123**	**(172)**	**(388)**		**(388)**
Trading in treasury shares		-	-			-	(3)	(3)	-	(3)
Dividends paid	22	-	-			-	(450)	(450)	-	(450)
Purchase/sale, non-controlling interests								-		-
Dividends, non-controlling interests							(1)	(1)	(1)	(2)
Translation differences, non-controlling interests								-	1	1
Equity at 31 December 2013		**150**	**832**	**(141)**	**9**	**38**	**5 761**	**6 649**	**8**	**6 657**

CONSOLIDATED STATEMENT OF CASH FLOWS 1 JANUARY–31 DECEMBER

Kongsberg Gruppen (Group)

MNOK	*Note*	*2013*	*2012*
Profit for the year		**1 225**	**1 304**
Depreciation on property, plant and equipment	10	345	323
Amortisation of intangible assets	11	138	131
Net finance expense	13	15	31
Income tax expense	14	419	505
Operating profit before depreciation and amortisation		**2 142**	**2 294**
Adjusted fo			
Changes in construction contracts in progress, asset		259	(939)
Changes in construction contracts in progress, liability		225	(419)
Changes in other current liabilities		(743)	(132)
Changes in inventories		523	(192)
Changes in receivables		(233)	(52)
Changes in provisions and other accruals		91	45
Income tax paid		(281)	(398)
Net cash flows from operating activities		**1 983**	**207**
Cash flows from investing activities			
Proceeds from property, plant and equipment	10	10	13
Purchase of property, plant and equipment	10	(356)	(536)
Capitalised in-house developed intangible assets (R&D)	11	(80)	(114)
Purchase of intangible assets	11	(3)	(7)
Net cash flow from acquisition of subsidiaries	30	(343)	(63)
Net payment of loans and buying/selling shares	17, 21	(3)	(6)
Net cash flows used in investing activities		**(775)**	**(713)**
Cash flows from financing activities			
Proceeds from loans	20	-	419
Interest received		44	47
Interest paid		(55)	(41)
Transactions with treasury shares		(17)	(19)
Transactions with non-controlling interests		(2)	(5)
Dividends paid	22	(450)	(450)
Net cash flows used in financing activities		**(480)**	**(49)**
Total cash flows		**728**	**(555)**
Effect of changes in exchange rates on cash and cash equivalents		**35**	**(19)**
Net change in cash and cash equivalents		**763**	**(574)**
Cash and cash equivalents at 1 January		**2 509**	**3 083**
Cash and cash equivalents at 31 December	21	**3 272**	**2 509**

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NOTES

Kongsberg Gruppen (Group)

1 General information

Kongsberg Gruppen ASA is a public limited liability company head-quartered in Kongsberg, Norway. The company's shares are traded on the Oslo Stock Exchange. The Board of Directors approved Kongsberg Gruppen's consolidated financial statements for the accounting year 2013 at its meeting on 27 March 2014. The consolidated financial statements for 2013 include the parent company and subsidiaries (collectively referred to as "KONGSBERG" or "the Group"), as well as the Group's investments in associates and jointly controlled entities.

2 Basis for the preparation of the consolidated financial statements

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), as well as the Norwegian disclosure requirements pursuant to the Accounting Act applicable at 31 December 2013. The IFRS, as adopted by the EU, differ in certain areas from the standards issued by the International Accounting Standards Board (IASB). However, it would not have had any effect on the current consolidated financial statements if KONSBERG had used the IFRS standards issued by IASB.

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

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

Significant accounting judgements, estimates and assumptions

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

For more detailed information about significant accounting estimates that could have a significant impact on the amounts recognised in the following financial year, please see the following notes:

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

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

For more details about significant areas requiring critical judgments relating to the application of accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements, reference is made to the following notes:

- Revenue recognition of construction contracts, cf. Note 3 C) "Summary of significant accounting policies – Revenue recognition" and Note 19 "Construction contracts in progress"
- The application of the principles for capitalising expenses related to development, cf. Note 3 F) "Summary of significant accounting policies – Intangible assets" and Note 11 "Intangible assets"
- Financial instruments, including hedge accounting (fair value or cash flow hedges), cf. Note 3 J) "Summary of significant accounting policies – Financial instruments" and Note 20 "Financial instruments"
- Sale and leaseback related to property, assessment of operating versus financial leases, cf. Note 3 H) "Summary of significant accounting policies – Leases, Sale and leaseback" and Note 26 "Sale and leaseback".

3 Summary of significant accounting policies

A) Basis for consolidation

Subsidiaries

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

On initial recognition, subsidiaries are measured at their fair value on the date of acquisition. Fair value is allocated to the identified assets, liabilities and contingent liabilities. The unallocated purchase price is classified as goodwill. New subsidiaries are included in the consolidated financial statements from the date of acquisition. The date of acquisition is the date when KONGSBERG obtains control of the acquired company. Normally, control will be achieved when all the terms of the agreement are satisfied. Examples of contingencies can be the approval of the Board of Directors, the General Meeting or the competition authorities. For business combinations achieved in stages, the financial statements are based on the values at the time when the Group obtained control. Goodwill is calculated at the date control is obtained. On each individual acquisition, it is decided whether goodwill should be limited to KONGSBERG's proportionate share or to include non-controlling interests. Entities that constitute the Group are listed in Note 31 "List of Group Companies".

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

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

Joint ventures

Joint control arrangements are the contractual agreed sharing of control of an economic activity, and is present only when the strategic, financial and operating decisions relating to the activities require unanimous consent of the parties sharing control (the participants). KONGSBERG applies a proportionate consolidation method for these type of investments. Proportionate consolidation imply that the assets, liabilities, income and expenses in a joint operation is added line by line with similar line items in the Group financial statements.

Elimination of transactions

All intra-group purchases, sales, balances and unrealised gains and losses 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 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. Upon initial recognition, foreign currency transactions are measured in the functional currency on the date of the transaction. Construction contracts are hedged and recognised on the basis of the hedged exchange rate (project hedges). Trade receivables, other receivables, accounts payable and other liabilities in foreign currencies are translated at the exchange rate at the balance sheet date, and currency differences are recognised in the income statement. Differences that arise at the translation of cash flow hedges and meet the criteria for hedge accounting, are recognised as a change in fair value on cash flow hedges in the statement of comprehensive income (OCI). The effect is reflected in the income statement upon realisation of the cash flow hedges. (Further information is included under 3J "Financial instruments").

Gains and losses related to foreign exchange items in the normal operating cycle are included in operating profit before depreciation and amortisation. Other gains and losses related to balances in foreign currencies are classified as finance income or expenses.

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 during the reporting period. The translation differences are recognised in the statement of 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 the statement of 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 license 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 orders received. A construction contract is a contract negotiated with the view to manufacture an asset or a combination of assets that are closely related or interdependent. KONGSBERG has applied the following criteria to define a construction contract:

1. A binding contract negotiated individually which takes a customer's special requirements into account

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

Contracts that do not meet the definition of a construction contract are recognised as ordinary sales of goods 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 this provides 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" in the balance sheet. 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 the individual business areas' indirect costs, distributable by projects. General development costs, sales costs and common administrative costs are not included in production costs.

Recognised accrued contract profit shall not exceed a proportional share of the estimated total contract profit. If the profit on a contract cannot be estimated reliably, the project will be recognised without a profit until the uncertainty is sufficiently reduced. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately. A construction contract is expected to 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. All balances are netted for each construction contract in the financial statements and presented on one line in the statement of financial position. Each contract is presented as either "Construction contracts in progress, asset" or as "Construction contracts in progress, liability". Accounts receivable related to construction contracts are netted against balance sheet items to the extent that the construction contract has recorded prepayments (billing exceeds accumulated earnings), 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 not could 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 most significant risks and returns for the delivered goods are transferred to the customer. In addition to assuming the risks and rewards, the following criteria must be satisfied for recognition:

- It is probable that the consideration can be collected.
- The 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 sales, are recognised as revenue incrementally as the service is provided, as described under "construction contracts/system deliveries".

License revenues

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

If the sale of the license depends on customer acceptance, license revenues will not be recognised until the customer has accepted. In cases that involve adaptations or additional work, the total contract amount, including consideration for the licenses, is recognised as revenue at the same stage of completion as deliveries, as described under "construction contracts/system deliveries". Maintenance and service/support are recognised as revenue incrementally as the service is performed or on a straight-line basis during the period in which the service is performed.

Combined deliveries of goods, services and license sales

The recognition criteria are applied separately for each transaction. 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 deferred revenue and recognised as revenue over the period in which the services are performed.

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

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

- Identification of the various elements for delivery, e.g., license, service, maintenance and consultancy services
- Projected costs are estimated for each element, e.g., service, maintenance and consultancy services. A reasonable profit margin is also estimated on the various elements. The method and the assumptions for the estimation must be consistent from one period to the next
- 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 performed
- The contract amount, less estimated revenue from the above-mentioned elements, is estimated as license revenue and 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 associated with deferred tax are calculated using the liability method. Deferred tax is calculated on net tax-increasing temporary differences between the values used for accounting purposes and those used for taxation purposes, adjusted for deductible temporary tax-reducing differences and tax losses carried forward if this satisfies the requirements in IAS 12.71.

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

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

E) Finance income and finance expenses
Finance income comprises interest income, dividends, foreign currency gains, changes in value of assets to fair value through the profit and loss, and gains on disposals of available-for-sale shares where the changes in value are recognised as other income and expenses in the statement of other comprehensive income (OCI). 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 it.

Finance expenses comprise interest expense, foreign currency losses, impairments on available-for-sale shares, changes in the value of assets to fair value through profit and loss, and losses on sales of assets available for sale where changes in value are recognised directly in the statement of comprehensive income. 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 cost less any accumulated impairment losses. Goodwill does not generate cash flows independent of other assets or groups of assets. It 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 value in use or net realisable value. The Group uses the value in use to determine the recoverable amount of the cash-generating units.

In determining the value in use, the expected future cash flows are discounted to net present value using a discount rate before tax that reflects the market's target for a return on investments for the cash-generating unit in question. If the value in use of the cash-generating unit is less than the carrying amount, impairment reduces the carrying value of goodwill and then the carrying value of the unit's other assets on a pro rata basis, based on the carrying value of the individual assets. Impairment on goodwill is not reversed in a subsequent reporting period even if the recoverable amount of the cash-generating unit increases. Any impairment will be recognised through profit and loss in the financial statements. Impairment testing of goodwill is described in Note 12 "Impairment test of goodwill ", cf. also 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 balance sheet 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. The capitalisation of development costs requires that those costs can be reliably measured, that the product or process is technically and commercially feasible, that future financial benefit is probable and that KONGSBERG intends to 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 directly attributable overhead costs. Capitalised development costs are recognised at cost less accumulated amortisation and impairment losses in the balance sheet. Amortisation is based on the expected useful life, based on the total production units or number of years. The remaining expected useful life and expected residual value are reviewed annually.

The calculation of financial benefits is based on the same principles and methods as for the impairment testing, i.e., on long-term budgets approved by the Board. Note 11 "Intangible assets" 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 whether to complete development and start capitalisation is made during the development phase.

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. 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.

The amortisation is determined on the expected useful life based on total production units or number of years. 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 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 net as other income in profit and loss. Expenses incurred after the asset is in use, e.g., day- to-day maintenance, are expensed as they are incurred. Other expenses expected to result in future economic benefits and that can be reliably measured, are capitalised.

H) Leases, sale and leaseback

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

Other leases are operating leasing agreements and not recognised in the Group's balance sheet. KONGSBERG's sale and leaseback agreements are considered to satisfy the criteria for operating leasing agreements. When a sale and leaseback agreement is defined as an onerous contract according to IAS 37, the present value of the expected loss is recognised.

I) Impairment of non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the higher of its value in use or fair value less net costs to sell. Value in use is calculated as the net present value of future cash flows. The calculation of net present value is based on a discount rate before tax and reflects current market assessments of the time value of money and the risks specific to the asset. The pre-tax discount rate has been calculated using an iterative method.

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

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

J) Financial instruments

Financial assets and liabilities

Financial assets and liabilities consist of derivatives, investments in shares, accounts receivable and other receivables, cash and cash equivalents, other 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 does not retain control, or transfers practically all risks and rewards associated with the asset. Financial liabilities are derecognised when the Group's contractual obligation has been satisfied, discharged or cancelled.

Classification

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

i) Fair value through profit and loss
ii) Loans and receivables
iii) Available-for-sale financial assets
iv) Financial liabilities

Financial derivatives are included in the category "fair value through profit and loss", also if the derivative has a negative value.

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

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

Impairments on financial assets

When there is objective evidence that a financial asset's value is lower than its cost, 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. Available-for-sale assets are impaired when their present fair value is lower than cost, and the impairment is considered to be significant or not temporary. Ordinarily, KONGSBERG would assume that an impairment of more than 20 per cent of the cost is significant and that a decline in value lasting for more than nine months is not of a temporary nature. If the asset has been written down through profit and loss, it is the impaired value that shall be the basis for the assessment.

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

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

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

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 (project hedges)
ii) hedge a future cash flow of a recognised asset or liability, or an identified highly probable future transaction (prognosis hedges and interest rate hedges)

(i) Fair value hedges (project hedges)
The change in fair value of the hedged item is recognised in the income statement for the change in value that is hedged. For currency hedges of future contractual transactions, this implies that the changes in value of the future transaction due to changes in the foreign exchange rate are recognised in the statement of financial position. For construction contracts, this implies that the part of the contract that is accrued is recognised at the current exchange rate, while the part of the contract that is not accrued, is recognised as gain or loss at changes in the foreign exchange rate. Since the hedge instrument is also recognised at fair value, this entails symmetrical recognition of the hedged item and the hedge instrument. Overall this means that construction contracts are 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 hedge instrument is amortised during the remaining period up to maturity of the hedged item.

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

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

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

In connection with hedges where the future transaction becomes a construction contract, the hedges are allocated to contracts at the signing and, if required, rolled forward. Gains and losses are recognised in line with the contract`s percentage of completion, implying that construction contracts that are hedged before signing are recognised at the originally hedged exchange rate. This could be before the contract was signed.

At cash flow hedging of financial obligations, the change in value is transferred from the statement of 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 hedge instrument previously recognised in the statement of comprehensive income (OCI) are recognised through profit and loss immediately.

Follow-up of hedging effectiveness
The currency futures are expected to be effective throughout the entire period. KONGSBERG rolls forward exchange contracts from prognosis to project hedging upon signing the contracts. In addition, forward contracts (project hedges) 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 period.

K) Classification
Assets related to normal operating cycles for goods/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/services or are due within 12 months are classified as current liabilities. Other liabilities are classified as non-current.

L) Inventories

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

M) Receivables

Trade receivables and other receivables are 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 cash-in-hand, bank deposits and short-term liquid investments that can be immediately converted into a given sum of money, with a maturity of three months or less.

O) Equity

(i)Treasury shares

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 (hedges of forecasted sales and interest hedges), which are recognised in the statement of comprehensive income on an ongoing basis.

(iv) Fair value of shares

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

(v) Foreign currency translation differences

Foreign currency translation differences are recognised in the statement of comprehensive income. Upon the disposal of all or part of a foreign entity resulting in discontinued control, the accumulated translation differences are recognised in the statement of comprehensive income (OCI), including the accompanying reversal (cf. 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. If possible, the provision should be estimated on the basis of historical data and a weighting of results against the probability that they will occur. When historical information is not available, other sources are used to estimate the provisions. If the time value is material, provisions are determined at the net present value of the liability.

Warranty provisions

Provisions for warranty costs are recognised at the 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 onerous contracts are recognised when 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 plans

The Group introduced a defined contribution pension plan for all employees in Norway under the age of 52 as of 1 January 2008. Employees with defined benefit plans, aged 52 and older at the time of the transition, stayed with that plan. Most of KONGSBERG's companies abroad have defined contribution pension plans. The contribution is expensed as it accrues and is shown as payroll expenses in the income statement.

Defined benefit pension plans

Pension benefits depend on the individual employee's number of years of service and salary level 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 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 9 "Pension". Actuarial gains or losses related to changes in the basis data, estimates and changes in assumptions are recognised in the statement of comprehensive income (OCI). The Group's legal liability is not affected by the treatment of pensions for accounting purposes.

Share transactions with employees

For a number of years, the Group has been conducting a share program for all employees, i.e. offering shares at a discounted price. Discounts on shares are recognised as payroll expenses.

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 ordinary earnings per share and diluted earnings per share. Ordinary 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

IAS 28 Investment in Associates and Joint Ventures

As a consequence of the new standards IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates has been renamed IAS 28 Investment in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Within the EU/EEA area, the amendments are effective for annual periods beginning on or after 1 January 2014.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of IASB's work on the replacement of IAS 39 and applies to the classification and measurement of financial assets and financial liabilities, whereas the second phase concerns hedge accounting. The last phase of this project entails measurements at amortised cost and impairment of financial assets. The effective date has been postponed, and it is expected that the standard will be effective for annual periods beginning on or after 1 January 2017 at the earliest. The Group will evaluate potential effects of IFRS 9 in accordance with the other phases as soon as the final standard, including all the phases, has been issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities.

The content of the control term is somewhat changed from IAS 27. Decisive for whether companies shall consolidate pursuant to IFRS 10 is whether there is control. Control exists when the investor has power over the investment object; is exposed to, or has the right to variable return from the investment object; and the ability to use power to manage the investment object's activities that significantly affect the return. Within the EU/EEA area, IFRS 10 is effective for annual periods starting on or after 1 January 2014. The introduction will have no impact on KONGSBERG's consolidated financial statements.

IFRS 11 Joint Arrangements

This standard replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entitites – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. All entities meeting the definition of a joint venture must be accounted for using the equity method. Within the EU/EEA area, IFRS 11 is effective for annual periods beginning on or after 1 January 2014.

For KONGSBERG, this implies that the company Kongsberg Satellite Services AS, 50 per cent owned by KONGSBERG and according to the present requirements is consolidated according to the proportionate consolidation method, will be accounted for pursuant to the equity method from 2014. Note 32 has more information.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 applies for enterprises with interests in subsidiaries, joint arrangements, associates and structured entities. IFRS 12 replaces the disclosure requirements that were previously included in IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures. A number of new disclosures are also required, but without any impact on the Group's financial position or performance. Within the EU/EEA area, IFRS 12 is effective for annual periods beginning on or after 1 January 2014. This amendment will not have any impact on KONGSBERG's consolidated financial statements.

IAS 36 Impairment of assets

The change implies that information must be given on the recoverable amounts of impaired assets if determined at fair value reduced by sales costs. The change must be seen in connection with IFRS 13 Fair Value Measurement. The changes are effective for annual periods beginning on or after 1 January 2014.

The changes will affect KONGSBERG only if the Group will be in a position to write down assets in the future.

Other amended standards (IFRS) and interpretations (IFRIC) which have not yet been implemented and are not expected to have an impact on KONGSBERG's consolidated financial statements

- Amendments to IFRS 10, IAS 27 and IFRS 12 related to investment entities, effective date 1 January 2014
- IAS 19 Employee Benefits related to the recognition of contributions from employees or third parties as a reduction in pensions cost. The change has so far not been approved by the EU. Outside the EU/EEA, the change will be effective for annual periods beginning on or after 1 January 2015
- IAS 32 Financial instruments: Presentation, effective date 1 January 2014
- IAS 39 Financial instruments – Recognition and Measurement. IASB has approved changes in the hedge accounting requirements under IFRS. The changes imply that the hedge accounting does not need be terminated in those instances where derivatives in hedges must be transferred in order to carry out clearing with a central counterparty as a consequence of laws or other regulations, given that more detailed criteria have been met. The changes are effective for annual periods beginning on or after 1 January 2014

- IFRIC Interpretation 21 Levies. IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The change has so far not been approved by the EU. Outside the EU/EEA, the change will be effective for annual periods beginning on or after 1 January 2014
- Annual improvements project 2010–2011
- Annual improvements project 2011–2013

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 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 or on the Norwegian Securities Dealers Association's OTC list. When there has been no trading in shares for a longer period of time, it will be considered whether the 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. For unlisted investments, the most recent price of a share transaction or share issue will be used to estimate fair value. If there have been no transactions, the discounted cash flow on the share is to be used.

Derivatives

The fair value of forward contracts is measured on observable data. KONGSBERG uses Reuters' prices for 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 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, is calculated by 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. The Group's subsidiaries have limited opportunities to establish independent funding. The Board has adopted guidelines for financial risk management which have been included in the Group's financial policy.

Funding and capital management

KONGSBERG's operations 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 to have good credit rating by their lenders and investors. 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 an average been classified BBB+ in the most recently updated analyses. KONGSBERG is continuously considering the possibility of utilizing 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. Note 21 "Cash and cash equivalents" has more information. 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, cf. the table below. This implies the use of banks based on syndicated credit facilities and the issue of debt instruments on the Norwegian capital market.

MNOK	*Total at 31 Dec 2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*
Interest bearing liabilities (bond loans)	1 250	500	-	-	500	-	250

At 31 December 2013, KONGSBERG had a syndicated credit facility of MNOK 1,000 which is undrawn and scheduled to mature in July 2015.

Due to covenants on existing loans, KONGSBERG 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 system. Any further liquidity needs may be covered by short-term loans which should not exceed the available borrowing facilities with maturities greater than one year. KONGSBERG has a Group bank account scheme to which basically all subsidiaries are connected. This scheme optimises the 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.

Currency risk

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

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

According to policy, anticipated new orders are also hedged (cash flow hedges). The Group ensures a higher share of expected orders further in the further at higher rates and a smaller share of expected orders with a shorter time perspective at lower rates according to a matrix in the Group's Financial Policy. This enables the Group to mitigate the effects of currency fluctuations up to two years. Forward contracts are the most commonly used hedging instruments. Options are used only to a limited extent. Currency accounts within the group account scheme 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

At 31 December 2013, KONGSBERG had three bond loans totalling MNOK 1,250 and an undrawn syndicated credit facility of MNOK 1,000. KONGSBERG has a policy of emphasising predictability for interest expenses at times when changes in the interest level have a significant impact on consolidated profits. Each year, the funding plan is presented to the Board of Directors to consider the interest rate exposure. Note 20 D) "Financial instruments – interest rate risk" has more information.

Credit/counterparty risk

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

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

Historically, the Group has had a relatively low percentage of bad debts. Kongsberg Defense Systems and Kongsberg Protech

Systems mainly have government customers, and are to a small extent exposed to credit risk. Kongsberg Maritime generally serves customers from the private sector, and is more exposed to credit risk. Unrest in the global economy in general and 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 about 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 and has placed restrictions on its aggregate level of credit exposure. Note 18 "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 16 "Available for- sale shares" has more information.

6 Segment information

For management purposes, the Group is organised into business areas based on the industries in which the Group operates. From 2013, Kongsberg Oil & Gas Technologies is reported as a separat operating segment, and reporting requirements apply to the following four operating segments:

Kongsberg Maritime delivers products and systems for dynamic positioning, navigation and automation for commercial vessels and offshore installations, as well as products and systems for seabed surveys, surveillance, training simulators and fishing vessels and fisheries research. The business area is among the market leaders in these areas. Countries with significant offshore and shipbuilding industries are important markets. In Kongsberg Maritime, 63 per cent of the revenue is within Offshore, 13 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. Norway's Armed Forces has been the single most important customer over time. Solutions developed in collaboration with the Norwegian Armed Forces have proven competitive on the international arena and have achieved a growing export share in recent years. All defence-related exports are contingent on the approval of the Norwegian authorities. One key element of the market strategy is to form alliances with major international defence enterprises. Kongsberg Defence Systems delivers systems for command and weapon control, weapon guidance and surveillance, communications solutions and missiles. In Kongsberg Defence Systems 31 per cent of the revenue is related to Missile Systems, 30 per cent to Integrated Defence Systems, 22 per cent to Naval System, 10 per cent to Aerostructures and 7 per cent to Defence Communications.

Kongsberg Protech Systems main product is the weapon guidance system Protector RWS developed to protect military personnel in armoured vehicles. Kongsberg is by far the largest player in this market. The system has been sold to many countries. The RWS is a product in demand for a growing range of military vehicles. The US Army is the business area's largest customer.

Kongsberg Oil & Gas Technologies is a supplier of high-tech solutions to the international oil and gas industry. The business area offers engineer services, innovative underwater solutions and decision making systems. Kongsberg Oil & Gas Technologies delivers systems and solutions to all phases of the lifetime of a field, from searching to development and production.

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

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

Management monitors the operating segments' EBITAs on a regular basis and uses this information to analyse the various operating segments' performance and to make decisions regarding allocation of resources. The operating segments' performance is assessed based on EBITA and return on capital employed. Information on the Group's operating segments that are required to report is presented below.

Operating segment information

MNOK	*Kongsberg Maritime*	*Kongsberg Defence Systems*	*Kongsberg Protech Systems*	*Kongsberg Oil & Gas Technologies*	*Other*	*Eliminations*	*Consolidated*
2013							
Revenue from external customers	8 240	4 399	2 418	1 042	224	-	16 323
Revenue from group companies	24	155	2	35	319	(535)	-
Total revenues	**8 264**	**4 554**	**2 420**	**1 077**	**543**	**(535)**	**16 323**
Operating profit before depreciation and amortisation (EBITDA)	**1 179**	**520**	**419**	**49**	**(25)**	**-**	**2 142**
Depreciation	(161)	(113)	(57)	(15)	1	-	(345)
Operating profit before amortisation (EBITA)	**1 018**	**407**	**362**	**34**	**(24)**	**-**	**1 797**
Amortisation	(42)	(29)	(15)	(52)	-	-	(138)
Operating profit (loss) (EBIT)	**976**	**378**	**347**	**(18)**	**(24)**	**-**	**1 659**
Segment assets	7 308	3 128	1 719	1 316	233	(102)	13 602
Segment investments	186	86	31	61	8	-	372
Current segment liabilities and provision	3 134	2 159	1 302	292	240	(102)	7 025
2012							
Revenue from external customers	7 451	4 457	2 873	665	206	-	15 652
Revenue from group companies	34	197	3	37	312	(583)	-
Total revenues	**7 485**	**4 654**	**2 876**	**702**	**518**	**(583)**	**15 652**
Operating profit before depreciation and amortisation (EBITDA)	**1 050**	**478**	**727**	**44**	**(5)**	**-**	**2 294**
Depreciation	(142)	(106)	(73)	(5)	3	-	(323)
Operating profit before amortisation (EBITA)	**908**	**372**	**654**	**39**	**(2)**	**-**	**1 971**
Amortisation/Impairment	(52)	(26)	(9)	(44)	-	-	(131)
Operating profit (loss) (EBIT)	**856**	**346**	**645**	**(5)**	**(2)**	**-**	**1 840**
Segment assets	6 933	3 846	1 918	775	256	(114)	13 614
Segment investments	338	111	59	19	9	-	536
Current segment liabilities and provision	3 019	2 333	1 627	159	239	(114)	7 263

The 2012 figures have been restated, cf. information in Note 33. In addition, depreciation related to the property business has been allocated to the segments, as compared to the 2012 figures reported under "Other".

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

Reconciliation of assets

MNOK	*2013*	*2012*
Segment assets	**13 602**	**13 614**
Shares available for sale	140	125
Other non-current assets	155	155
Derivatives	173	782
Fair value adjustments related to financial instruments	93	(911)
Cash and cash equivalents	3 272	2 509
Total assets	**17 435**	**16 274**

Reconciliation of current liabilities and provisions

MNOK	*2013*	*2012*
Current segment liabilities and provisions	**7 025**	**7 263**
Short-term interest-bearing debt	526	20
Derivatives	312	49
Fair value adjustments related to financial instruments	150	(443)
Calculated income tax payable	16	225
Total current liabilities and provisions	**8 029**	**7 114**

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Gegraphical segment information

In presenting information by geographical segments, earnings are distributed based on the customers' geographical location, while the data on fixed assets are based on the location of the physical investment or relationship to the relevant acqusition. The Group's activities are generally divided into Norway, rest of Europe, America and Asia. Fixed assets include property, plant and equipment, intangible assets and goodwill (excl. financial instruments, deferred tax assets, pension fund assets and rights ensuing from insurance agreements).

MNOK	*Norway*	*EU*	*Rest of Europe*	*North America*	*South America*	*Asia*	*Other*	*Total*
2013								
Operating income from external customers	3 949	3 884	239	3 542	409	4 020	280	16 323
Operating income in % of the total	24%	24%	1%	22%	2%	25%	2%	-
Fixed assets[1]	4 807	122	-	584	22	253	3	5 791
2012								
Operating income from external customers	3 396	3 792	286	4 078	459	3 335	306	15 652
Operating income in % of the total	22%	24%	2%	26%	3%	21%	2%	-
Fixed assets[1]	4 426	105	-	569	7	241	4	5 352

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

7 Inventories

The Group's total inventories include the following:

MNOK	*31 Dec 13*	*31 Dec 12*
Raw materials	1 824	2 055
Work in progress	472	903
Finished products	648	507
Total	**2 944**	**3 465**
Impairment on inventories during the period	31	11
Cost of goods for the period	5 415	4 760

8 Payroll expenses

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

MNOK	*Note*	*2013*	*2012*
Salaries		4 242	3 846
Performance-based salary	27	62	48
Social security tax		830	734
Pension expenses, defined benefit plans	9	141	137
Pension expenses, defined contribution pension plans	9	280	253
Other benefits		187	233
Total payroll expenses		**5 742**	**5 251**
Average no. of FTE (full-time employees)			
Total		7 272	6 870

The 2012 figures have been restated (cf. Note 33).

9 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 plan covers all Group employees in Norway. At 31 December 2013, there are 4 768 employees in Norway covered by the pension plans. KONGSBERG endeavours 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 on 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,

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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 are 18 per cent of the share of the basic wage in excess of 12G, up to a ceiling of 15G. Special terms and conditions apply for executives. This is described in Note 27 "Statement on the Group CEO and Executive Management remuneration". (The employees have the same investment choices in the supplementary plan as in the main plan).

KONGSBERG's companies abroad generally have defined contribution plans. At 31 December 2013, appr. 4,150 employees in Norway and most of the employees abroad were covered by these plans. The contribution is expensed when 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. Based on the current National Insurance system before 1 January 2011 and full accrual, the plan gives entitlement to about 65 per cent of the salary at retirement, including benefits from the National Insurance plan until the age of 77, then the service pension component will be reduced by 50 per cent. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The collective, unfunded benefits plan corresponds to about 65 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 Group CEO and Executive Management remuneration". These supplementary plans were discontinued in connection with the transition to defined contribution pension plans.

Risk coverage

Disability pension from the company 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 based on full accrual. An additional 10 per cent disability pension is paid for each child under the age of 21, up to maximum 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.

Early retirement

In 2009, the Group introduced new rules for early retirement with severance pay for newly hired members of executive management and others in certain key positions. The rules entail retirement with severance pay at the age of 65 at the latest, but with reciprocal rights for the company and members of the pension schemes to request retirement with severance pay 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. It has been decided not to continue the scheme with early retirement agreements for executives (and employees in certain key positions who previously were offered agreements on early retirement) employed after 1 July 2013. 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 are employed, 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 13	*31 Dec 12*
Economic assumptions		
Discount rate	3.75%	3.75%
Expected asset return	3.75%	3.75%
Wage adjustment	3.00%	3.00%
Pension base-level (G) adjustment	3.50%	3.50%
Pension adjustment	2.25%	2.25%
Demographic assumptions		
Mortality	K 2013	K 2005
Disability	IR 73	IR 73
Voluntary turnover	4.5 per cent for all ages	4.5 per cent for all ages

A new mortality table K2013 has been prepared by the Norwegian Financial Services Association, and addresses the tariffs for mortality. The reason is an increased life expectancy which will lead to higher pension obligations. The new mortality table K2013 was implemented in Q3-2013. The one-off effect of MNOK 267 incl. social security tax has been recognised in the statement of comprehensive income. 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 %		Estimated 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 historical figures, where about 25 per cent of the disability pension has been reimbursed through an international pool.

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The pension costs of the year were calculated as follows:

MNOK	*2013*	*2012*
Present value of the accrued contribution of the year	122	109
Interest cost on accrued pension liabilities	75	48
Estimated return on pension plan assets	(59)	(61)
Accrued social security expenses	19	13
	157	**109**
Settlement of old early retirement plan	-	15
Total net pensions costs for the year including finance items	**157**	**124**
Adjusted for net interest classified as finance expense	(16)	13
Total net pensions costs for the year	**141**	**137**
Defined contribution pension plan costs in Norway	260	233
Defined contribution pension plan costs abroad	20	20

Net interest costs are classified as finance expenses.

Change in net pension liabilities recognised on the balance sheet

	2013			2012		
MNOK	*Funded*	*Unfunded*	*Total*	*Funded*	*Unfunded*	*Total*
Changes in gross pension liabilities						
Gross pension liabilities at 1 January	1 897	187	2 084	1 707	215	1 922
Net change in social security expenses	30	(1)	29	12	(3)	9
Aquisition	35	-	35	-	-	-
Present value of current year's contribution	112	10	122	100	9	109
Interest expenses on pension liabilities	70	5	75	43	5	48
Actuarial losses / (gains)	166	(4)	162	101	(25)	76
Settlement of old early retirement plan	-	-	-	-	13	13
Plan change	(9)	-	(9)	-	-	-
Payments of pensions/ paid-up policies	(80)	(30)	(110)	(66)	(27)	(93)
Gross pension liabilities at 31 December	**2 221**	**167**	**2 388**	**1 897**	**187**	**2 084**
Changes in gross pension fund assets						
Fair value, pension plan assets 1 January	1 552	-	1 552	1 462	-	1 462
Expected return on pension funds	59	-	59	61	-	61
Actuarial (losses) / gains	(47)	-	(47)	(46)	-	(46)
Premium payments	127	-	127	141	-	141
Aquisition	29	-	29	-	-	-
Plan change	(9)	-	(9)	-	-	-
Payments of pensions/ paid-up policies	(80)	-	(80)	(66)	-	(66)
Fair value, pension plan assets 31 December	**1 631**	**-**	**1 631**	**1 552**	**-**	**1 552**
Net capitalised pension liabilities at 31 December	**(590)**	**(167)**	**(757)**	**(345)**	**(187)**	**(532)**

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The percentage distribution of pension plan assets by investment categories at 31 December 2013 and in previous periods:

MNOK	*2013*	*2012*	*2011*	*2010*	*2009*
Long-term bonds	576	559	512	452	463
Money market	403	357	336	151	103
Short-term bonds	264	248	219	205	296
Shares	139	93	117	287	180
Property	227	264	263	246	219
Other	23	31	15	27	26
Total	**1 631**	**1 552**	**1 462**	**1 369**	**1 287**
Recognised return on pension plan assets	**4.4%**	**5.6%**	**3.2%**	**6.2%**	**4.7%**

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. Detailed information on the valuation of the pension funds on the various investmentmens categories have not been available.

MNOK	*2013*	*2012*	*2011*	*2010*	*2009*
Net liabilities at 1 January	(532)	(460)	(316)	(340)	(323)
Net change in social security expenses	(29)	(9)	(18)	3	(3)
Recognised pension cost	(138)	(96)	(82)	(78)	(68)
Settlement, pension plan	-	(13)	5	34	-
Premium payments	127	141	147	86	133
Disbursements	30	27	30	26	15
Purchase(s)/ sale(s)	(6)	-	(11)	-	-
Actuarial (losses) / gains	(209)	(122)	(215)	(47)	(94)
Net pension liabilities in balance sheet at 31 December	**(757)**	**(532)**	**(460)**	**(316)**	**(340)**

Actuarial loss/gain is recognised in the statement of comprehensive income by MNOK 239 incl. social security expense.

Historical information

MNOK	*2013*	*2012*	*2011*	*2010*	*2009*
Gross pension liabilities at 31 December	2 388	2 084	1 922	1 685	1 628
Fair value, pension plan assets 31 December	1 631	1 552	1 462	1 369	1 287
Net pension liabilities 31 December	**(757)**	**(532)**	**(460)**	**(316)**	**(341)**
Actuarial gains/losses pension liabilities 31 December	162	76	136	12	98
Actuarial gains/losses pension assets 31 December	(47)	(46)	(79)	(35)	4
Accumulated actuarial gains/losses recognised in the statement of comprehensive income after tax	**(1 399)**	**(1 227)**	**(1 145)**	**(968)**	**(929)**
Of which constitute experience deviations	(1 056)	(1 076)	(1 053)	(968)	(929)

Accumulated actuarial gains/losses for 2012 have been adjusted for return in excess of the discount rate recognised in the statement of comprehensive income. For further information, see Note 33.

The old contractual early retirement plan was closed in 2010, providing a net gain. The old contractual early retirement plan was replaced by a new contractual early retirement plan. The new contractual early retirement plan is, as opposed to the old one, not an early retirement plan, but rather a regime that 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 deposit-based pension plan in which premium payments are expensed against income on an ongoing basis, and no provisions are made in the financial statements. A premium is paid to the new plan of the total payments made between 1G and 7.1G to the company`s employees. For 2013 the premium was 2.0 percent, and it was set to 2.2 per cent for 2014 (estimated to MNOK 66). The premium level is expected to increase in the coming years.

The pension expenses for the year are calculated on the basis of the financial and actuarial assumptions at the beginning of the year. Gross pension liabilities are calculated on the basis of the financial and actuarial assumptions at the end of the year. The gross value of pension fund assets is calculated on the assumption that there will be an annual return of 3,75 per cent, being the expectation on 31 December 2013. The value adjusted return on investments was 5.1 per cent, but will not be included in the capitalised assets until 2014.

The total pension premium payments for the defined benefit plan for 2014 are expected to be appr. MNOK 130.

The pension benefits are based on the individual employee's number of years of service and salary level upon reaching retirement age. Net pension liabilities are 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 approximately 9 per cent higher using a government bond rate of 3 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 approximately 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	
2014	91
2015	95
2016	103
2017	112
2018	118
Next 5 years	725

Sensitivity analysis of pension calculations

The following estimates are based on facts and circumstances that applied at 31 December 2013, provided that all other parameters are constant. Actual results may deviate significantly from these estimates.

	Discount rate		Annual salary growth/basic amount		Annual adjustments of pensions		Retirement rate		Mortality	
Changes in % are percentage points	*1%*	*-1%*	*1%*	*-1%*	*1%*	*-1%*	*1%*	*-1%*	*In years, lower than expected lifetime at 67 years*	*In years, higher than expected lifetime at 67 years*
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 expectation for a 67 year old is increased by one year and reduced by one year, respectively. This is relevant for life expectation for a 67 year old in 2013 according to the mortality table K2013.

10 Property, plant and equipment

MNOK	*Machinery and plants*	*Equipment and vehicles*	*Buildings and other real property*	*Land*	*Total*
Cost of acquisition					
1 January 2012	1 030	1 547	1 588	210	4 375
Additions	100	230	199	7	536
Additions through business combinations	1	-	-	-	1
Disposals	(11)	(8)	(8)	-	(27)
Translation differences	(8)	(17)	(18)	(2)	(45)
Total acquisition cost 31 Dec 2012	**1 112**	**1 752**	**1 761**	**215**	**4 840**
Additions	85	219	48	4	356
Additions through business combinations	-	11	-	-	11
Disposals	(8)	(14)	(5)	-	(27)
Translation differences	21	26	31	2	80
Total acquisition cost 31 Dec 2013	**1 210**	**1 994**	**1 835**	**221**	**5 260**
Accumulated depreciation					
1 January 2012	399	1 034	512	-	1 945
Depreciation for the year	72	178	73	-	323
Disposals	(5)	(6)	(3)	-	(14)
Translation differences	(4)	(8)	(4)	-	(16)
Total accumulated depreciation 31 Dec 2012	**462**	**1 198**	**578**	**-**	**2 238**
Depreciation for the year	79	194	72	-	345
Disposals	(2)	(12)	(2)	-	(16)
Translation differences	13	17	8	-	38
Total accumulated depreciation 31 Dec 2013	**552**	**1 397**	**656**	**-**	**2 605**
Carrying amount 31 Dec 2012	**650**	**554**	**1 183**	**215**	**2 602**
Carrying amount 31 Dec 2013	**658**	**597**	**1 179**	**221**	**2 655**
Useful life	**3–10 years**	**3–10 years**	**10–33 years**	**N/A**	
Annual rent paid for off-balance sheet property, plant and equipment	**-**	**10**	**236**	**-**	

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 considered annually based on best judgement.

11 Intangible assets

MNOK	*Goodwill*	*Technology*	*Development costs*	*Other intangible assets*	*Total*
Acquisition cost					
1 Jan 2012	2 418	666	452	58	3 594
Additions	-	5	115	2	122
Additions through business combination	38	13	-	2	53
Disposals	-	-	(2)	-	(2)
Translation differences	(26)	(20)	-	(2)	(48)
Total acquisition cost 31 Dec 2012	**2 430**	**664**	**565**	**60**	**3 719**
Additions			80	1	81
Additions through business combination[1]	273	92	4	38	407
Disposals			(2)		(2)
Translation differences	26	21	1	2	50
Total acquisition cost 31 Dec 2013	**2 729**	**777**	**648**	**101**	**4 255**
Accumulated amortisation and impairment					
1 Jan 2012	420	305	127	(2)	850
Amortisation	-	73	37	9	119
Impairment	-	10	2	0	12
Disposals	-	-	(2)	0	(2)
Translation differences	-	(9)	-	(1)	(10)
Total accumulated amortisation 31 Dec 2012	**420**	**379**	**164**	**6**	**969**
Amortisation	-	71	48	19	138
Disposals	-	-	(2)	-	(2)
Translation differences	1	11	-	1	13
Total accumulated amortisation and impairment 31 Dec 2013	**421**	**461**	**210**	**26**	**1 118**
Carrying amount 31 Dec 2012	**2 010**	**285**	**401**	**54**	**2 750**
Carring amount 31 Dec 2013	**2 308**	**316**	**438**	**75**	**3 137**
Useful live		**8–10 years**	**5 years**	**8–10 years**	
Remaining useful life		**1–9 years**	**3–5 years**	**4–9 years**	

1) Business combinations mainly applies to the business area Kongsberg Oil & GAS Technologies' purchase of 100 per cent of the shares in Apply Nemo AS. Note 30 "Business combinations" has information about the purchase price allocation.

With the exception of goodwill, which cannot be amortised, the amortisation of intangible assets is either 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. If the upstart is later than this, straight-line amortisation is applied until the production starts.

Product maintenance, research and development recognised in profit and loss

	2013			2012		
MNOK	*Product maintenance*	*Research and development costs*	*Total*	*Product maintenance*	*Research and development costs*	*Total*
Kongsberg Maritime	115	543	658	175	523	698
Kongsberg Defence Systems	8	84	92	10	100	110
Kongsberg Protech Systems	29	55	84	29	67	96
Kongsberg Oil & Gas Technologies	10	46	56	17	29	46
Total	**162**	**728**	**890**	**231**	**719**	**950**

The Group also has development throught customer-based projects.

Capitalisation of development projects

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

At Kongsberg Defence Systems, current capitalisations are related to the development of map and communications systems and to KONGBERG's share of the development of Joint Strike Missile, which is directly financed by KONGSBERG.

At Kongsberg Protech Systems, this year's capitalised development costs were minimal, as the development of the new product concept in the RWS family, the Medium Caliber RWS, was finalised during the year. The amortisation of Medium Caliber RWS has started, from 4th quarter 2013.

Internally financed development projects at Kongsberg Maritime generally consist of many projects, each of which has a limited overall scope. These development projects are not considered to be eligible for capitalisation. Many of the projects also entail considerable uncertainty about whether they are technologically feasible and how the final solution will turn out. As long as there is uncertainty about the final technological solution, it is difficult to estimate market value. Accordingly, the criteria for capitalisation will not be satisfied until fairly late in the development project. Remaining expenses will often be insignificant. Kongsberg Oil & Gas Technologies capitalises parts of its development related to software solutions (such as Leda Flow), and development projects within subsea carried forward from the acquisition of Apply Nemo AS

Estimation uncertainty

Capitalised development projects are amortised according to the estimated production volume or lifetime. Both estimated production volume or lifetime can change over time. These factors are considered annually, and the amortisation is adjusted judgmentally 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 12 "Impairment testing of goodwill".

12 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 12*	*31 Dec 13*
Kongsberg Maritime	1 502	1 457
Kongsberg Defence Systems	170	168
Kongsberg Oil & Gas Technologies	636	385
Total goodwill in balance sheet	**2 308**	**2 010**

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 Board of Directors and executive management. Budgets and long-term plans cover a five-year period (explicit prognosis period). Approved budgets and long-term plans are adjusted for cash flows related to investments, restructuring, future product improvements and new development, where this is considered significant for the impairment test. After the five years of explicit plans, the units' cash flows are stipulated by extrapolation. At the beginning of the extrapolation period, the entity is assumed to be in a stable phase. To calculate value in use, the Group has used anticipated cash flows after tax and, correspondingly, discount rates after tax. The recoverable amount would not

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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)

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

Growth rate

Growth rates in the explicit prognosis period are based on management's expectations of market trends in the markets in which the undertaking operates. The Group uses stable growth rates to extrapolate cash flows 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	12.8	10.4	11.3
Discount rate after tax	9.4	8.3	9.4
Long-term nominal growth rate	2.0	2.0	2.0
Inflation	2.0	2.0	2.0

Impairment

There was no impairment of goodwill in 2013 (or 2012).

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, the analysis gives no indications of impairment. However, the business area is still in a start-up phase and therefore more sensitive to substantial changes.

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.

13 Finance income and finance expense

MNOK	2013	2012
Interest income from assets at amortised cost	36	39
Derivatives at fair value through profit and loss	8	8
Foreign exchange gain	26	5
Other finance income	25	7
Total finance income	**95**	**59**
Interst expense from liabilities at amortised cost	43	37
Derivatives at fair value through profit and loss	9	-
Foreign exchange loss	23	5
Discounts of non-current provisions	3	4
Other finance expense	32	39
Write-down of shares available-for-sale	-	5
Total finance expense	**110**	**90**
Net finance item recognised in income statement	**(15)**	**(31)**

The 2012 figures have been restated (cf. Note 33)

14 Income tax

Income tax expense

MNOK	2013	2012
Tax payable Norway	12	*183*
Tax payable abroad	86	*82*
Change in deferred tax	321	246
Transferred to other comprehensive income	-	(6)
Income tax expense	**419**	**505**

Reconciliation from nominal to effective tax rate

MNOK	2013	2012
Profit before tax	**1 644**	**1 809**
Tax calculated at tax rate 28 per cent of profit before tax	460	507
Effect of reducing the tax rate to 27 per cent	(33)	-
Effect of tax differences and unrecognised tax benefits abroad	(12)	2
Supplementary taxation abroad	-	20
Tax effect of contingent compensation for purchases, disposals and impairment of shares	1	(29)
Other permanent differences	3	5
Tax expense	**419**	**505**
Effective tax rate	25.5%	27.9%

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.
The change in tax rate from 28% to 27% has resulted in a reduction of the tax expense for 2013. This is the main reason why the effective tax rate is 25.5% (27.9% in 2012).
The 2012 figures have been restated, cf. information in Note 33.

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Deferred tax asset and deferred tax liability

MNOK	*31 Dec 13*	*31 Dec 12*
Deferred tax asset and deferred tax liability		
Pensions	204	149
Provisions	457	608
Net derivatives	39	-
Accumulated tax loss to carry forward	270	-
Deferred tax assets - gross	**970**	**757**
Deferred tax liability		
Fixed assets	338	313
Construction contracts in progress	1 633	1 088
Net derivatives	-	203
Deferred tax liabilities - gross	**1 971**	**1 604**
Net recognised deferred tax liabilities	**(1 001)**	**(847)**
Tax rate in Norway	27%	28%

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

MNOK	*31 Dec 13*	*31 Dec 12*
Pensions	(67)	(39)
Cash flow hedges	(129)	31
Total	**(196)**	**(8)**
Addition of deferred tax at business combinations	29	-

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

15 Earnings per share

MNOK	*2013*	*2012*
Profit for the year attributable to the shareholders		
Profit after tax	1 225	1304
Non-controlling interests' share of the result	(3)	(5)
Profit for the year/diluted profit attributale to the ordinary shareholders	**1 228**	**1309**

Number of shares	*Note*	*2013*	*2012*
Average weighted number of shares outstanding at 1 January	22	120	120
Average weighted number of shares at 31 December		**120**	**120**

NOK	*2013*	*2012*
Earnings per share for the year	10.24	10.91
Earnings per share for the year, diluted	10.24	10.91

The 2012 figures have been restated (cf. Note 33).

16 Available-for-sale shares

Available-for-sale shares

MNOK	*31 Dec 13*	*31 Dec 12*
Quoted shares	61	68
Other shareholdings	79	57
Available-for-sale shares	**140**	**125**

Available-for-sale shares are recognised at fair value. Quoted shares at 31 December 2013 consisted of shares in Kitron ASA (19 per cent ownership). The shares are valued at market price on the stock exchange. KONGSBERG does not have significant influence of the company through its ownership.

Changes in the fair value of shares, with the exception of impairment losses, are recognised in the statement of comprehensive income. In case of significant and permanent impairment losses, they are recognised in the income statement. In 2013, MNOK 7 were recognised as an impairment in the statement of comprehensive income (an increase in 2012 of MNOK 16). The amounts concern Kitron ASA. No impairment has been recognised in the income statement in 2013.

In per cent of total market value, listed shares constitute 44 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

A change in market prices of the quoted shares of 10 per cent would result in an increase/decrease in the added value of MNOK 6 which would be recognised directly in the statement of comprehensive income at 31 December 2013 (MNOK 7 based on balance sheet values at 31 December 2012).

17 Other non-current assets

MNOK	*31 Dec 13*	*31 Dec 12*
Loans to employees	42	36
Other non-current assets	113	119
Total other non-current assets	**155**	**155**

18 Receivables

MNOK	*31 Dec 13*	*31 Dec 12*
Gross receivables	2 361	1 970
Provision for bad debts	(123)	(155)
Net accounts receivable	**2 238**	**1 815**
Other receivables	581	295
Prepayments to suppliers	177	449
Net receivables	**2 996**	**2 559**

Credit risk

Exposure to credit risk

KONGSBERG's credit risk and how it is managed is accounted for in Note 5 "Financial risk management objectives and policies". The carrying amount of financial assets represents the Group's maximum exposure.

MNOK	*Note*	*31 Dec 13*	*31 Dec 12*
Gross accounts receivable		2 361	1 970
Gross other receivables		758	744
Other non-current assets	17	155	155
Cash and cash equivalents	21	3 272	2 509
Currency forward contracts and interest rate swaps used as hedges	20A	173	782
Total exposure to credit risk		**6 719**	**6 160**

Gross receivables by region

MNOK	*31 Dec 13*	*31 Dec 12*
Norway	392	332
EU	667	448
Other Europe	12	66
North America	513	348
South America	51	150
Asia	562	461
Other countries	164	165
Total	**2 361**	**1 970**

Gross receivables by customer type

MNOK	*31 Dec 13*	*31 Dec 12*
Government institutions	796	747
Private companies	1 565	1 223
Total	**2 361**	**1 970**

Impairment

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

	31 Dec 2013		**31 Dec 2012**	
MNOK	*Gross*	*Provisions for bad debts*	*Gross*	*Provisions for bad debts*
Not due	1 226	-	896	-
Due, 1-30 days	428	(2)	453	(12)
Due, 31-90 days	309	(1)	287	(3)
Due, 91-180 days	97	(4)	194	(3)
Due, more than 180 days	301	(116)	140	(137)
Total	**2 361**	**(123)**	**1 970**	**(155)**

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Change in the provision for bad debts

MNOK	*2013*	*2012*
Provision at 1 January	(155)	(170)
Actual losses	11	13
Provision	(8)	(2)
Reversed	29	4
Provision at 31 December	**(123)**	**(155)**

Estimation uncertainty
The provision for bad debts is based on the best estimate and judgement with respect to the probability of any loss on a receivable or a group of receivables.

19 Construction contracts in progress

The Group's main business activity is to develop and manufacture products and systems based on orders. Note 3C "Construction contracts/ system deliveries" accounts for income recognition and classification of construction contracts.

Projects in progress in the table below constitute the net amount of accumulated earned operating income less accumulated billing for all current contracts, where accumulated operating income exceeds accumulated billing. Prepayments from customers are the net amount of accumulated earned operating income less accumulated billing for all current contracts where accumulated billing exceeds accumulated operating income. Project accruals are the net amount of costs incurred based on the project's percent of completion less accumulated costs charged to the construction contract.

Net contruction contracts in progress

MNOK	*31 Dec 13*	*31 Dec 12*
Projects in progress	2 200	1 694
Prepayments from customers	(3 304)	(2 705)
Project accruals, assets	1 412	1 087
Project accruals, liabilities	(893)	(1 033)
Net construction contracts in progress	**(585)**	**(957)**

MNOK	*31 Dec 13*	*31 Dec 12*
Construction contracts in progress, assets	1 963	1 327
Construction contracts in progress, liabilities	(2 548)	(2 284)
Net construction contracts in progress	**(585)**	**(957)**

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

A summary of significant contract data is provided below.

MNOK	*2013*	*2012*
Total orders	36 492	33 120
Operating income for the year	8 728	8 187
Accumulated operating income	26 992	23 685
Accumulated variable expenses	20 182	17 569
Remaining operating income	9 500	9 435
Prepayments received	3 304	2 705
Remaining variable costs on onerous contracts	115	163

Estimation uncertainty
Income related to construction contracts is recognised in line with the estimated percentage of completion. Percentage of completion is normally calculated as accrued production costs as a percentage of total expected production costs. In certain cases, progress is calculated as a function of accrued hourly costs, or milestones achieved. The contracts' revenues have been agreed. Total anticipated production costs are estimated based on a combination of empirical data, systematic estimation procedures, monitoring of efficiency targets and best judgement. In general, the number of remaining manhours necessary to develop or complete a project will constitute a large part of total project costs. The uncertainty of the estimates is influenced by a project's duration and technical complexity. Principles have been established for categorising projects in terms of technological complexity and the content of the development. This constitutes the basis for risk assessments and recognition of project profits. The projects are reviewed on a quarterly basis at a minimum.

20 Financal instruments

A) Derivatives

MNOK	*Note*	*31.12.13*	*31.12.12*
Current assets			
Excess value forward contracts, cash flow hedges		65	173
Excess value currency options, cash flow hedges		-	2
Excess-/less (-) value interest rate swaps, cash flow hedges		3	(1)
Excess value forward contracts, project hedges		100	603
Excess-/less (-) value, loan hedges	20B	5	5
Total derivatives, current assets		**173**	**782**
Non-current liabilities			
Less value interest swaps related to sale and lease-back	20D	8	9
Total derivatives non-current liabilities		**8**	**9**
Current liabilities			
Less value forward contracts, cash flow hedges		102	-
Less value forward contracts, project hedges		205	44
Excess-/less value (-) loan hedges		5	5
Total derivatives current liabilities		**312**	**49**

B) Currency risk and hedging of currency

KONGSBERG's currency risk and 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 2013		31 Dec 2012	
Amounts in mill.	*USD*	*EUR*	*USD*	*EUR*
Accounts receivable	137	58	355	28
Accounts payable	(21)	(9)	(156)	(13)
Net balance sheet exposure	**116**	**49**	**199**	**15**
Forward contracts project hedges[1]	940	275	1 020	349

1) According to KONGSBERG's currency strategy, all contracts in functional currency are hedged.

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

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

	Average exchange rates		Spot rates at 31 Dec	
	2013	*2012*	*2013*	*2012*
USD	5.88	5.84	6.07	5.53
EUR	7.81	7.56	8.36	7.32

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Currency hedging

At 31 December, the Group had the following foreign currency hedges, by hedge category:

2013 Amounts in mill.	Gross value in NOK at 31 Dec 13 based on hedged rates	Net excess(+)/ less(-) value in NOK 31 Dec 13	Total hedged amount in USD at 31 Dec 13	Average hedged exchange rate in USD 31 Dec 13	Total hedged amount in EUR at 31 Dec 13	Average hedged exchange rate in EUR 31 Dec 13
Hedge category						
Forward contracts, cash flow hedges[1]	10 373	(37)	1 476	6.12	165	8.15
Currency options, cash flow hedges[1]	-	-	-	-	-	-
Total cash flow hedges	**10 373**	**(37)**	**1 476**		**165**	
Project hedges (fair value hedges)[2) 3)]	8 496	(105)	940	6.06	275	8.28
Loan hedges (fair value hedges)[2]	728	5	106	6.12	1	8.38
Total	**19 597**	**(137)**	**2 522**		**441**	

2012 Amounts in mill.	Gross value in NOK at 31 Dec 12 based on hedged rates	Net excess(+)/ less(-) value in NOK 31 Dec 12	Total hedged amount in USD at 31 Dec 12	Average hedged exchange rate in USD 31 Dec 12	Total hedged amount in EUR at 31 Dec 12	Average hedged exchange rate in EUR 31 Dec 12
Hedge category						
Forward contracts, cash flow hedges[1]	3 272	173	410	5.95	109	7.63
Currency options, cash flow hedges[1]	140	2	25	5.60	-	-
Total cash flow hedges	**3 412**	**175**	**435**		**109**	
Project hedges (fair value hedges)[2) 3)]	9 399	558	1 020	5.86	349	8.06
Loan hedges (fair value hedges)[2]	656	5	105	-	1	-
Total	**13 467**	**738**	**1 560**		**459**	

1) Changes in fair values associated with effective cash flow hedges (forward contracts and currency options) are recognised in the statement of comprehensive income (OCI). The part not considered to be an effective hedge is recognised through profit and loss.
2) The figures in the table linked to values based on agreed exchange rates and net fair values also include currencies other than USD and EUR. Loan hedges are currency hedges related to foreign currency loans.
3) The total change in value on hedged projects during 2013 is MNOK 663 (MNOK 526 in 2012). Derivatives used as project hedges have had corresponding negative values throughout the year, and the hedging has therefore been 100 per cent effective. Change in value is recognised in accounts receivables and construction contracts in progress (assets and liabilities).

In addition to the exchange rate on 31 December, the fair value of forward contracts is affected by interest rate differences in the currencies in question. The interest yield curves applied in the valuation are received from Reuters which retrieves data from a variety of market participants. We also refer to to Note 4 "Fair value" and Note 20G "Financial instruments - Assessment of fair value".

Sensitivity analysis

A strengthening of NOK against the USD and EUR at 31 December 2013 of 10 per cent (10 per cent in 2012) would have increased the statement of comprehensive income with the amounts included below. The analysis assumes that the other variables remain constant. As KONGSBERG has a hedging strategy that generally hedges all contractual currency flows and receivables in foreign currency, foreign exchange fluctuations will not fully affect the profitability of contracts signed. Any changes in the value of the currency options is not reflected in the table below.

Estimated effect on the statement of comprehensive income (after tax)[1)]

MNOK	*31 Dec 13*	*31 Dec 12*
USD	645	163
EUR	99	57
Total	**744**	**220**

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

A corresponding weakening of NOK against the above currencies would have the same monetary effect, but with the sign reversed, provided all variables remain constant.

C) Cash flow hedges

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

	31 Dec 2013					**31 Dec 2012**				
MNOK	*Carrying amount*	*Expected cash flow*	*2014*	*2015*	*2016*	*Carrying amount*	*Expected cash flow*	*2013*	*2014*	*2015*
Forward contracts										
Assets	65	65	54	11	-	173	177	118	59	-
Liabilities	(102)	(105)	(71)	(34)	-	-	-	-	-	-
Currency options										
Assets	-	-	-	-	-	2	2	2	-	-
Liabilities	-	-	-	-	-	-	-	-	-	-
Interest swap agreements										
Assets	3	3	1	1	1	-	-	-	-	-
Liabilities	-	-	-	-	-	(1)	(1)	(1)	-	-
Total	**(34)**	**(37)**	**(16)**	**(22)**	**1**	**174**	**178**	**119**	**59**	**-**

The periods in which cash flows related to derivatives that are cash flow hedges (hedges of forecasted sale and interest hedges) are expected to have an impact on the income statement:

	31 Dec 2013				**31 Dec 2012**			
MNOK	*Carrying amount*	*Expected cash flow*	*2014*	*2015 and later*	*Carrying amount*	*Expected cash flow*	*2013*	*2014 and later*
Forward contracts								
Assets	65	65	37	29	173	177	106	71
Liabilities	(102)	(105)	(59)	(46)	-	-	-	-
Currency options								
Assets	-	-	-	-	2	2	2	-
Liabilities	-	-	-	-	-	-	-	-
Interest swap agreements								
Assets	3	3	1	2	-	-	-	-
Liabilities	-	-	-	-	(1)	(1)	-	(1)
Total	**(34)**	**(37)**	**(21)**	**(15)**	**174**	**178**	**108**	**70**

Cash flow hedges - hedging reserve

MNOK	*2013*	*2012*
Opening balance	191	112
Changes in excess/ less value during the period		
- Currency forward contracts, option contracts and deferred gain[1)]	(428)	155
- Interes rate swaps	4	(1)
Tax on items recognised directly in the statement of comprehensive income	129	(31)
Recognised gain/ loss during the period		
- Currency forward contracts, option contracts and deferred gain[1)]	(37)	(44)
Closing balance hedge reserve[2)]	**(141)**	**191**

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

1) Deferred losses on cash flow hedges represent MNOK 161 at 31 December 2013 (gains amounting to MNOK 89 at 31 December 2012) allocated to projects. The gains/ losses arise when the forward contracts relating to the forecast hedges are realised and new forward contracts are established for the project. Any incurred gain/ loss is deferred and realised in line with the progress of the project.
2) The net effect of cash flow hedging before tax, recognised in the statements of comprehensive income, represents MNOK -461 in 2013 (MNOK 110 in 2012).

D) Interest rate risk on loans

	2013					**2012**				
Amounts in MNOK	*Due date*	*Nominal interest rate*	*Years to maturity*	*Nominal amount*	*Carrying amount*	*Due date*	*Nominal interest rate*	*Years to maturity*	*Nominal amount*	*Carrying amount*
Bond issue KOG 07	10.9.19	4.80%	5.7	250	250	10.9.19	4.80%	6.7	250	*250*
Bond issue KOG 06	10.9.17	3.46%	3.7	500	500	10.9.17	3.63%	4.7	500	500
Bond issue KOG 05	14.4.14	5.44%	0.3	500	500	14.4.14	5.58%	1.3	500	500
Other long-term loans				61	61				61	61
Other short-term loas				26	26					
Total loans				**1 337**	**1 337**				**1 311**	**1 311**
Credit facility (not utilised)	1.7.15			1 000		1.7.15			1 000	-

At 31 December 2013, the credit facility was a syndicated credit facility totalling MNOK 1,000. The agreement was signed with four banks: DNB, Nordea, SEB and Danske Bank. The agreement expires in 2015. The interest rate is currently 3-month NIBOR + a margin that depends on the ratio between net interest-bearing loans/EBITDA and can vary from 0.60 per cent to 1.10 per cent. The credit facilities require that net interest-bearing debt shall not exceed three times the EBITDA, but can be up to 3.5 times the figure for three consecutive quarters at the most. The covenants in the loan agreements are met.

The bond loans were issued in NOK and are listed on the Oslo Stock Exchange. The interest is 3-month NIBOR + 3.75 per cent for loans with a nominal value of MNOK 500 and maturity in 2014, 3-month NIBOR + 1.8 per cent for loans with a nominal value of MNOK 500 and maturity in 2017, and fixed interest rate at 4.8 per cent for bond loans 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 comprise minor debts incurred directly by individual subsidiaries in local banks.

Interest rate swaps *Amounts in MNOK*	*Due date*	*Interest rate*	*Amount 2013*	*Excess (+)/ less value (-) 31 Dec 13*	*Amount 2012*	*Excess (+)/ less value (-) 31 Dec 12*
Interest rate swaps, floating to fixed rate[1)]	2.1.15	3.43%	150	(3)	150	(4)
Interest rate swaps, floating to fixed rate[1)]	2.1.15	3.21%	120	(2)	120	(3)
Interest rate swaps, floating to fixed rate[2)]	2.1.18	2.47%	247	(3)	247	(2)
Total interest rate swaps			**517**	**(8)**	**517**	**(9)**

1) KONGSBERG has entered into swap agreements from floating to fixed interest for a nominal amount of MNOK 270. The agreements were made in connection with tenancy agreements signed in connection with the sale and leaseback agreements as mentioned in Note 26 "Sale and leaseback". The change in value on interest rate swaps is recognised in the income statement.
2) KONGSBERG has entered into swap agreements from floating to fixed interest for a nominal amount of MNOK 247. The agreement was made in connection with financing the business area real estate to reduce interest exposure. The change in value on the swap agreement is recognised in the income statement.

Sensitivity analysis of interest rate risk
A change in the interest rate of 50 basis points (bp) on the date of the balance sheet would have increased (decreased) equity and the profit/(loss) by the amounts shown in the table. The analysis assumes that other variables remain constant. The analysis was performed on the same basis in 2012.

Effect of interest rate increase of 50 bp:

MNOK	*31 Dec 13 Profit (loss)*	*31 Dec 12 Profit (loss)*
Investments with floating interest rates	8	6
Loans with variable interest rates	(5)	(5)
Interest swap agreements	7	10
Cash flow sensitivity (net)	**10**	**11**

E) Liquidity risk

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

31 Dec 2013 *MNOK*	*Carrying amount*	*Contractual cash flows*	*2014*	*2015*	*2016*	*2017*	*2018 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	1 250	(1 398)	(537)	(29)	(29)	(524)	(279)
Other loans and non-current liabilities	87	(87)	(74)	(1)	(1)	(10)	(1)
Accounts payable	834	(834)	(834)	-	-	-	-
Financial obligations that are derivatives							
Currency derivatives (gross less value)	307	(315)	(213)	(94)	(6)	(2)	-
Interest rate swaps	8	(8)	(6)	(1)	(1)	-	-
Loan hedging	5	(5)	(5)	-	-	-	-
Total	**2 491**	**(2 647)**	**(1 669)**	**(125)**	**(37)**	**(536)**	**(280)**

31 Dec 2012 *MNOK*	*Carrying amount*	*Contractual cash flows*	*2013*	*2014*	*2015*	*2016*	*2017 and later*
Financial liabilities that are not derivatives							
Unhedged bond loans	1 250	(1 460)	(58)	(538)	(30)	(30)	(804)
Other loans and non-current liabilities	57	(57)	(45)	(1)	(1)	(1)	(10)
Accounts payable	927	(927)	(927)	-	-	-	-
Financial obligations that are derivatives							
Currency derivatives (gross less value)	44	(45)	(33)	(8)	(4)	-	-
Interest rate swaps	1	(1)	-	-	-	-	(1)
Loan hedging	5	(5)	(5)	-	-	-	-
Total	**2 284**	**(2 495)**	**(1 068)**	**(547)**	**(35)**	**(31)**	**(815)**

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F) Summary of financial assets and liabilities

Financial assets and liabilities broken down into different categories for accounting purposes at 31 December 2013:

2013 *MNOK*	*Note*	*Derivatives used for hedging*	*Derivatives that do not qualify for hedging*	*Loans and receiv-ables*	*Available for sale*	*Other financial liabilities*	*Total*	*Fair value*
Assets - fixed assets								
Investment in available-for-sale shares	16	-	-	-	140	-	140	140
Other non-current assets	17	-	-	155	-	-	155	155
Assets - current assets								
Derivatives	20A	173	-	-	-	-	173	173
Receivables	18	-	-	2 996	-	-	2 996	2 996
Cash and cash equivalents	21	-	-	3 272	-	-	3 272	3 272
Financial liabilities - non-current								
Interest-bearing loans	20D	-	-	-	-	811	811	846
Derivatives	20A	-	8	-	-	-	8	8
Other non-current liabilities		-	-	-	-	56	56	56
Financial liabilities - current								
Interest-bearing loans			-	-	-	526	526	527
Derivatives	20A	312	-	-	-	-	312	312
Accounts payable	24	-	-	-	-	834	834	834

2012 *MNOK*	*Note*	*Derivatives used for hedging*	*Derivatives that do not qualify for hedging*	*Loans and receiv-ables*	*Available for sale*	*Other financial liabilities*	*Total*	*Fair value*
Assets - fixed assets								
Investment in available-for-sale shares	16	-	-	-	125	-	125	125
Other non-current assets	17	-	-	155	-	-	155	155
Assets - current assets								
Derivatives	20A	782	-	-	-	-	782	782
Receivables	18	-	-	2 559	-	-	2 559	2 559
Cash and cash equivalents	21	-	-	2 509	-	-	2 509	2 509
Financial liabilities - non-current								
Interest-bearing loans	20D	-	-	-	-	1 311	1 311	1 290
Derivatives	20A	-	9	-	-	-	9	9
Other non-current liabilities		-	-	-	-	74	74	74
Financial liabilities - current								
Derivatives	20A	49	-	-	-	-	49	49
Accounts payable	24	-	-	-	-	927	927	927

G) Assessment of fair value

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

		2013			2012		
MNOK	*Note*	*Level 1*	*Level 2*	*Level 3*	*Level 1*	*Level 2*	*Level 3*
Assets							
Investments in available-for-sale shares [1]	16	62	-	78	69	-	56
Derivative financial assets	20A	-	173	-	-	782	-
Total assets at fair value		**62**	**173**	**78**	**69**	**782**	**56**
Liabilities							
Derivative financial liabilities	20A	-	320	-	-	58	-
Interest-bearing debt (calculated for note purposes)		-	1 373	-	-	1 290	-
Total liabilities at fair value		**-**	**1 693**	**-**	**-**	**1 348**	**-**

1) For shares classified as available-for-sale and included in Level 3 above, there have been no additions, disposals or change in value.

The different levels have been defined as follows:

Level 1: Fair value is measured by using quoted prices in active markets for identical financial instruments. No adjustments are made related to these prices.

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

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

Note 4 and Note 16 has information on the measuring of fair value

H) Estimation uncertainty

KONGSBERG has a number of financial instruments recognised at fair value. When market prices cannot be observed directly through quoted prices, fair value is estimated by using various models based on internal estimates or input from banks or other market participants. Assumptions for such valuations include spot prices, forward rates and yield curves.

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

21 Cash and cash equivalents

Nominal amounts in MNOK	*31 Dec 13*	*31 Dec 12*
Short-term investments in the money market	880	1 153
Bank deposits, operating accounts	2 392	1 356
Total	**3 272**	**2 509**

Bank guarantees amounting to MNOK 281 (MNOK 253 in 2012) have been furnished for funds related to withholding tax for employees.

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

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22 Share capital

Share capital

At 31 December 2013, the Group's share capital consisted of 120,000,000 shares with a nominal value of NOK 1.25.

Changes in share capital

	Date	Number of shares	Nominal value NOK	Amounts in MNOK	Adjustment factor	Share capital in MNOK
Type of change						
Stock Exchange listing	13 Dec 93	5 850 000	20	117		117
Private placement with employees	1996	6 000 000	20	3		120
Share split	1997	24 000 000	5		01:04	120
Share issue	1999	30 000 000	5	30		150
Share split	2009	120 000 000	1,25		01:04	150

The largest shareholders at 31 December 2013

Shareholders	Number of shares	Stake
The Norwegian State repr. by the Ministry of Trade, Industry and Fisheries	60 001 600	50.001%
The National Insurance Fund	9 552 796	7.961%
Arendals Fossekompani ASA	8 480 992	7.070%
MP Pensjon	4 812 800	4.011%
Skagen Vekst	2 940 497	2.450%
JP Morgan Chase Bank - nominee	1 984 550	1.654%
Verdipapirfondet Odin Norden	1 752 878	1.460%
Verdipapirfondet Odin Norge	1 518 977	1.270%
Danske invest Norske Instit. II	1 152 181	0.960%
Danske invest Norske Aksjer Inst	1 117 324	0.930%
Total	**93 314 595**	**77.762%**
Other (stake < 0.75%)	26 685 405	22.238%
Total number of shares	**120 000 000**	**100.000%**

Shareholders, by size of holding

Number of shares	Number of owners	Number of shares	Holding %
1–1 000	5 814	1 861 566	1.55%
1 001–10 000	1 701	4 600 576	3.83%
10 001–100 000	176	5 552 117	4.63%
100 001–1 000 000	52	14 671 146	12.23%
1 000 001–10 000 000	9	33 312 995	27.76%
Over 10 000 000	1	60 001 600	50.00%
Total	**7 753**	**120 000 000**	**100.00%**

A 31 December 2013, 975 of the 7,746 shareholders were foreigners, and they owned a total of 10.85 percent of the shares.

Treasury shares

KONGSBERG held 66,699 treasury shares at year-end 2013. The shares were purchased in accordance with the authorisation granted by the Annual General Meeting, authorising the repurchase of up to five per cent of the shares outstanding.

	Number
Number of treasury shares at 31 December 2012	69 804
Purchase of treasury shares	603 395
Treasury shares conveyed to employees	606 500
Number of treasury shares at 31 Dec 2013	**66 699**

Dividend

	2013	2012
Dividend paid in MNOK	450	450
Dividend paid in NOK per share	3.75	3.75

The Board has proposed dividends amounting to MNOK 630 for 2013. This is equivalent to NOK 5.25 per share of which NOK 4.25 per share as ordinary dividend and an extraordinary dividend of NOK 1.00 per share related to KONGSBERG's 200 years' anniversary.

23 Provisions

Non-current provisions

MNOK	*Sale and lease-back*
1 January 2013	**114**
Provision	31
Effect of discounting	(3)
Reversed	(21)
Utilised provision	(5)
31 December 2013	**116**

Non-current provisions

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

Provisions for warranties

Provisions for warranties are provisions for warranty costs on completed deliveries. Unused warranty provisions are reversed when the warranty period expires. Warranty provisions are estimated based on a combination of empirical data, specific calculations and best judgement. Warranty periods vary from one to two years within Kongsberg Maritime and Kongsberg Oil & Gas Technologies. For Kongsberg Defence Systems and Kongsberg Protech Systems, the warranty periods normally last from one to five years, but for Kongsberg Defence Systems they can be as long as 30 years under certain circumstances.

Current provisions

Amounts in MNOK	*Warranty*	*Other*	*Total*
1 January 2013	**664**	**326**	**990**
Provision	275	46	321
Reversed	(95)	(38)	(133)
Utilised provision	(179)	(46)	(225)
31 December 2013	**665**	**288**	**953**

Other provisions

Provisions are recognised when the Group has an obligation as a result of a past event, it is probable that there will be a financial settlement as a result of this commitment, and the size of that obligation can be measured reliably. Provisions apply to circumstanses where there is a disagreement between contracting parties, uncertainty in relation to the warranty, or products that are early in their life cycles.

Uncertainty associated with provisions

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

24 Other current liabilities

Other current liabilities

MNOK	*31 Dec 13*	*31 Dec 12*
Accounts payable	834	927
Public duties payable	387	307
Income tax payable	16	225
Accrued holiday pay	412	380
Prepayments from customers on delivery projects	250	293
Liabilities related to performance-based salary	136	160
Other	1 655	1 499
Total	**3 690**	**3 791**

25 Assets pledged as collateral and guarantees

Assets pledged as collateral

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

Prepayment and completion guarantees

The 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 (parental guarantees). Kongsberg Gruppen ASA is responsible for all guarantees.

MNOK	*31 Dec 13*	*31 Dec 12*
Guarantees issued by banks and insurance companies	2 261	2 764
Guarantees issued by Kongsberg Gruppen ASA (parent company)	1 671	536
Prepayments from and completion guarantees to customers	**3 932**	**3 300**

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

26 Sale and lease-back

During the period from 1999 to 2007, KONGSBERG sold properties in Kongsberg Technology Park. The properties have been leased back on long-term leases that expire from 2014 to 2025. The leasebacks are 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, the properties are mainly leased to external tenants. The leases have durations ranging from three months to 15 years. Provisions related to this are discussed in Note 23 "Provisions".

MNOK	*Year of disposal*	*Annual lease payments 2014*	*Lease payments 2015 –2019*	*Lease payments later than 2019*	*Remaining term of lease*	*Lease payments – sublease 2014*	*Weighted average subleasing period*
Contract 1 - a total of 28,000 m² industrial/ office	1999	32	-	-	1 year	37	1 year
Contract 2 - a total of 38,000 m² industrial/ office	2001	35	147	-	5 years	37	2.5 years
Contract 3 - a total of 6,000 m² industrial/ office	2002	6	17	-	4 years	6	2.5 years
Contract 4 - a total of 10,000 m² industrial/ office	2006	17	91	32	8 years	19	8 years
Contract 5 - a total of 39,000 m² industrial/ office	2007	58	309	341	11 years	58	11 years
Total		**148**	**564**	**373**		**157**	

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

Contract 5 was signed in connection with the disposal of property carried out in 2007. Kongsberg Maritime AS, a wholly-owned subsidiary of KONGSBERG, has signed a long-term lease for the entire term of the lease. The lease agreement comprises two buildings, and the lease payments are adjusted annually based on the consumer price index. The Group has the right to extend the term of the lease for five years at a time on existing terms.

27 Statement on the Group CEO and Executive Management remuneration

Statement on the Group CEO and Executive Management remuneration

The Board proposes that the following guidelines be applied for 2014 and until the Annual General Meeting in 2015.

The main principles of the company's remuneration policy for the Group CEO and Executive Management

The principles that apply to remuneration of executive management are adopted by the Board. Each year, the Board of Directors assesses the CEO's remuneration and other compensation conditions, as well as the Group's performance-based salary plan for executives. The Board's Compensation Committee prepares the cases on the agenda for the Board of Directors. The CEO determines the compensation for the other members of corporate management in consultation with the Chairman of the Board. Management remuneration at Kongsberg Gruppen ASA and Group companies ("KONGSBERG") are based on the following main principles:

- Management remuneration shall be competitive, but not leading, and thus support a general moderation with regards to the development of the management remuneration - the company aspires to attract and retain skilled leaders.
- Management remuneration shall motivate, i.e., be structured to motivate managers to strive to achieve constant improvements in operations and the company's results.
- The remuneration system shall be understandable and acceptable both inside and outside of KONGSBERG.
- The remuneration system shall be flexible and open to adjustments when requirements change.
- The remuneration system shall encourage cooperation.

Compensation to corporate management shall reflect their responsibility for the management, performance and sustainable development of KONGSBERG, and take into account the size and complexity of the business. The arrangements shall otherwise be transparent and in line with the principles for good corporate governance.

Other companies in the Group shall comply with the main principles of the senior executive remuneration policy. One of the goals is to coordinate remuneration policy and the schemes used for variable benefits throughout the Group.

Elements of management remuneration –fixed salary and variable benefits

The basis for wage setting is the aggregate level of a manager's regular salary and variable benefits. The fixed salary comprises a basic salary plus regular benefits in kind and post-employment benefit plans. As of 2012, the Board decided to introduce a long-term incentive (LTI) as part of the fixed remuneration. Variable benefits consist of performance-based salary as well as the share program. Regular surveys are made of relevant markets to ensure that overall compensation packages are competitive, but not leading.

Basic salary

The basic salary should normally be the main element of the managers' remuneration. It is generally considered once a year.

Regular benefits in kind

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

Pension plans

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

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

Managers with a basic salary in excess of 12G also earn pensions on the component of their salaries that exceeds 12G through an unfunded contribution plan. The contribution is 18 per cent of the basic salary exceeding 12G, and the investment options are the same as for the main pension plan. This plan will continue in 2014.

There is an upper limit on maximum pensionable income of NOK 2,750,000, which was adjusted for inflation in line with the consumer price index on 1 January 2009 and thereafter annually on 1 January. No member of group management is covered by the old plans, and everybody is now part of the company's contribution plan. The CEO has a separate agreement for retirement at the age of 67 (based on full accrual), and KONGSBERG's mandatory service pension will provide a benefit of NOK 1,200,000 per year from the age of 67 to 77, and then NOK 1,000,000 each year for the rest of his/her life. The amounts are adjusted annually in line with benefits paid from the National Insurance Plan, i.e., to date with general salary increases less 0.75 per cent.

KONGSBERG has previously made agreements on early retirement for some of its leaders, in line with the State's Ownership Report. The agreements vary, depending when they were made. The newest allows for a retirement from the age of 65, but with a mutual right for KONGSBERG and the member of group management to demand retirement with severance pay from the age of 63. The benefit equals 65 per cent of the annual salary, based on a minimum of 15 years of accrual. If the employee resigns between ages 63 and 65, the pension earnings will be reduced compared with the defined contribution pension that applies from the age of 67. These agreements concern 6 members of group management. One member of corporate executive management has an older agreement releasing him from the obligation to work from the age of 60. Providing a vested period of at least 10 years, the benefit is 90 per cent of the salary from the age of 60, reduced by 10 per cent per year to 60 per cent of the salary from ages 63 to 67. Similarly, three other executive vice presidents have agreements that allow retirement from the age of 62. With a vested period of at least 15 years, the benefit will be 65 per cent of the salary up to the age of 67. These older plans were terminated in 2006 and 2008, respectively.

The CEO has a contract for retirement with severance pay of NOK 1,400,000 per year from the age of 65 to 67. The CEO and KONGSBERG can reciprocally call for retirement with severance pay from the age of 63 or 64, based on a compensation of NOK 1,300,000 or NOK 1,350,000 per year, respectively, up to the age of

65. The amounts are adjusted for annually in line with benefits paid from the National Insurance Plan.

The company started to consider a change in the early retirement scheme in 2012 and has carried on this work in 2013. It has been decided not to continue the scheme with early retirement agreements for executives (and employees in certain key positions who previously were offered agreements on early retirement) employed after 1 July 2013. 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 are employed, but only until the age of 65 at the latest.

Long-term incentive (LTI)

From 2012, the Board implemented, as a part of the fixed remuneration, a long-term incentive in the form of a compensation of 25 per cent and 15–20 per cent of annual basic salary, for the CEO and other members of the corporate management, respectively. The first payment was made in 2013. The reason for this scheme is to ensure competitiveness with comparable companies. A condition for such payments is that KONGSBERG had a positive operating profit (EBIT) in the previous year. Participants in the plan will be obliged to invest the net amount after tax in Kongsberg shares, purchased in the market and held in a period of three years. If participants leave the company on their own initiative, they have to repay an amount equal to equity value after tax on termination date for all shares that do not meet the three-year requirement. The plan will not provide a basis for pension benefits. For those covered by the plan, the annual maximum accrual of salary is reduced from 75 per cent to 60 per cent of the basic salary. The plan will be subject to an evaluation annually.

Performance-based salary

KONGSBERG's top executives and most important decision-makers shall in a direct manner have financial incentives linked to KONGSBERG's development and improvement. For this purpose, the Board adopted in 2006 a performance-based plan that covers appr. 90 managers. The plan is carried forward in 2014. The plan is designed for the purpose that managers who perform well over time will earn an average performance-based salary of 20-30 per cent of their regular salary.

The performance-based salary plan is based on three independent components – change in EBITA, operating margin achieved (if more than 10 per cent) and personal, non-financial targets. The performance-based plan distinguishes between accrued performance-based salary to be credited or charged to a performance-salary bank account for the individual participant and paid performance-based salary to be paid from the bank. Paid performance-based salary constitutes 1/3 of the balance in the performance-based bank account and will be paid when the annual accounts for the year in question have received final approval from the Board.

Changes in the year's EBITA, adjusted for 10 per cent calculated interest rate on change in capital, is the most significant parameter of the performance-based salary. The measurement is weighted for a manager's own area of responsibility and higher levels. Earned performance- based salary is positive if the adjusted EBITA shows progress, whereas a decrease in adjusted EBITA can be negative and reduce the balance in the performance-based salary account.

Annual accruals to the account cannot exceed a maximum of 75 per cent of the basic salary. For those covered by the LTI scheme, the maximum is 60 per cent of the basic salary. The annual payments from the performance-based account cannot exceed 50 per cent of the basic salary. The balance of the account will not be paid out in the event of a resignation from the Group prior to retirement. The account has an equalising effect over time, encourages a long-term perspective and ensures that the participants have not only an upside, but also a downside.

The performance-based salary provides no basis for pension and is annually assessed by the Compensation Committee and the Board of Directors to make sure that it works as intended and the required adjustments are made.

Compensation linked to shares or to the development of the share price

Key management personnel have the opportunity to participate fully in KONGSBERG's discounted employee share program on the same terms as all Group employees. KONGSBERG has no arrangement for the allocation of share options or other instruments associated with the company's shares. There are no plans to introduce such arrangements.

Severance package arrangements

In order to satisfy KONGSBERG's continuous need to ensure that the composition of management is in accordance with the requirements of the business segments, agreements regarding severance package arrangements have and can be made. The severance arrangements have been designed in a manner that should be perceived to be acceptable both internally and outside the company. Agreements made from 2011 do not give the right to severance pay that in value exceed salary and benefits for more than 6 months. This scheme will be carried forward in 2014. Before 2011, severance package arrangements gave up to 12 months' severance pay. Such agreements have been signed for the corporate EVPs under the framework of the Working Environment Act. The Chief Executive Officer has an agreement that accommodates KONGSBERG's need to ask the CEO to leave immediately if that is considered to be in KONGSBERG's best interests. Beyond the reciprocal six-month period of notice, the CEO can receive full payment until accepting a new position, if relevant, limited up to 12 months and provided that it is KONGSBERG that asks for the CEO's resignation.

Statement of the fiscal year 2013

The executive compensation policy for the fiscal year 2013 has been implemented in accordance with the above-mentioned information and the guidelines discussed at KONGSBERG's Annual General Meeting in 2013.

Following the ordinary wage settlement on 1 July 2013, the CEO's basic salary was adjusted up by 3.5 per cent to NOK 3,850,000 a year (4.1 per cent in 2012). For the rest of corporate management, the basic salary was adjusted up by an average of 4.9 per cent (4.1 per cent in 2012). In addition, there is the performance-based salary as described above, which resulted in payments accounted for below.

In the consolidated financial statements for 2013, the performance-based salary for executive management constitutes MNOK 20 (14 per cent of total salary for the participants of the arrangement) exclusive of social security tax (NOK -1 million in 2012, equivalent to -1 per cent). During 2013, MNOK 24 was paid (equivalent to 19 per cent of total salary for the participants of the arrangement), excluding social security tax (NOK 37 million for 2012, equivalent to 32 per cent).

KONGSBERG has not made or amended any agreements for compensation with material impact on KONGSBERG or the shareholders in the previous financial year.

28 Compensation for corporate management and the Board of Directors

Compensation and other benefits, specified for the members of corporate executive management for 2013 and 2012[1)]

Corporate management *TNOK*	*Year*	*Salary including holiday pay*	*Performance based salary including holiday pay[2)]*	*Other benefits reported during the accounting year[3)]*	*Long term incentive plan (LTI)[4)]*	*Estimated pension earning for the year*	*Balances on car loans*	*Shares related to Long term incentive plan (LTI)*	*Total number of shares including LTI*
Walter Qvam, Group CEO	2013	3 823	942	314	930	2 108		4 110	9 654
	2012	3 676	1 350	298		1 948	-		5 197
Hans-Jørgen Wibstad, CFO from 1 January 2012	2013	2 300	65	215	335	642		1 482	2 218
	2012	2 065	80	333		182			389
Johnny Løcka, EVP, Corporate functions	2013	1 657	447	305	243	293	429	1 072	2 376
	2012	1 607	645	507		371	495		957
Hilde Øygarden, EVP, Strategy and analysis	2013	1 334	355	218	195	171	363	861	5 239
	2012	1 268	508	350		133	265		4 031
Lene Svenne, Corporate compliance officer, member of corporate management since 1 January 2013	2013	1 418	22	191	-	336		-	1 304
	2012								
Even Aas, EVP, Public Affairs	2013	1 457	457	297	212	189	-	939	12 267
	2012	1 408	646	315		403			10 981
Egil Haugsdal, EVP, Business Development, from 1 January 2013	2013	2 255	748	365	439	739	649	1 940	11 876
Stig Trondvold, EVP, Business Development until 31 December 2012	2012	1 905	847	462		878	376		14 773
Geir Håøy, CEO, Kongsberg Maritime	2013	2 279	326	428	420	573	-	1 856	2 834
	2012	2 100	624	218		363	490		631
Harald Ånnestad, CEO, Kongsberg Defence Systems	2013	2 217	609	297	427	787	355	1 889	5 809
	2012	2 118	864	715		542	418		3 573
Espen Henriksen, CEO, Kongsberg Protech Systems, from 1 January 2013	2013	1 921	311	230	-	410		-	1 136
Egil Haugsdal, CEO, Kongsberg Protech Systems, until 31 December 2012	2012	2 177	864	780		628	475		9 589
Pål Helsing, CEO, Kongsberg Oil & Gas Technologies	2013	2 265	370	473	331	590	581	1 461	1 461
	2012	2 190	496	517		572	678		-

1) Compensation and other benefits to members of corporate executive management are based on their time as part of corporate management.
2) The payment of performance-based part of salary in 2013 accounted for 1/3 of the balance in the performance-based salary account, which was expensed during the period 2006-2012. Performace-based salary is recognised in the same year it is calculated and transferred to a performance-based salary account. The remaining part of performance-based salary is paid in subsequent years. However, the remaining part is contingent on continued employment and is affected by future goal achievement. Current year's estimated and expensed performance-based salary for corporate management constitutes MNOK 3.1 for 2013 (MNOK 0.3 for 2012). Holiday pay is related to the payment of performance-based salary the previous year.
3) Benefits other than cash refers to expensed discounts on shares in connection with the employee share program for all employees, telephone/broadband, car agreements and compensation for the taxable share of pensions and insurance, as well as other taxable benefits.
4) 2013 was the first year that the LTI with the compensation of marginal taxes for the scheme was paid to corporate management (cf. Note 27).

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

The Board TNOK	*Year*	*Number of shares*		*Fixed board compensation*	*Compensation for committee meetings*	*Total compensation*	*Number of board meetings[2)]*
Finn Jebsen, Chairman of the Board	2013	20 000	(through the company Fateburet AS)	399 333	36 200	435 533	9
	2012	20 000	(through the company Fateburet AS)	385 667	33 000	418 667	12
Erik Must[1)], Member of the Board until 3 May 2013	2013	524 600	(personally owned through the company Must Invest AS)	65 000	7 400	72 400	3
	2012	524 600	(personally owned through the company Must Invest AS)	193 000	28 200	221 200	12
John Giverholt, Member of the Board until 3 May 2013	2013	3 200		65 000	29 700	94 700	3
	2012	3 200		193 000	48 600	241 600	9
Anne-Lise Aukner, Member of the Board, Deputy Chair	2013	-		219 333	51 000	270 333	8
	2012	-		211 667	42 600	254 267	10
Kai Johansen, Member of the Board until 3 May 2013	2013	-		65 000	26 100	91 100	3
	2012	-		193 000	34 200	227 200	11
Roar Marthiniussen, Member of the Board	2013	5 004		199 667	31 400	231 067	9
	2012	4 657		193 000	28 200	221 200	12
Helge Lintvedt, Member of the Board	2013	-		199 667	27 000	226 667	9
	2012	-		193 000	-	193 000	12
Irene Waage Basili, Member of the Board	2013	-		199 667	-	199 667	9
	2012	-		193 000	-	193 000	11
Roar Flåthen, permanent Deputy Member of the Board from 1 May 2012, Member of the Board from 3 May 2013	2013	-		103 714[3)]	24 000	127 714	7
	2012	-		130 000	-	130 000	3
Magnar Hovde, Member of the Board from 3 May 2013	2013	80		134 667	-	134 667	6
Morten Henriksen, Member of the Board from 3 May 2013	2013	-		134 667	27 000	161 667	6
Arve Stengelsrud, Deputy Member of the Board	2012	-		9 800	-	9 800	1
Total compensation to the Board	2013			**1 785 715**	**259 800**	**2 045 515**	
Total compensation to the Board	2012			**1 895 134**	**214 800**	**2 109 934**	

1) Erik Must is the chairman of the Board of Arendals Fossekompani ASA, which owns 9,552,796 shares in Kongsberg Gruppen ASA.
2) 9 board meetings were held in 2013 (12 in 2012)
3) In the period 1 May 2012 to 2 May 2013, Roar Flåthen was a permanent deputy member of the Board. By own request, he has declined compensation for meetings beyond those he has participated in. This has been settled by NOK 95 953 against board compensation for 2013.

29 Auditors' fees

TNOK	2013 Parent company	2013 Sub-sidiaries in Norway	2013 Sub-sidiaries abroad	Total 2013	2012 Parent company	2012 Sub-sidiaries in Norway	2012 Sub-sidiaries abroad	Total 2012
Group auditor EY								
Statutory audit	828	6 292	1 481	8 601	772	5 609	885	7 266
Other assurance services	166	160	-	326	-	176	-	176
Tax consultancy	1 112	287	1 452	2 851	143	923	2 464	3 530
Other services	813	740	587	2 140	364	95	-	459
Total fees, EY	**2 919**	**7 479**	**3 520**	**13 918**	**1 279**	**6 803**	**3 349**	**11 431**
Other auditors								
Estimated audit fees	-	200	1 450	1 650	-	442	1 842	2 284

30 Business combinations

Acquisition of Apply Nemo AS (now Kongsberg Nemo AS)
Effective on 8 January 2013, Kongsberg Oil & Gas Technologies AS (KOGT), a wholly owned subsidiary of Kongsberg Gruppen ASA, acquired 100 per cent of the shares in Apply Nemo AS. Apply Nemo is an independent supplier of advanced engineering services, products and solutions for oil and gas installations on the bottom of the sea. The acquisition will strengthen KOGT's range of services and capacity in the subsea oil and gas market. The company is headquartered in Oslo and established both in the North Sea and in Australia. At the time of the acquisition, the company had 172 employees. The shares in Apply Nemo AS were acquired for MNOK 340.

The purchase price allocation for the acquisition of Apply Nemo AS:

MNOK	*Recognised values at the acquisition*	*Adjustments of fair value*	*Carrying amount prior to acquisition*
Intangible assets excluding goodwill	135	130	5
Goodwill from previous acquisitions	-	(71)	71
Other assets	114	-	114
Liabilities	(154)	(36)	(118)
Net identifyable assets and liabilities	**95**	**23**	**72**
Goodwill on acquisition	245		
Total compensation incl. cash payment and estimated additional compensation	**340**		
Estimated additional compensation	-		
Cash acquired	(11)		
Net closing cash flows	**329**		

Goodwill arising from the purchase price allocation is mainly related to the competence, capacity and synergies.

Specification of the closing cash flows from acquisitions in 2013:

MNOK	
Net closing cash flows on the acquisition of Apply Nemo AS	329
Closing cash flows on other and smaller acquisitions	14
Net closing cash flows from acquisitions in 2013	**343**

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31 List of Group companies

The following companies have been consolidated

Name of company	*Country of origin*	*Stake at 31 Dec 13*	*Stake at 31 Dec 12*
Kongsberg Gruppen ASA	Norway	Parent	Parent
Kongsberg Defence & Aerospace AS	Norway	100	100
Kongsberg Spacetec AS	Norway	100	100
Kongsberg Satellite Services AS	Norway	50	50
Konsberg Norspace AS	Norway	100	100
Kongsberg Oil & Gas Technologies AS	Norway	100	100
Kongsberg Drilling Managment Solutions AS	Norway	Merged	100
Kongsberg Teknologipark AS	Norway	100	100
Kongsberg Næringseiendom AS	Norway	100	100
Kongsberg Næringsparkutvikling AS	Norway	100	100
Kongsberg Næringsbygg 2 AS	Norway	100	100
Kongsberg Næringsbygg 3 AS	Norway	100	100
Kongsberg Næringsbygg 5 AS	Norway	100	100
Kongsberg Næringsbygg 6 AS	Norway	100	100
Kongsberg Næringsbygg 7 AS	Norway	100	100
Kongsberg Næringsbygg 8 AS	Norway	100	100
Kongsberg Næringsbygg 9 AS	Norway	100	100
Kongsberg Seatex AS	Norway	100	100
Vehicle Tracking and Information Systems AS	Norway	100	100
Nerion AS	Norway	100	100
Kongsberg Maritime AS	Norway	100	100
Lodic AS	Norway	Merged	55
Kongsberg Norcontrol IT AS	Norway	100	100
Kongsberg Maritime Engineering AS	Norway	100	100
Portside AS	Norway	100	100
Kongsberg Evotec AS	Norway	100	100
Advali AS	Norway	Merged	100
Kongsberg Asia Pacific Ltd.	Norway	100	100
Kongsberg Nemo A	Norway	100	
Kongsberg NemoTech AS	Norway	100	
Kongsberg Nemo AB	Sweden	100	
Kongsberg Maritime Srl.	Italy	100	100
Simrad Srl	Italy	100	100
Kongsberg Maritime Holland BV	The Netherlands	100	100
Kongsberg Maritime Poland Sp.z o.o.	Poland	100	100
Kongsberg Defence Sp.zo.o.	Spain	100	100
Simrad Spain SL	Spain	100	100
Kongsberg Maritime Sweden AB	Sweden	100	100
Kongsberg Defence Oy	Finland	100	100
Kongsberg Maritime GmbH	Germany	100	100

Name of company	*Country of origin*	*Stake at 31 Dec 13*	*Stake at 31 Dec 12*
KM Embient GmbH	Germany	100	
Kongsberg Reinsurance Ltd.	Ireland	100	100
Kongsberg Norcontrol IT Ltd.	Great Britain	100	100
Kongsberg Maritime Holding Ltd.	Great Britain	100	100
Kongsberg Maritime Ltd.	Great Britain	100	100
Simrad Leasing Ltd.	Great Britain	100	100
Kongsberg Oil & Gas Technologies Ltd.	Great Britain	100	100
Kongsberg GeoAcoustics Ltd.	Great Britain	100	100
Kongsberg Hungaria Engineering Service Development and Trading LLC	Hungary	100	100
KM Greece AE	Greece	100	100
KM Tech LLC	Russia	100	100
Gallium Kongsberg Inc.	Canada	100	100
Kongsberg Maritime Simulation Ltd.	Canada	100	100
Kongsberg Maritime Canada Ltd.	Canada	100	100
Kongsberg Mesotech Ltd.	Canada	100	100
Kongsberg Protech Systems Canada Corporation Inc.	Canada	100	100
Kongsberg Maritime Simulation Inc.	USA	100	100
Simrad North America Inc.	USA	100	100
Kongsberg Maritime Inc.	USA	100	100
Kongsberg Underwater Technology Inc.	USA	100	100
Kongsberg Protech Systems USA Corporation Inc.	USA	100	100
Kongsberg Oil & Gas Technologies Inc.	USA	100	100
Kongsberg Defence Systems Inc.	USA	100	100
Seaflex Riser Technology Inc.	USA	100	100
GlobalSim Inc.	USA	100	100
Hydroid Inc.	USA	100	100
Gallium Visual Systems Inc.	USA	100	100
Kongsberg Integrated Tactical Systems Inc.	USA	100	100
Kongsberg Maritime do Brasil S.A.	Brazil	80	80
KM Traning do Brasil LTDA	Brazil	100	100
Kongsberg Oil & Gas Technologies do Brazil S.A.	Brazil	100	100
KM Mexico S.A. de CV	Mexico	100	100
Kongsberg Defence Chile SpA	Chile	100	
Kongsberg Maritime Hoi Tung Holding Ltd.	China	90	90
Kongsberg Maritime China (Shanghai) Ltd.	China	100	100

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Name of company	*Country of origin*	*Stake at 31 Dec 13*	*Stake at 31 Dec 12*
Kongsberg Maritime China (Zhenjiang) Ltd.	China	56.2	56.2
Kongsberg Maritime China (Jiangsu) Ltd.	China	100	100
Kongsberg Maritime Korea Ltd.	South Korea	96.9	96.9
Kongsberg Norcontrol IT Pte. Ltd.	Singapore	100	100
Kongsberg Maritime Pte. Ltd.	Singapore	100	100
GeoAcoustics Asia Pacific Pte Ltd.	Singapore	100	100
Kongsberg Maritime India Pvt. Ltd.	India	91	91
Kongsberg Oil & Gas Technologies PVT Ltd.	India	100	100
Digimaker PVT	India	100	100
Kongsberg Defence Ltd.	Saudi Arabia	100	100
KM Middle East DMC	Dubai	70	70
Kongsberg Protech Systems Australia Pty Ltd.	Australia	100	100
Kongsberg Oil & Gas Technologies Pty Ltd.	Australia	100	100
Kongsberg Nemo Australia Pty Ltd.	Australia	100	
KM Malaysia	Malaysia	100	100

32 Investment in joint ventures

Kongsberg Satellite Services AS is consolidated using the proportionate method. Summarised financial information regarding the joint venture:

MNOK	*Revenues*	*Profit for the year*	*Non-current assets*	*Current assets*	*Equity*	*Non-current liabilities*	*Current liabilities*
Kongsberg Satellite Services AS 50% (Tromsø)	241	44	210	87	231	54	21

The table above represents KONGSBERG' share.
The company is not listed, hence no observable market values exist.

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33 Change in comparative figures

From 1 January 2013, IAS 19 Employee Benefits allows for the option to present the finance part of net pension costs as a finance element instead of being a part of net pension cost. In 2013, the principle has been implemented retrospectively.

The comparative figures for the consolidated income statment for 2012 have been restated as follows:

MNOK	*Reported 2012*	*Restated 2012*
Revenues	15 652	15 652
Total revenues	**15 652**	**15 652**
Cost of sales	(4 760)	(4 760)
Personnel expenses	(5 237)	(5 251)
Other operating expenses	(3 347)	(3 347)
Operating profit before depreciation and amortisation (EBITDA)	**2 308**	**2 294**
Depreciation	(323)	(323)
Operating profit before amortisation (EBITA)	**1 985**	**1 971**
Amortisation	(119)	(119)
Impairment	(12)	(12)
Operating profit (EBIT)	**1 854**	**1 840**
Finance income	59	59
Finance expenses	(82)	(90)
Profit before tax	**1 831**	**1 809**
Income tax expense	(511)	(505)
Profit for the year	**1 320**	**1 304**
Attributable to		
Equity holders of the parent	1 325	1 309
Non-controlling interests	(5)	(5)
Earnings per share in NOK		
– profit for the year/profit for the year, diluted	11,05	10,91

The comparative figures from 2012 for the statement of comprehensive income have been restated as follows:

MNOK	*Reported 2012*	*Restated 2012*
Profit for the year	1 320	1 304
Comprehensive income for the period		
Items to be reclassified to profit or loss in subsequent periods		
Change in fair value		
– Cash flow hedges, currency	110	110
– Interest rate swaps		
– Available-for-sale shares	16	16
Income tax effect on cash flow hedges and interest rate swaps	(30)	(30)
Translation differences, currency	(63)	(63)
Net total items to be reclassified to profit or loss in subsequent periods	**33**	**33**
Items not to be reclassified in profit and loss		
Actuarial gains/losses	(139)	(117)
Income tax on items remaining in equity	38	32
Net total items not to be reclassified in profit and loss	**(101)**	**(85)**
Total comprehensive income for the period	**1 252**	**1 252**
Of which		
Equity holders of the parent	1 257	1 257
Non-controlling interests	(5)	(5)

34 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 2013 KONGBERG had an outstanding balance from State-owned customers of MNOK 56, while other liability items in respect of state suppliers amounted to MNOK 11. In 2013 KONGSBERG issued invoices to state customers for a total of MNOK 1,346. Goods and services purchased from state suppliers in 2013 amounted to MNOK 29. Please refer also to the Board's report on corporate governance chapter 4 about equal treatment of shareholders and related party transactions, where the State as a cusomer and shareholder is described in more detail.

In 2010, an agreement was signed with the Ministry of Trade and Industry regarding a state guarantee in connection with the building of a composite plant. The limit of the guarantee amounts to MNOK 737, with a counter guarantee of MNOK 240 to cover any repurchase of property, plant and equipment. In the third quarter of 2013, the Norwegian Parliament authorised the governement to purchase the first planes under the F-35 program and the terms for the guarantees no longer applied.

35 Events subsequent to the balance sheet date

Two events concerning KONGSBERG that occurred after the balance sheet date are described below. There is uncertainty as to the outcome of these issues that may impact the company's results and financial position. No provision has been made for the matters described in this note.

Charge concerning corruption case in Romania
In February 2014, charges were taken out 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. KONGSBERG is cooperating with The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) to clarify the actual circumstances, but it must be expected to take time before the case can be closed.

KONGSBERG has zero-tolerance for corruption, and high ethical standards are an integrated part of our 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 Board of Directors' Report.

At this point in time, it is not possible to estimate the result of Økokrim's investigation or other effects of the charge and the circumstances on which is has been based. Accordingly, it is not possible to estimate any possible financial effects for KONGSBERG.

Lawsuit from Rolls-Royce Marine AS against Kongsberg Evotec AS
Rolls-Royce Marine AS has sued Kongsberg Evotec AS for violating the Marketing Practices Act section 25, and/or sections 28, 29 and 30. The writ was received on 7 March 2014 demanding a prohibition against the sale, marketing and manufacturing of various products for the seismic and offshore industry as well as a claim for compensation.

KONGSBERG has made a preliminary assessment of the case with external advisors and find that the claims are not substantiated.

Kongsberg Evotec AS is a 100 per cent owned subsidiary of Kongsberg Maritime AS (100 per cent owned by Kongsberg Gruppen ASA) and was acquired in 2011.

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INCOME STATEMENT AND BALANCE SHEET

Kongsberg Gruppen ASA

INCOME STATEMENT 1 JANUARY–31 DECEMBER

MNOK	*Note*	*2013*	*2012*
Revenues	9	**204**	**202**
Payroll expenses	4,5	(125)	(106)
Depreciation		(3)	(2)
Other operating expenses	4	(151)	(116)
Total operating expenses		**(279)**	**(224)**
Operating profit		**(75)**	**(22)**
Interest from group companies		76	52
Impairment of shares		-	(5)
Gain/(loss) on currency exchange		5	(2)
Interest to group companies		(50)	(46)
Other interest expenses		(28)	(6)
Other finance income /(expense)		31	9
Other finance expenses		(4)	(1)
Received group contribution		800	400
Net finance items		**830**	**401**
Ordinary profit before tax (EBIT)		**755**	**379**
Income tax expense	6	9	(110)
Profit for the year		**764**	**269**
Allocations and equity transfers			
Proposed dividend		(630)	(450)

BALANCE SHEET AT 31 DECEMBER

MNOK	*Note*	*2013*	*2012*
Assets			
Non-current assets			
Deferred tax asset	6	70	57
Fixed assets		9	8
Shares in subsidiaries	3	2 215	2 215
Other shares		53	53
Long-term receivables from subsidiaries	9	2 233	1 809
Other long-term receivables		48	46
Total non-current assets		**4 628**	**4 188**
Current assets			
Receivables from subsidiaries	9	867	486
Other short-term receivables		34	33
Cash and cash equivalents	11	1 543	1 141
Total current assets		**2 444**	**1 660**
Total assets		**7 072**	**5 848**
Equity and liabilities			
Equity			
Share capital		150	150
Total paid-in capital		**150**	**150**
Retained earnings		1 005	883
Total retained earnings		**1 005**	**883**
Total equity	2	**1 155**	**1 033**
Non-current liabilities			
Pension liabilities	5	210	187
Debt to credit institutions	7	750	1 250
Other non-current liabilities		39	39
Total non-current liabilities		**999**	**1 476**
Current liabilities			
Dividend		630	450
Debt to credit institutions	7	500	-
Current liabilities to subsidiaries	9	3 677	2 266
Other current liabilities		111	186
Bank overdraft facilities		-	437
Total current liabilities		**4 918**	**3 339**
Total equity and liabilities		**7 072**	**5 848**

STATEMENT OF CASH FLOWS

Kongsberg Gruppen ASA

MNOK	*2013*	*2012*
Cash flow from operating activities		
Profit before tax	755	379
Depreciation	3	2
Impairment of financial assets	-	5
Received group contribution	(800)	(400)
Taxes paid	(104)	(193)
Changes in accruals etc.	49	(1)
Net cash flows from operating activities	**(97)**	**(208)**
Cash flow from investing activities		
Purchase of fixed assets	(3)	(4)
Net cash flows used in investing activities	**(3)**	**(4)**
Cash flow from financing activities		
Proceeds from loans	-	450
Paid dividend	(450)	(450)
Net receipts/disbursements for purchase/disposal of treasury shares	(17)	(19)
Changes in intercompany balances	606	651
Received group contribution	800	400
Changes in group bank overdraft facilities	(437)	(997)
Net cash flows used in financing activities	**502**	**35**
Net increase (decrease) in cash and cash equivalents	**402**	**(177)**
Cash and cash equivalents at the beginning of the period	**1 141**	**1 318**
Cash and cash equivalents at the end of the period	**1 543**	**1 141**

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 associates

Subsidiaries and associates are measured at cost in the statutory accounts. The investments are measured at acquisition cost, unless impairment has been necessary. Such assets are 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.

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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 their subsidiaries and enters into "back-to-back"-agreements with external banks, cf note 10 and Note 3J to the consolidated financial statements.

Receivables
Accounts receivables and other receivables are recognised in the balance sheet at nominal values less provisions for doubtful debts. Provisions for doubtful debts are made on the basis of individual assessments of each receivable. In addition, an unspecified provision is made to cover expected losses on other receivables.

Foreign currency
Monetary items in a foreign currency are translated into NOK using the exchange rate applicable at year-end.

Gains and losses related to items in foreign currency and that are a part of the operating cycle, are recorded in the operating profit. Other gains and losses that are related to items in foreign currency are classified as finance income or finance expense.

Short-term investments
Short-term investments (shares and other items considered to be current assets) are measured at the lower of acquisition cost and fair value at the date of the balance sheet. Dividend and other distributions from the companies are recognised as other finance 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 more at the time of the transition remained with the defined benefit plan. The deposit is expensed as incurred.

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

Income tax
The tax expense comprises tax payable and changes in deferred tax. Deferred tax/tax assets are calculated at 27 per cent on all differences between the book value and tax value of assets and liabilities, and loss carried forward at the end of the reporting period. Taxable and deductible temporary differences that reverse or may reverse in the same period are offset. Deferred tax assets are recognised when it is probable that the company will have adequate profit for tax purposes in subsequent periods to utilise the tax asset.

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

2 Equity reconciliation

MNOK	*Share capital*	*Retained earnings*	*Total equity*
Equity at 31 December 2011	**150**	**1 067**	**1 217**
Profit for the year	-	269	269
Trading in treasury shares	-	(6)	(6)
Dividend for 2012	-	(450)	(450)
Actuarial gain/loss on pension expense	-	3	3
Equity at 31 December 2012	**150**	**883**	**1 033**
Profit for the year	-	764	764
Trading in treasury shares	-	(3)	(3)
Accrued dividend for 2013	-	(630)	(630)
Actuarial gain/loss on pension expense	-	(9)	(9)
Equity at 31 December 2013	**150**	**1 005**	**1 155**

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 2013 is 66,699.

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3 Shares in subsidiaries

MNOK	*Date of acquisition*	*Registered office*	*Stake per cent*	*Carrying amount 31 Dec*
Kongsberg Defence & Aerospace AS	1997	Kongsberg	100	506
Kongsberg Teknologipark AS	1987	Kongsberg	100	5
Kongsberg Holding AS	1987	Kongsberg	100	-
Kongsberg Basetec AS	1992	Kongsberg	100	106
Kongsberg Maritime AS [1)]	1992	Kongsberg	89	1 101
Kongsberg Forsvar AS	1995	Kongsberg	100	-
Norsk Forsvarsteknologi AS	1987	Kongsberg	100	-
Kongsberg Næringseiendom AS	1997	Kongsberg	100	198
Kongsberg Næringsparkutvikling AS	2005	Kongsberg	100	48
Kongsberg Næringsbygg 2 AS	2006	Kongsberg	100	25
Kongsberg Næringsbygg 3 AS	2006	Kongsberg	100	24
Kongsberg Næringsbygg 5 AS	2007	Kongsberg	100	68
Kongsberg Næringsbygg 6 AS	2007	Kongsberg	100	130
Kongsberg Næringsbygg 7 AS	2007	Kongsberg	100	-
Kongsberg Næringsbygg 8 AS	2011	Kongsberg	100	-
Kongsberg Næringsbygg 9 AS	2011	Kongsberg	100	-
Nerion AS	2002	Trondheim	100	-
Kongsberg Hungaria Engineering Service development and Trading LLC [2)]	2003	Budapest	10	-
Kongsberg Reinsurance Ltd.	2001	Dublin	100	4
Total				**2 215**

1) The remaining shares in Kongsberg Maritime AS are owned by Kongsberg Basetec AS with 11 per cent
2) The remaining shares in Kongsberg Hungaria KFT are owned by Kongsberg Defence & Aerospace AS with 90 per cent

4 Payroll expenses and auditors' fee

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

Auditors' fees

TNOK	*2013*	*2012*
Corporate auditor EY		
Statutory audit	828	772
Other assurance services	166	-
Tax consultancy	1 112	143
Other services	813	364
Total fees, EY	**2 919**	**1 279**

Payroll expenses

MNOK	*2013*	*2012*
Salaries	77	73
Social security tax	14	12
Pension	19	18
Other benefits	15	3
Total payroll expenses	**125**	**106**
Total man-labour years	56	56

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5 Pension

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 in Norway.

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 Group CEO and Executive Management remuneration" to the consolidated financial statements. The employees have the same investment choices in the supplementary plan as in the main plan. The contributions are expensed as they are 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. Based on the current National Insurance system before 1 January 2011 and full accrual, the plan gives entitlement to about 65 per cent of the salary at retirement, including benefits from the National Insurance plan until the age of 77, then the service pension component will be reduced by 50 per cent. The Group also has a collective, unfunded contribution plan for salaries between 12G and 15G. The collective, unfunded benefits plan corresponds to about 65 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 Group CEO and Executive Management remuneration". These supplementary plans were discontinued in connection with the transition to defined contribution pension plans.

Risk coverage

Disability pension from the company 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. An additional 10 per cent disability pension is paid for each child under the age of 21, up to maximum 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.

Early retirement

In 2009, the Group introduced new rules for early retirement with severance pay for newly hired members of executive management and others in certain key positions. The rules entail retirement with severance pay at the age of 65 at the latest, but with reciprocal rights for the company and the employee in corporate management members of the pension schemes to request retirement with severance pay 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. It has been decided not to continue the scheme with early retirement agreements for executives (and employees in certain key positions who previously were offered agreements on early retirement) employed after 1 July 2013. 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 are employed, 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 assupmtions that apply at the beginning of the year. Gross pension liabilities are based on the financial and actuarial assuptions made at year end.

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

	31 Dec 13	*31 Dec 12*
Discount rate	3.75%	3.75%
Asset return	3.75%	3.75%
Wage adjustment	3.00%	3.00%
Pension base-level (G) adjustment	3.50%	3.50%
Pension adjustment	2.25%	2.25%
Mortality	K 2013	K 2005
Disability	IR 73	IR 73
Voluntary turnover	4.50%	4.50%

The year's pension costs were calculated as follows:

MNOK	*2013*	*2012*
Present value of earned pensions	7	6
Interest cost on accrued pension liabilities	4	4
Estimated return on pension plan assets	(1)	(1)
Accrued social security expenses	1	1
Total net pension cost for the year	**11**	**10**
Cost of defined contribution pension plans	**8**	**8**

MNOK	*2013*	*2012*
Gross pension liabilities	(217)	(207)
Gross value of gross pension assets	33	43
Net pension liabilities	**(184)**	**(164)**
Unrecognised plan changes		
Social security expenses	(26)	(23)
Net pension liabilities in balance sheet 31 Dec	**(210)**	**(187)**

6 Income tax

Income tax expense

MNOK	*2013*	*2012*
Taxes payable	-	103
Change in deferred tax	(9)	7
Tax expense	**(9)**	**110**

MNOK	*2013*	*2012*
Profit before tax	**755**	**379**
Tax calculated at statutory rate 28 per cent of profit before tax	211	106
Effect of reduced tax rate by 1 per cent	3	-
Group contribution without tax effect	(224)	-
Impairment of share investments	-	1
Other permanent diferences	1	3
Tax income/-expense	**(9)**	**110**

Deferred tax and deferred tax asset

MNOK	*2013*	*2012*
Pensions	57	52
Other	13	5
Recognised deferred tax asset	**70**	**57**
Tax rate in Norway	27%	28%

Change in deferred tax recognised directly in equity as follows:

MNOK	*31 Dec 13*	*31 Dec 12*
Pensions	(4)	1
Total	**(4)**	**1**

7 Long-term interest-bearing loans and credit facilities

At 31 December 2013 the Group had the following loans and credit facilities:

	Due date	*Nominal interest rate*	*Years to maturity*	*Nominal amount*	*Carrying amount*
Bond issue KOG 07	10 Sep 2019	4.80%	5.7	250	250
Bond issue KOG 06	10 Sep 2017	3.46%	3.7	500	500
Bond issue KOG 05	14 Apr 2014	5.44%	0.3	500	500
Total loans				**1 250**	**1 250**
Credit facility (undrawn borrowing limit)	1 Jul 2015			1 000	-

At 31 December 2013, the loan facility was a syndicated credit facility totalling MNOK 1,000. The agreement was signed with four banks: DNB, Nordea, SEB and Danske Bank. The agreement will run until 2015. The interest rate is currently 3-month NIBOR + a margin that depends on the ratio between net interest-bearing loans/ EBITDA and can vary from 0.60 per cent to 1.1 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 bond loans were issued in NOK and are listed on the Oslo Stock Exchange. The interest is 3-month NIBOR + 3.75 per cent for loans with a nominal value of MNOK 500 and maturity in 2014, 3-month NIBOR + 1.8 per cent for loans with a nominal value of MNOK 500 and maturity in 2017, and fixed interest rate at 4.8 per cent for the 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 2007 sold properties in the Kongsberg Technology Park. The properties have been leased back on long-term leases that expire from 2014 to 2025. The leasebacks 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. The leases have durations ranging from three months to 15 years. With the exception of the properties sold in 2007, the properties are mainly leased to external tenants. Further information on provisions related to these leases are given in Note 23 "Provisions".

The parent company has guaranteed lease amount related to sale and lease-back agreements at a total of MNOK 1,085.

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	*2013*	*2012*
Guarantees issued by banks and insurance companies	2 261	2 764
Guarantees issued by Kongsberg Gruppen ASA	1 671	536
Prepayments from and completion guarantees to customers	**3 932**	**3 300**

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

9 Related parties

Operating income

MNOK	*2013*	*2012*
Kongsberg Maritime AS	90	80
Kongsberg Oil & Gas Technologies AS	6	9
Kongsberg Defence & Aerospace AS	85	96
Other	23	7
Total operating income related parties	**204**	**192**
Operating income, external	-	10

Operating income from related parties are mainly billing of group management fees and insurance

Long-term receivables from related parties

MNOK	*2013*	*2012*
Kongsberg Næringseiendom AS	100	100
Kongsberg Teknologipark AS	-	20
Kongsberg Næringsbygg 2 AS	79	79
Kongsberg Næringsbygg 3 AS	103	68
Kongsberg Norcontrol IT AS	9	10
Kongsberg Næringsbygg 5 AS	58	68
Kongsberg Næringsbygg 6 AS	22	33
Kongsberg Maritime Engineering AS	20	25
Kongsberg Oil & Gas Technologies AS	739	437
Kongsberg Næringsbygg 7 AS	93	105
Kongsberg Evotec AS	152	167
Kongsberg Gallium Ltd	46	53
Kongsberg Defense Corporation	64	74
Hydroid Inc	392	357
Kongsberg Maritime Holding Ltd	43	39
Kongsberg Oil & Gas Techonologies Inc	9	10
Kongsberg Protech Systems Canada Corp	20	20
Kongsberg Maritime Hoi Tung Holding Ltd	50	44
KM Training do Brasil LTDA	12	10
Kongsberg Maritime Middle East DMCCO	7	9
Kongsberg Integrated Tactical systems Inc (KITS)	64	58
Konsberg Maritime Hellas AS	4	5
Kongsberg Nemo AS	70	-
Kongsberg Nemotech AS	23	-
KM Mexico S.A.de CV	5	-
Kongsberg Maritime do Brasil SA	14	-
KM Malaysia	12	-
Kongsberg Oil & Gas Technologies Ltd	9	-
Kongsberg Oil & Gas Technologies Pty Ltd	5	-
Other companies	9	18
Total	**2 233**	**1 809**

Short-term liabilities to related parties

MNOK	*2013*	*2012*
Kongsberg Maritime AS	311	-
Norcontrol IT	-	-
Kongsberg Seatex AS	54	204
Kongsberg Defence & Aerospace AS	3 215	1 950
Kongsberg Spacetec AS	11	17
Kongsberg Maritime Inc	9	8
Global Sim Inc	18	19
Kongsberg Underwater Technology Inc	12	17
Kongsberg Reinsurance Ltd	30	40
Kongsberg Norspace AS	14	-
Other companies	3	10
Total	**3 677**	**2 266**

Short-term receivables from related parties

MNOK	*2013*	*2012*
Kongsberg Maritime AS	360	293
Kongsberg Oil & Gas Technologies AS	3	3
Kongsberg Defence & Aerospace AS	459	77
Kongsberg Seatex AS	-	60
Kongsberg Basetec AS	40	40
Other	5	13
Totalt	**867**	**486**

10 Currency hedging

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

2013 *Amounts in mill.*	*Gross value in NOK at 31 Dec 13 based on hedged rates*	*Net excess(+)/ less(-) value in NOK 31 Dec 13*	*Total hedged amount in USD 31 Dec 13*	*Average hedged exchange rate in USD 31 Dec 13*	*Total hedged amount in EUR at 31 Dec 13*	*Average hedged exchange rate in EUR at 31 Dec 13*
Hedge category						
Forward contracts, cash flow hedges	10 373	(37)	1 476	6.12	165	8.15
Currency options, cash flow hedges	-	-	-		-	
Total cash flow hedges	**10 373**	**(37)**	**1 476**		**165**	
Project hedges (fair value hedges)	8 521	(105)	944	6.06	275	8.28
Loan hedges (fair value hedges)	728	5	106		1	
Total currency hedges	**19 622**	**(137)**	**2 526**		**441**	

2012 *Amounts in mill.*	*Gross value in NOK at 31 Dec 12 based on hedged rates*	*Net excess(+)/ less(-) value in NOK 31 Dec 12*	*Total hedged amount in USD 31 Dec 12*	*Average hedged exchange rate in USD 31 Dec 12*	*Total hedged amount in EUR at 31 Dec 12*	*Average hedged exchange rate in EUR at 31 Dec 12*
Hedge category						
Forward contracts, cash flow hedges	3 272	173	410	5.95	109	7.63
Currency options, cash flow hedges	140	2	25	5.60		
Total cash flow hedges	**3 412**	**175**	**435**		**109**	
Project hedges (fair value hedges)	9 399	558	1 020	5.86	349	8.06
Loan hedges (fair value hedges)	656	5	105	-	1	-
Total currency hedges	**13 468**	**738**	**1 560**	**5.80**	**459**	**7.85**

Currency hedges, related parties

2013 Amounts in mill.	Gross value in NOK at 31 Dec 13 based on hedged rates	Net excess(+)/ less(-) value in NOK 31 Dec 13	Total hedged amount in USD 31 Dec 13	Average hedged exchange rate in USD 31 Dec 13	Total hedged amount in EUR at 31 Dec 13	Total hedged amount in EUR at 31 Dec 13
Hedge category						
Kongsberg Maritime, Forward contracts, cash flow hedges	3 809	(67)	507	6.08	90	8.01
Kongsberg Maritime Engineering, Forward contracts, cash flow hedges	-	-	-	-	-	-
Kongsberg Oil & Gas Technologies, Forward contracts, cash flow hedges	192	(4)	32	6.02	-	-
Kongsberg Defence System, Forward contracts, cash flow hedges	5 745	35	875	6.13	46	8.28
Kongsberg Protech System, Forward contracts, cash flow hedges	628	(3)	62	6.16	29	8.35
Kongsberg Protech System, Currency options, cash flow hedges	-	-	-	-	-	-
Total cash flow hedges	**10 374**	**(39)**	**1 476**		**165**	
Kongsberg Maritime, Project hedges	4 008	(67)	578	6.03	51	8.21
Kongsberg Maritime Engineering, Project hedges	10	-	-	-	-	8.25
Kongsberg Oil & Gas Technologies, Project hedges	103	-	20	6.04	-	8.19
Kongsberg Defence System, Project hedges	2 605	(33)	131	5.97	209	8.34
Kongsberg Protech System, Project hedges	1 452	15	148	6.21	24	8.24
Kongsberg Satellite Service, Project hedges	526	(13)	51	6.04	26	8.21
Kongsberg Spacetec	57	(1)	3	6.00	5	8.19
Other companies	113	(7)	1	6.11	12	8.09
Total currency hedges	**19 248**	**(145)**	**2 408**	**-**	**492**	**-**

2012 Amounts in mill.	Gross value in NOK at 31 Dec 12 based on hedged rates	Net excess(+)/ less(-) value in NOK 31 Dec 12	Total hedged amount in USD 31 Dec 12	Average hedged exchange rate in USD 31 Dec 12	Total hedged amount in EUR at 31 Dec 12	Total hedged amount in EUR at 31 Dec 12
Hedge category						
Kongsberg Maritime, Forward contracts, cash flow hedges	2 393	146	323	5.94	59	7.86
Kongsberg Maritime Engineering, Forward contracts, cash flow hedges	-	-	-	-	-	-
Kongsberg Oil & Gas Technologies, Forward contracts, cash flow hedges	46	2	8	5.76	-	-
Kongsberg Defence System, Forward contracts, cash flow hedges	399	12	45	5.84	19	7.40
Kongsberg Protech System, Forward contracts, cash flow hedges	432	14	34	5.95	31	7.35
Kongsberg Protech System, Currency options, cash flow hedges	140	2	25	5.60	-	-
Total cash flow hedges	**3 410**	**175**	**435**	**29**	**109**	
Kongsberg Maritime, Project hedges	4 008	192	567	5.84	74	7.65
Kongsberg Maritime Engineering, Project hedges	-	0	2	5.58	-	-
Kongsberg Oil & Gas Technologies, Project hedges	25	1	4	5.73	-	-
Kongsberg Defence System, Project hedges	3 516	295	216	5.85	261	7.69
Kongsberg Protech System, Project hedges	1 254	30	118	5.75	18	7.53
Kongsberg Satellite Service, Project hedges	433	30	55	6	12	8
Kongsberg Spacetec	16	0	-	-	2	7
Other companies	16	1	-	-	1	7.45
Total currency hedges	**12 677**	**724**	**1 396**		**477**	

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11 Cash and cash equivalents

Nominal amounts in MNOK	*31 Dec 13*	*31 Dec 12*
Short-term money market investments	860	1 141
Bank deposits, operating accounts	683	-
Total	**1 543**	**1 141**

Bank guarantees amounting to MNOK 10 (MNOK 10 in 2012) have been furnished for funds related to withholding tax for employees.

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

12 Events subsequent to the balance sheet date

In February 2014, charges were taken out 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. KONGSBERG is cooperating with The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (ØKOKRIM) to clarify the actual circumstances, but it must be expected to take time before the case can be closed.

KONGSBERG has zero-tolerance for corruption, and high ethical standards are an integrated part of our 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 Board of Directors' Report.

At this point in time, it is not possible to estimate the result of Økokrim's investigation or other effects of the charge and the circumstances on which is has been based. Accordingly, it is not possible to estimate any possible financial effects for KONGSBERG.

STATEMENT FROM THE BOARD OF DIRECTORS

Kongsberg Gruppen ASA

We hereby confirm, to the best of our conviction, that the annual accounts for 1 January to 31 December 2013 have been drawn up in compliance with recognised accounting standards, and that the information disclosed therein gives a true picture of the enterprise's and the Group's assets, liabilities, financial position and performance as a whole, and that the information disclosed in the director's report gives a true picture of the progress, profits and position of the enterprise and the Group, as well as a description of the most central risk and uncertainty factors facing them.

Kongsberg, 27 March 2014

Finn Jebsen
Finn Jebsen, *Chairman*

Anne-Lise Aukner, *Deputy chairman*

Irene Waage Basili
Irene Waage Basili, *Director*

Roar Flåthen
Roar Flåthen, *Director*

Morten Henriksen
Morten Henriksen, *Director*

Magnar Hovde
Magnar Hovde, *Director*

Helge Lintvedt
Helge Lintvedt, *Director*

Roar Marthiniussen
Roar Marthiniussen, *Director*

Walter Qvam
Walter Qvam, *President and CEO*

AUDITOR'S REPORT 2013

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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 2013, the statements of income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information. The financial statements of the Group comprise the consolidated statement of financial position as at 31 December 2013, the statements of income, comprehensive income, cash flows and changes in equity for the year then ended as well as a summary of significant accounting policies and other explanatory information.

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

The Board of Directors and Chief Executive Officer are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the Parent Company and the International Financial Reporting Standards as adopted by the EU for the 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.

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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 2013 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 2013 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, in the statement on corporate governance and in the sustainability report concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

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

Oslo, 27 March 2014
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

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

CORPORATE GOVERNANCE

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COLLABORATIVE
We collaborate as individuals and as an organization.

(From KONGSBERG's corporate values)

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THE BOARD'S REPORT ON CORPORATE GOVERNANCE

KONGSBERG aspires to protect and enhance stakeholder value by engaging in profitable, growth-oriented industrial development in a long-term, international perspective.

Good corporate governance should maximise added value and reduce business risk, at the same time as the company's resources are used in an efficient, sustainable manner. The Group will achieve its goals by further developing first-class centres of expertise and supplying leading systems, products and services to its international market segments, as well as by operating in an ethically, sustainable and socially responsible manner. KONGSBERG is listed on the Oslo Stock Exchange and is subject to Norwegian securities legislation and stock exchange regulations.

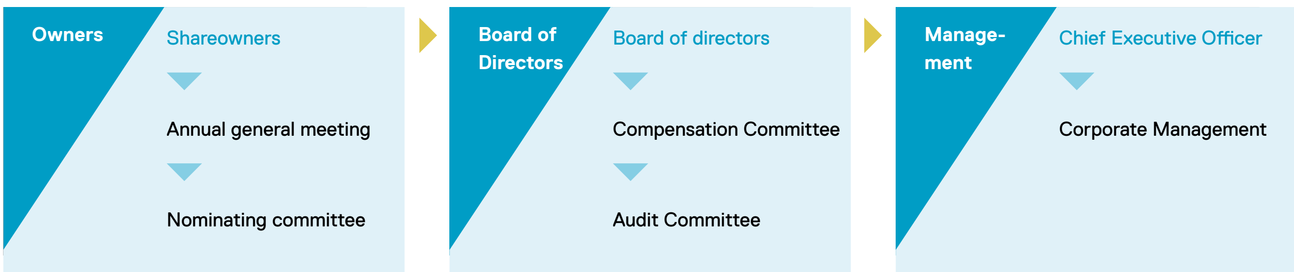
How KONGSBERG understands the concept

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

Treatment of the topic in 2013

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

KONGSBERG'S MODEL FOR CORPORATE GOVERNANCE



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

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

Strategy and operational management.

Policy

Kongsberg Gruppen

KONGSBERG is subject to the reporting requirements regarding Corporate Governance pursuant to §3-3b of the Norwegian Accounting Act, as well as the "Norwegian Code of Practice for Corporate Governance", cf. Point 7 - ongoing requirements for listed companies. The Norwegian Accounting Act is available on www.lovdata.no. The "Norwegian Code of Practice for Corporate Governance", most recently revised on 23 October 2012, is available on www.nues.no.

In compliance with §5-4 of the Public Limited Liability Companies Act, this report will be dealt with at KONGSBERG's Annual General Meeting on 9 May 2014. KONGSBERG's compliance with and deviations, if any, from the Code of Practice, will be commented on and made available to stakeholders.

This policy was adopted by the corporate Board of Directors. The Norwegian state, which owns 50.001% of the Group, also assumes that all companies in which the State has a stake will comply with the Code of Practice. Since the Norwegian State owns a stake of 50.001 per cent, the Group also complies with White Paper No. 13 (2006–2007) – referred to as the 'Ownership Report', White Paper No. 13 (2010–2011) – referred to as the 'Active Ownership Report', the Norwegian State's 10 Principles for Good Corporate Governance and the OECD's Guidelines regarding State Ownership and Corporate Governance. These guidelines are posted on the Group's website at www.kongsberg.com

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

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

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

KONGSBERG 200. From celebrations in Mumbai, India (left) and Busan, Korea (right).

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Articles of association

Kongsberg Gruppen

§ 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 by the Annual General Meeting. According to regulations laid down pursuant to the provisions of the Norwegian Companies Act regarding employee representation on the Board of Directors in public limited companies, three Directors and their Deputies shall be elected directly by and from among the employees.

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

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

§ 8 The Annual General Meeting shall:

1. Adopt the Financial Statements and the Directors' Report, including the payment of dividends.
2. Discuss other 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 of Directors.
4. Elect the members of the Nominating Committee.
5. Elect one or more auditors, based on nominations made by the General Meeting.
6. Stipulate the Board's compensation and approve compensation to the Auditor.
7. Deal with the Board's declaration regarding the stipulation of salary and other compensation to key management personnel.

The convening letter shall state that shareholders who would like to participate in the General Meeting are to sign up by a deadline specified in the convening letter. The deadline shall expire no more than five days prior to the General Meeting. The General Meetings are led by the Chairman of the Board, or if he 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 of Directors, the General Meeting shall stipulate the compensation to be paid to the Nominating Committee's members. The Nominating Committee shall present to the Annual General Meeting its recommendations for the election of and remuneration to the Directors and Deputy Directors on the Board. The Chair of the Board shall, without being enfranchised to vote, be called in to at least one meeting of the Nominating Committee before the Nominating Committee presents its final recommendation.

THE BOARD'S REPORT ON THE NORWEGIAN CODE OF PRACTICE

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

The following is a detailed discussion of each individual section of the Norwegian Code of Practice.
The review is based on the latest revision of the Code, dated 23 October 2012.

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 of the report entitled 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 of the report entitled 6. 'General Meeting'
6. "the composition of the board of directors, corporate assembly, shareholders' committee/supervisory board and control committee and any working committees that these bodies have as well as a description of the main elements in prevailing instructions and guidelines for the bodies' and any committees' work": The section of the report entitled 8. 'Board of Directors - composition and independence', and Section 9 'The Board's work'
7. "articles of association that regulate the appointment and replacement of directors": The section of the report entitled 8. 'Board of Directors - composition and independence'.
8. "articles of association and authorisations that allow the board to decide that the enterprise is to repurchase or issue the enterprise's own shares or equity certificates": The section of the report entitled 3. 'Share capital and dividends'.

Deviations from the Code of Practice

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

Point 6 – The General Meeting
There are two deviations on this point. The entire Board of Directors has not usually attended the General Meeting. Thus far, the items on the agenda of the General Meeting have not required the entire Board of Directors to attend.

KONGSBERG 200. From celebrations in Johnstown, USA (left) and Pireus, Greece (right).

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 §8 of the Articles of Association, which specifies that 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. Point 16, 'Management and in-house procedures', is not covered by the Code. It has nonetheless been included because it is considered crucial to KONGSBERG's discussion of corporate governance.

We actively strive to comply with international "best practice" standards when we draw up our governance documents, since we feel there is a close correlation between high-quality systems of governance and our value creation.

The topic Corporate Governance is subject to annual evaluation and discussion by the Board. The following report was carried at the Board meeting on 27 March 2014.

Value platform

The Group's vision is "World Class - through people, technology and dedication". The values that are to support the vision are: Determined, Innovative, Collaborative and Reliable. These values are important for developing a healthy, strong corporate culture and thereby for providing a platform for good corporate governance. Further information about our values can be found on the Group's website at www.kongsberg.com and in the Group's Sustainability Report for 2013.

Ethics and corporate social responsibility

The Group's current ethical guidelines were approved by the Board of Directors in February 2013. 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 Code of Ethics includes the topics of human rights, workers' rights, climate and environment, corruption, our relations with customers, suppliers and agents, 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 Sustainability Report for 2013.

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 the 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 §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 main objectives and strategies are described in the consolidated annual report and on the Group's website at www.kongsberg.com.

3 Share capital and dividends

Equity

At 31 December 2013, consolidated equity came to MNOK 6,657 (MNOK 6,274), which is equivalent to 38.2 (38.6) per cent of total assets. The Board of Directors 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 of Directors decided In the autumn of 2013 to amend the company's dividend policy to:

Dividends shall over time amount to between 40 and 50 per cent of the company ordinary profit for the year after tax. In determining the size of the dividends, account will be taken of expected future capital requirements.

The new dividend policy is being applied 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 Annual General Meeting can approve.

A dividend of NOK 3.75 per share was paid for 2012, and the Board recommends to the Annual General Meeting that the dividend for 2013 be NOK 5.25 per share, which is equivalent to a dividend ratio of 51.3 per cent. The dividend for 2013 consists of NOK 4.25 per share in ordinary dividends and NOK 1.00 per share as an extraordinary dividend to celebrate the Group's 200th anniversary.

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 as treasury shares.

At the Annual General Meeting on 3 May 2013, the Board was given authorisation to acquire treasury shares up to a value of NOK 7,500,000. That 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 until 30 June 2014. The Board's acquisition of treasury shares pursuant to this authorisation can be exercised only between a minimum price of NOK 25 per share and a maximum price of NOK 250 per share. At 31 December 2013, the Group owned a total of 66 699 (69 804) 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 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 in Point 12 of this report.

4 Equal treatment of shareholders and transactions between related parties

Class of shares

KONGSBERG'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, or through the share schemes for the Group's employees.

Transactions with related parties

The Board is not aware of any transactions in 2013 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 34 to the consolidated financial statements for 2013.

Guidelines for directors and executives

The Corporate Code of Ethics discusses this topic under "Conflicts of interest" under Point 1.6. Similarly, this applies to Point 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 by the Board as follows:

- Board members shall not normally receive any other remuneration 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 directors' 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, especially with a view 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. Corporate social responsibility is the main topic of these meetings 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.

KONGSBERG 200. From celebrations in Guildford, UK (left) and Hokksund, Norway (right).

when Government participation is imperative and the Government must obtain an authorisation from the Storting (Norwegian parliament), from time to time, it will occasionally be necessary to give the Ministry insider information. In such case, the Government is subject to the general rules for dealing with such information.

5 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 Points 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 2014, the Annual General Meeting is scheduled to be held on 9 May 2014.

- Notification is usually distributed 21 days in advance 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 post, fax or online. The Board of Directors 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 2013, the General Meeting was held on 3 May, and 78.4 per cent (80.8) of the aggregate share capital was represented. A total of 95 (98) shareholders were present or represented by proxies.

Agenda and execution

The agenda is set by the Board, and the main items are specified in §8 of the Articles of Association. The same article stipulates that the Chair of the Board will chair the General Meeting. The CEO reviews 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. Please specify also the reason that there is a wish to

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have the question put on the agenda. The minutes from the General Meeting will be posted on the Group's website at www.kongsberg.com.

7 Nominating committee

§9 of the Group's Articles of Association specify 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 8 May 2007.

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 of Directors and their deputies. The nominations shall be reasoned and recommend a nominee for the Chair of the Board separately.

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 term of office is two years, meaning the members of the Committee will be up for election in 2014. 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 7 May 2012 and consists of:

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

None of the Committee's members represents KONGSBERG's management or Board. The majority of the members are considered independent of management and the Board. Sverre Valvik is the CEO 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 Board of Directors – composition and independence

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 of Directors

The Board of Directors consists of eight members and currently has the following composition:

Finn Jebsen (Chair), Anne-Lise Aukner (Deputy Chair), Irene Waage Basili, Roar Flåthen and Morten Henriksen. Magnar Hovde, Helge Lintvedt and Roar Marthiniussen are directors who have been elected by and from among the employees. Detailed information on the individual directors can be found on the website at www.kongsberg.com.

Participation in Board meetings and Board Committees in 2013:

KONGSBERG 200. From celebrations in St. Petersburg, Russia (left) and Warsaw, Poland (right).

Participation in meetings	*Board meetings*	*Audit Committee*	*Compensation Committee*
Finn Jebsen	9		4
Anne-Lise Aukner	8	6	
Irene Waage Basili	9		
Roar Flåthen	7		3
Morten Henriksen (new from May 2013)	6	3	
Roar Marthiniussen	9		4
Magnar Hovde (new from May 2013)	6		
Helge Lintvedt	9	3	

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 of Directors.

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 stake in KONGSBERG at year end. The Board of Directors 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 of Directors

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 directly by and from among the Group's employees.

The directors are elected for two-year terms and are eligible for re-election. All shareholder-elected directors will be up for election in 2015.

The directors' shareholdings

At 31 December 2013, the shareholder-elected directors held the following portfolios of shares in the Group: Finn Jebsen, Chair of the Board, owns 20,000 shares through his wholly-owned company Fateburet AS. The employee-elected directors had the following holdings of KONGSBERG shares at 31 December 2013: Roar Marthiniussen owned 5,004 shares and Magnar Hovde owned 80 shares.

9 The Board's work

The Board's responsibilities

The Board of Directors 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

KONGSBERG 200. From celebrations in Stjørdal, Norway (left) and Veracruz, Mexico (right).

KONGSBERG 200. From celebrations in Kongsberg, Norway (left) and Svalbard, Norway (right).

of Directors 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 responsibilites are to contribute to corporate competitiveness, and to ensure that the Group develops and creates value. Further, the Board of Directors is to participate in the 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.

Instructions for the Board of Directors

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 2013. 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 takeover, confidentiality and professional secrecy, relations to legislation, the Articles of Association and instructions.

The Board of Directors 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 special instructions for the CEO, which are reviewed every second year by the Board and revised as needed. The current instructions were presented to the Board in February 2014.

Financial reporting

The Board of Directors 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. Nine (12) Board meeting were held in 2013. The Board meeting had 95 per cent attendance in 2013.

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, including the 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.

Professional secrecy – communication between the Board and shareholders

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

Expertise

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

Disqualification

The Board is bound by the rules regarding disqualification as they appear in §6-27 of the Public Limited Companies Act and in the instructions to the Board. In 2013, no directors were recused due to disqualification.

Use of Board Committees

The Board set up two subcommittees in 2005: An Audit Committee and a Compensation Committee. Both committees prepare items for consideration by the Board. They are responsible only to the Board as a whole and their authority is limited to making recommendations to the Board.

The Board's Audit Committee

The Audit Committee shall support the Board of Directors 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 CFO and the independent auditor usually attend the meetings. The CEO and the other directors are entitled to attend if they so desire. Six meetings were held in 2013.

Members: Anne- Lise Aukner (Chair), Morten Henriksen, 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 addresses tasks linked to the CEO's terms of employment, questions of principle related to wage levels, the bonus system, pension schemes/terms, employment contracts, etc. for executives, as well as other matters related to compensation that the Committee believes to be of special importance for the Group. The Committee consists of the Chair of the Board, one shareholder-elected director and one employee-elected director. The CEO is entitled to participate in the Committee's meetings if he so desires, except when his own situation is under discussion. Four (four) meetings were held in 2013.

Members: Finn Jebsen (Chair), Roar Flåthen, 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. In 2013, independent forces carried out the evaluation. The Board's self-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. 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.

KONGSBERG 200. From celebrations in Aberdeen, Scotland.

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 KONGSBERG's values, ethics and corporate social responsibility

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

In 2013, we continued the development of our anti-corruption programme for use by third parties. We have also developed routines for monitoring CSR compliance in the supply chain. Routines have been devised during the year to follow up human and workers' rights and they will be implemented in the early half of 2014.

The Group has compliance officers at the corporate level and in the business areas. In the same way as for financial reporting, internal control has been established in accordance with a decentralised management model. KONGSBERG's compliance programme is coordinated and monitored at the corporate level.

KONGSBERG has established routines 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 of Directors

The Annual General Meeting approves the remuneration paid to the Board of Directors each year. The proposal for remuneration is made by the chair of the Nominating Committee. In 2013, total remuneration to the Board came to NOK 1,785,715 (NOK 1,895,134). The remuneration breaks down as follows: Chair of the Board NOK 399,333 (NOK 385,667), Deputy Chair NOK 219,333 (NOK 211,667), other directors NOK 199,667(NOK 193,000).

In addition, the members of the Audit Committee receive NOK 9,000 (NOK 8,700) per meeting, and a maximum NOK 45,000 (NOK 43,500) per year. The Committee's chair receives NOK 10,200 (NOK 9,900) per meeting, and a maximum of NOK 51,000 (NOK 49,500) per year.
The members of the Compensation Committee receive NOK 8,000 (NOK 7,400) per meeting, and a maximum of NOK 40,000 (NOK 37,000) per year. The Committee's chair receives NOK 9,200 (NOK 8,600) per meeting, and a maximum of NOK 46,000 (NOK 43,000) per year.

The directors' fees are not contingent on financial performance, option programmes or the like. 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 wages, bonuses, pensions, LTI, severance arrangements and other benefits in kind.

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. For a more detailed description of the system, see Note 27 to consolidated financial statements for 2013. Altogether, the Group has 90 managers who are covered by an incentive plan that includes an element of individual performance.

Long-term incentive (LTI)

The Board of Directors decided in 2012 to introduce a long-term incentive (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 to the consolidated financial statements for 2013.

Conditions

Remuneration to corporate executive management and the Board is described in Note 27 to the consolidated financial statements for 2013.

13 Information and communications

The Annual Report and Accounts – interim reporting

The Group usually presents preliminary annual accounts in late February. Complete accounts, the Directors' Report and the Annual Report are sent to shareholders and other stakeholders in March/April. Beyond this, the Group presents its accounts on a quarterly basis. The Financial Calendar is published on the Group's website and in the Annual Report. The Group's Report on Corporate Social Responsibility is published on the Group's website (pdf version), along with other information on sustainability and corporate social responsibility, as well as in a limited number of paper copies. The report is verified by a third party.

All shareholders are treated equally as a matter of course.

Other market information

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

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 a separate Investor Relations Directive, which includes sections on communication with investors and how price-sensitive information is to be treated. The

KONGSBERG 200. From celebrations in Halifax, Canada (left) and Alicante, Spain (right).

KONGSBERG 200. From celebrations in Houston, USA (left) and St. Johns, Canada (right).

Board of Directors has prepared special guidelines for the Group's contact with shareholders outside the General Meeting.

14 Take-overs

There are no defence mechanisms against take-over bids in the Group's Articles of Association, nor have other measures been implemented to limit the opportunity to acquire shares in the company. The Norwegian Government owns 50.001 per cent of the shares. The marketability of these shares is subject to parliamentary discretion. The Board's instructions contain an item that refers to the guiding principles for how the Board of Directors shall react in the event of any take-over bid. The Board of Directors is responsible for ensuring that KONGSBERG's shareholders are treated equally and that operations are not disrupted unnecessarily.

Where a bid is made for the company, the Board of Directors shall draw up a statement containing a well-grounded evaluation of the bid and, if 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 submits a written statement to the Board on compliance with the Statutory Audit Independence and Objectivity Requirements, cf. the Auditing and Auditors Act.

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

Ernst & Young 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 to the consolidated financial statements.

At regular intervals, the Board of Directors evaluates whether the auditor exercises a satisfactory level of control and the auditor's competitiveness otherwise.

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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, see Point 9.

Corporate executive management

Corporate executive management currently consists of 12 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 Strategy and Analysis, EVP Strategic Skills and Talent Development and Strategic Marketing/Communications, EVP Security and Property, and the Corporate Compliance Officer. 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.

Corporate executive management meets regularly, and otherwise has regular contact on an operational basis. Corporate executive management conducts monthly follow-ups of results and budgets with the various profit centres in the Group. The Group subscribes to the general principle of making binding commitments to agreed targets, so it practices 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. Another two or three other EVPs from Corporate Executive Management attend, depending on the agenda. Participants in the ESGs include the head of the relevant business area as well as all or part of the relevant business area's executive management.

Intra-Group Boards of Directors

The Group's subsidiaries have their own Boards of Directors, which are comprised of internal managers and employees. The president of the holding company or a person authorised by the president will chair the Board of the subsidiary. 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.

Kongsberg, 27 March 2014

Finn Jebsen, *Chairman* | **Anne-Lise Aukner**, *Deputy chairman* | **Irene Waage Basili**, *Director* | **Roar Flåthen**, *Director* | **Morten Henriksen**, *Director*

Magnar Hovde, *Director* | **Helge Lintvedt**, *Director* | **Roar Marthiniussen**, *Director* | **Walter Qvam**, *President and CEO*

SHAREHOLDER'S INFORMATION

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RELIABLE

We are reliable people. We are responsible citizens.

(From KONGSBERG's corporate values)

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SHARES AND SHAREHOLDER INFORMATION

KONGSBERG's share price closed at NOK 127.50 at year-end 2013. Including the dividend of NOK 3.75 per share, the return was 5.4 per cent in 2013 compared with an overall increase on the Oslo Stock Exchange Benchmark Index (OSEBX) of 23.6 per cent.

Shareholder policy

KONGSBERG's objective is to enhance stakeholder value through profitable and growth-oriented industrial development in a long-term and international perspective. Good corporate governance and corporate management shall secure the greatest possible value added and reduce business related risk while the company's resources shall be utilized in an effective and sustainable manner. The Group shall achieve its goals through further development of first class competency centres, deliveries of leading systems, products and services in its international market segments as well as through running the business in an ethical, environmental and social responsible manner. Growth shall come through internal development and acquisitions within selected strategic market segments. The Group shall be among the leading actors worldwide within its areas of commitment.

KONGSBERG shall have a profile which securing reliability and predictability in the stock market. The shareholders shall be assured a long-term, competitive return in proportion to the related risk. The company's objective is that dividends over time shall constitute between 40 and 50 per cent of the company's net result.

Share price trend in 2013

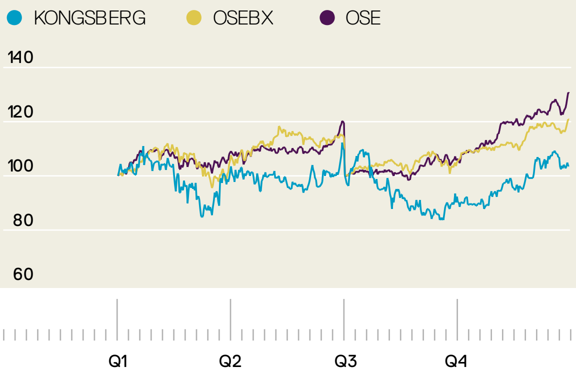
The market capitalisation increased during the year from MNOK 14.940 to MNOK 15.300 (2.4 per cent). The Group was listed on the Oslo Stock Exchange on 13 December 1993 and had a market capitalisation of MNOK 643 at the time. The share price increased by NOK 3.00 per share in 2013 and ended at NOK 127.50 at year end, up from NOK 124.50 at the end of 2012. The Oslo Stock Exchange Benchmark Index (OSEBX) and the Oslo Stock Exchange Industrial Index (OSE20GI) increased by 23.6 per cent and 33.3 per cent, respectively, during the same period.

Net profit and dividend per share

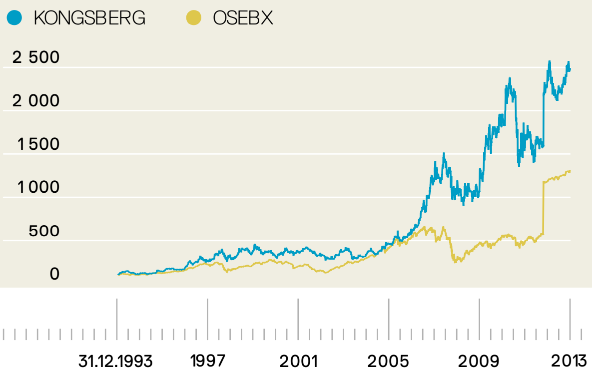
NOK	*2013*	*2012*[3)]	*2011*[3)]	*2010*	*2009*	*2008*	*2007*	*2006*	*2005*	*2004*[1)]
Ordinary earnings per share	10.24	10.91	11.83	12.46	6.83	4.86	4.04	2.08	1.80	0.92
Dividends	5.25[4)]	3.75	3.75	3.75	2.00	1.38	1.25	0.63	0.54	0.50[2)]

1) Numbers are adjusted for effects at transition to IFRS and disposal of the leisure boat business.
2) Dividends for 2004 were proposed based on profit before recognising the effect of MNOK 150 related to the NSM project.
3) The numbers have been restated as described in Note 33 "Change in comparative figures". For the other years, this change has not been taken into account.
4) The dividend consists of NOK 4.25 per share in ordinary dividends and NOK 1.00 per share as an extraordinary dividend to celebrate the Group's 200th anniversary.

Share price trends in 2013
NOK (Indexed at NOK 100 1 January 2013)



Share price trends from the launch on the Oslo Stock Exchange
NOK (Indexed at NOK 100 – 13 December 1993)



Share capital

Kongsberg Gruppen ASA has a share capital of MNOK 150, comprising 120 million shares with a nominal value of NOK 1.25 per share. There is one class of shares, and there are no limitations on voting rights. At 31 December 2013, KONGSBERG owned a total of 66.699 treasury shares.

Employees as shareholders

Employee ownership is considered very favourable and an employee share programme is conducted each year. In the summer of 2013, the Group's annual employee share programme was conducted for the 17th time. All employees were given the opportunity to buy KONGSBERG shares at a 20 per cent discount. A total of 590,890 shares were sold at a discounted price of NOK 86.40 distributed on 1.914 employees.

At 31 December 2013, more than 2,300 employees owned a total of about 3.5 million shares. This represents close to 3 per cent of the company's shares.

Investor relations

KONGSBERG shall provide the equity market with relevant, comprehensive information as the basis for a balanced, correct valuation of the share. The Group emphasises to maintain an open dialogue with the equity market and media through stock exchange disclosures, press releases and other media initiatives, as well as through presentations for analysts and investors.

The Group's website, www.kongsberg.com, has a separate section featuring investor information. The section contains the Group's annual reports, interim reports and company presentations. In 2013, KONGSBERG organised presentations and met with owners and potential investors both in Norway and abroad. KONGSBERG aspires to be accessible to the market, and parts of corporate management are present at most such events. The quarterly presentations are made available by webcast. In 2013 KONGSBERG was nominated for "best Nordic investor relations officer" in class Mid Cap in the IR Nordic Markets competition.

In November 2013, Kongsberg organised its annual Capital Markets Day at its premises in Kongsberg. The event was well attended. Several members of the corporate management board gave presentations as well as demonstrations of some of the products and systems. A capital Markets Day will also be organised in 2014.

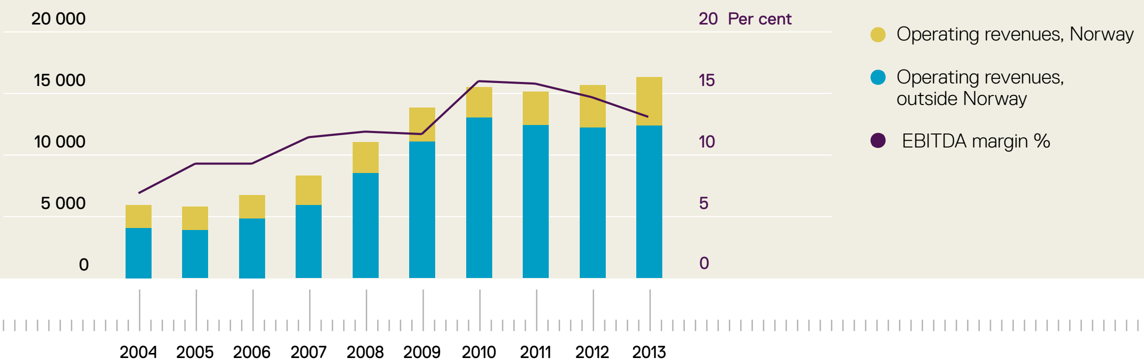
Historical share information

NOK	*2013*	*2012*	*2011*	*2010*	*2009*	*2008*	*2007*	*2006*	*2005*	*2004*
Market capitalisation 31 Dec.	15 300	14 940	13 920	15 960	10 590	9 840	10 170	5 250	3 720	2 970
Change during the year	2.4%	7.3%	(12.8%)	50.7%	7.6%	(3.2%)	93.7%	41.1%	25.3%	(6.6%)
Closing share price 31 Dec.	127.50	124.50	116.00	133.00	88.25	82.00	84.75	43.75	31.00	24.75
Closing share price first trading day	123	113.50	135.00	91.25	82.25	84.75	42.50	31.25	24.75	26.00
Highest closing price	135	127.50	164.00	135.00	88.25	104.25	86.25	43.75	33.00	29.00
Lowest closing price	103	96.25	93.00	80.75	62.00	66.75	41.75	30.50	22.75	19.19
Average daily closing price	117.62	112.59	132.31	113.50	72.80	85.10	60.88	36.45	27.09	23.05
Volum (in 1000 shares)	13 991	9 927	13 698	14 024	12 029	12 230	16 938	11 960	21 188	31 444
As a per cent of outstanding shares[1)]	23.3%	16.5%	22.8%	23.4%	20.0%	20.4%	28.2%	19.9%	35.3%	52.4%
Number of transactions	38 205	28 949	37 189	25 836	9 310	14 810	5 158	1 980	3 345	4 552
Number of trading days	249	251	253	252	251	252	250	225	247	252

1) Of shares in circulation. The State's interest of 50,001 per cent (60 001 600 shares) is not included.

Historical development - revenues and EBITDA

MNOK



List of KONGSBERG's 20 largest shareholders at 31 December 2013

Shareholders	*Number of shares*	*Percentage*
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%
The National Insurance Fond	8 480 992	7.07%
MP Pensjon	4 812 800	4.01%
Skagen Vekst	2 940 497	2.45%
JP Morgan Chase Bank - nominee	1 984 550	1.65%
Danske Invest Norske Instit. II	1 752 878	1.46%
Verdipapirfondet Odin Norden	1 518 977	1.27%
Verdipapirfondet Odin Norge	1 152 181	0.96%
Danske Invest Norske Aksjer Inst	1 117 324	0.93%
Reassure Limited c/o RBC Investor Ser	965 000	0.80%
BNP Paribas Sec. Ser S/A BP2S London/Aber	901 000	0.75%
The Northern Trust C Non-Treaty Account	772 668	0.64%
Montague Place Custo c/o Equity- Security	687 649	0.57%
Odin Offshore	558 500	0.47%
KLP Aksje Norge	504 441	0.42%
Verdipapirfondet DnB	481 399	0.40%
J.P. Morgan Chase Ba Nordea Re:Non-Treaty	479 853	0.40%
BNP Paribas Sec. Ser S/A Client Assets	426 000	0.36%
JP Morgan Chase Bank Handelsbanken Nordic	415 000	0.35%
Total	**99 506 105**	**82.92%**
Other (stake < 0.35 per cent)	20 493 895	17.08%
Total number of shares	**120 000 000**	**100.00%**

Shareholders, by size of holding

Number of shares	*Number of owners*	*Number of shares*	*Holding percentage*
1 - 1 000	5 814	1 861 566	1.55%
1 001 - 10 000	1 701	4 600 576	3.83%
10 001 - 100 000	176	5 552 117	4.63%
100 001 - 1 000 000	52	14 671 146	12.23%
1 000 001 - 10 000 000	9	33 312 995	27.76%
Over 10 000 000	1	60 001 600	50.00%
Total	**7 753**	**120 000 000**	**100.00%**

Share price data, by quarter 2013

NOK	*Q4*	*Q3*	*Q2*	*Q1*
Opening share price	117.50	110.00	116.00	123.00
Closing price	127.50	117.50	110.00	116.00
Investment performance during the period	9%	7%	(5%)	(6%)
Highest closing price	134.50	122.00	114.50	135.00
Lowest closing price	115.50	108.00	103.00	108.00
Average daily closing price	126.03	113.48	108.20	122.81
Median	127.25	112.25	108.00	121.50
Volum (in 1000 shares)	3 149	3 291	3 429	4 122

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FINANCIAL CALENDAR

Presentation of quarterly results
Q1 2014 – 13 May
Q2 2014 – 14 August
Q3 2014 – 31 October

Annual General Meeting– 9 May

Ticker kode: KOG (Oslo Stock Exchange)

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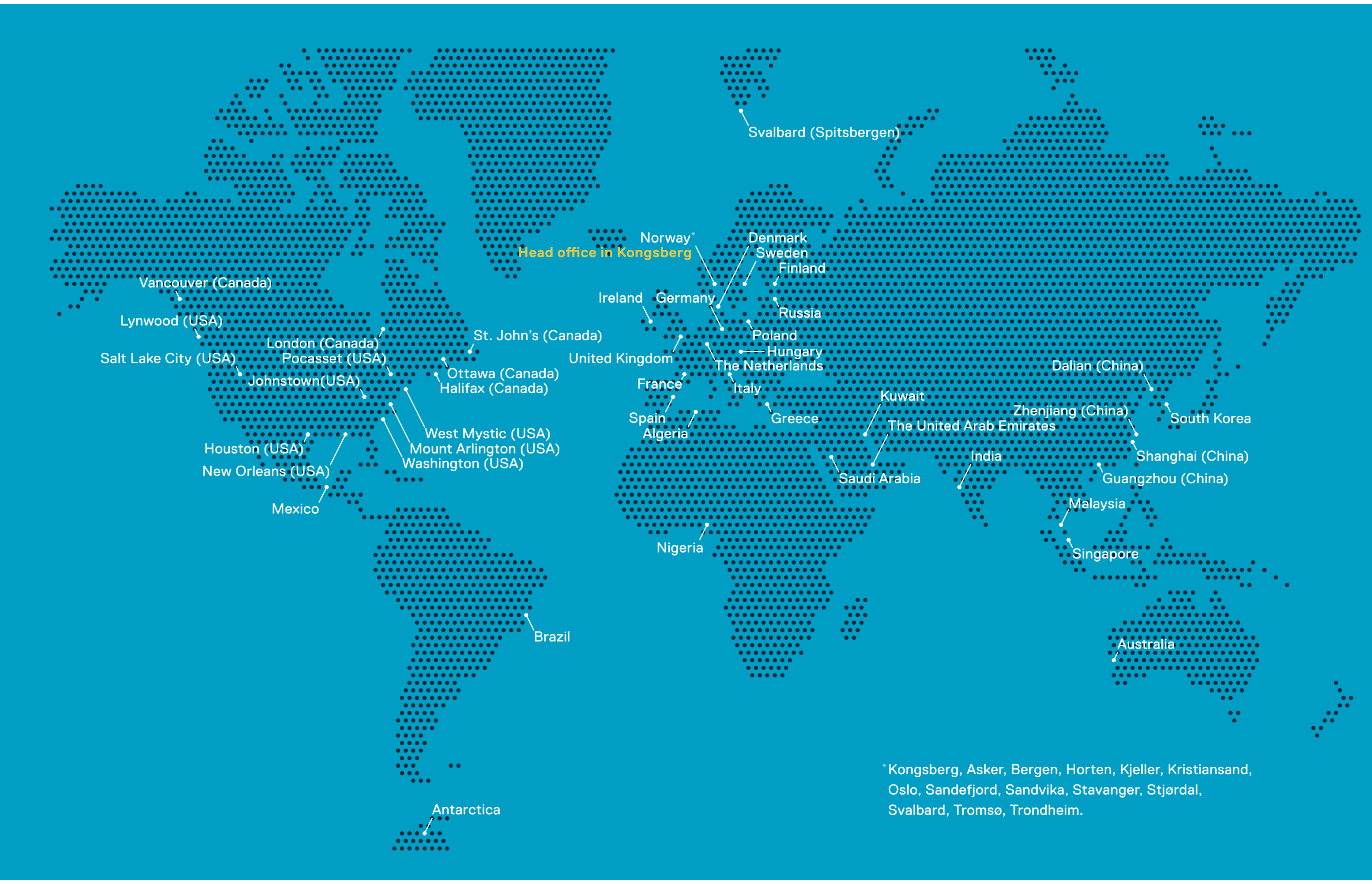
THE WORLD OF KONGSBERG



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