KONGSBERG

an ocean of opportunities

Annual Report 2004

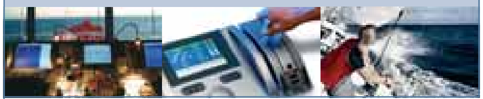
- Offshore oil and gas production on the rise
- More stringent safety and efficiency standards for ships and offshore installations
- Renewed vote of confidence from our partners
- NSM – world's most modern missile – soon on the market

KONGSBERG

Kongsberg Gruppen (KONGSBERG) mainly focuses on the markets for advanced maritime electronics and defence systems. The Group is engaged in widespread international activities, with Europe, the USA, the Middle East and the Far East as its most important markets.

Kongsberg Gruppen ASA

Kongsberg Maritime



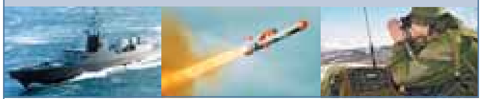
Offshore & Merchant Marine

- Dynamic Positioning & Navigation
- Marine Automation
- Process Automation
- Hydroacoustics
- Satellite Positioning, AIS
- Marine IT

Yachting & Fishery (SIMRAD)

- Marine Electronics (autosteering, hydroacoustics, navigation, communication)

Kongsberg Defence & Aerospace



Defence & Aerospace

- Missiles & Space
- Naval Systems
- Land Systems & Communications
- Aircraft & Air Defence Systems
- Dynamic Systems

Financial Calendar

Annual General Meeting
The ordinary annual general meeting
will be held at 2 p.m. on Tuesday, 3 May 2005,
at the Conference Centre,
Kongsberg Industrial Park, Kongsberg.

Dividends will be paid out on 24 May 2005.

Presentation of the quarterly results in 2005
Q1: 3 May
Q2: 23 August
Q3: 25 October

Contents

Key figures

- *Good influx of orders for Offshore & Merchant Marine.*
- *Strong finish to the year.*
- *Diminished profit owing to additional charge of MNOK 150 for the development of the new Naval Strike Missile (NSM).*

Amounts in MNOK		*2004*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*
Operations								
Operating revenues		6 439	6 651	6 980	6 176	5 296	4 412	4 404
– *Civilian*	%	58	54	58	63	64	73	71
– *Outside Norway*	%	71	76	72	74	74	62	62
Earnings before interest, tax and amortisation (EBITA)		223	383	485	437	287	249	278
Earnings before interest and tax (EBIT)		135	291	404	328	225	213	189
Earnings before tax (EBT)		85	190	291	191	188	205	279
Net profit/(loss) for the year		37	125	216	123	(56)	233	171
Backlog of orders		5 425	5 913	5 143	6 401	6 610	4 258	4 551
Number of employees		4 017	4 176	4 208	4 012	3 765	3 382	3 333
Profitability								
Operating margin (EBITA)	%	3.5	5.8	6.9	7.1	5.4	5.6	6.3
Operating margin (EBIT)	%	2.1	4.4	5.8	5.3	4.2	4.8	4.3
Return on total assets	%	2.3	5.0	7.3	6.0	5.4	5.9	9.2
Return on equity (before tax)	%	4.7	10.6	17.7	13.0	13.0	15.8	26.0
Owners' values								
Market capitalisation		2 970	3 180	2 715	2 895	2 550	3 780	1 824
Earnings per share after tax in NOK		1.38	4.23	7.21	4.18	(1.86)	8.84	7.04
P/E		71.74	25.06	12.55	23.09	-	16.22	10.79
Equity ratio	%	30	30	31	27	26	37	28
Equity		1 812	1 830	1 741	1 538	1 406	1 490	1 106
Dividends		2.00	1.30	2.10	-	-	2.25	2.00

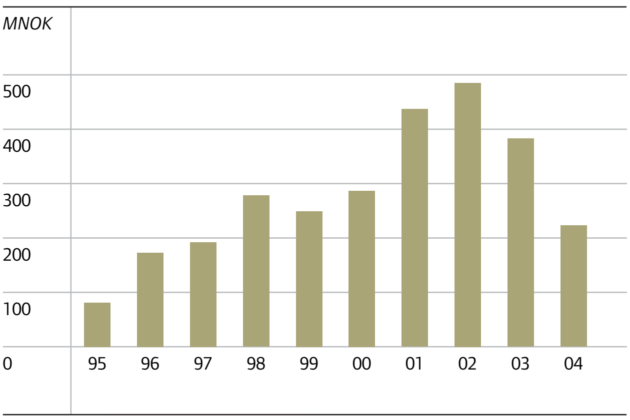
Amounts in MEUR (NOK/EUR=8.24)	*2004*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*
Operations							
Operating revenues	781	807	847	749	643	535	523
Earnings before interest, tax and amortisation (EBITA)	27	46	59	53	35	30	33
Earnings before tax (EBT)	10	23	35	23	23	25	33
Owner's values							
Earnings per share after tax in EUR	0.17	0.51	0.87	0.51	(0.23)	1.07	0.84

For definitions, see page 59.

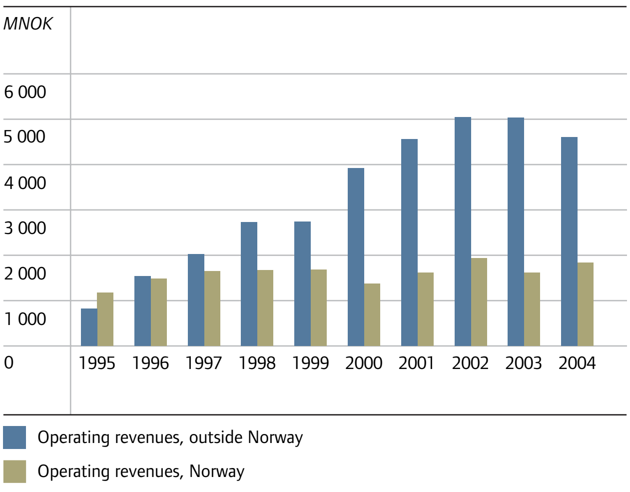
Key figures by business segment

	Operating revenues			EBITA			Operating profit		
Amounts in MNOK	*2004*	*2003*	*2002*	*2004*	*2003*	*2002*	*2004*	*2003*	*2002*
Offshore & Merchant Marine	2 799	2 622	2 963	246	253	254	179	180	191
Yachting & Fishery	905	896	815	8	44	44	(7)	31	33
Defence & Aerospace	2 704	3 084	3 084	(43)	93	178	(49)	87	171
Other/elimination	31	49	118	12	(7)	9	12	(7)	9
Group	6 439	6 651	6 980	223	383	485	135	291	404

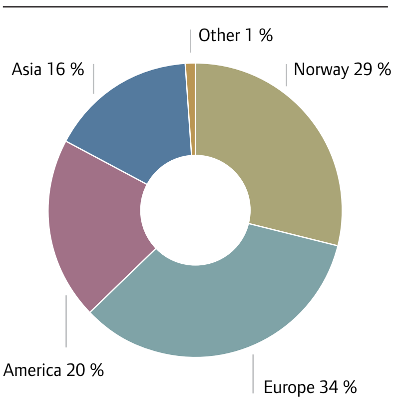
EBITA



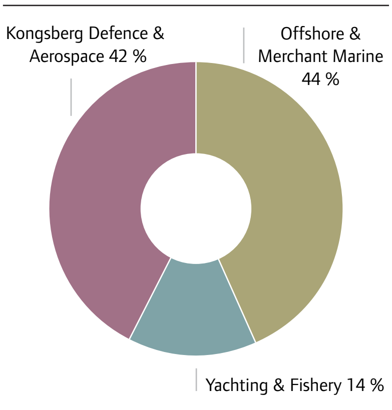
Operating revenues



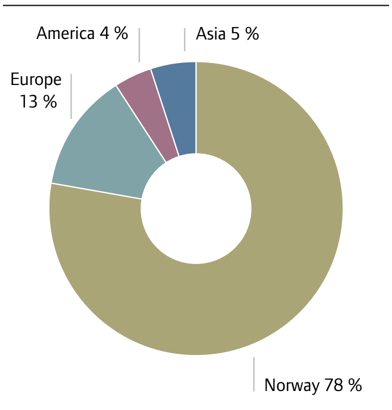
Operating revenues – geographical distribution



Operating revenues – by segment



Employees – geographical distribution



Vision, objectives and strategy

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

Objectives

KONGSBERG shall be an internationally-oriented knowledge-based technology enterprise headquartered in Norway. KONGSBERG's main objective is to increase shareholders' assets by:

- a profitability goal of 10 per cent EBITA (earnings before interest, taxes and the amortisation of goodwill).
- annual average growth of 10 to 20 per cent.
- organising activities in a manner designed to exploit coherence and possible synergies.
- having a clear image and a good reputation.
- operating in an ethically, environmentally and socially responsible manner.

Strategy

Important initiatives for achieving the objectives include:

Markets

KONGSBERG's markets are characterised by high standards for performance, quality and operational reliability. 71 per cent of the Group's operating revenues were earned outside Norway. KONGSBERG consistently strives to develop a marketing system that can effectively help satisfy customers' needs. Customer proximity and cooperation on the development of optimal solutions play key roles. Strategic alliance-building is a prerequisite for success in several of KONGSBERG's business areas.

Concentration on the strategic business areas

The business areas are continuously reviewed to identify activities which do not occupy a natural place there, or which might better be developed under the auspices of other industrial constellations. When conditions are right for divestments, the Group makes a meticulous assessment to protect assets insofar as possible.

Acquisitions

Acquisitions are a key part of the corporate growth strategy in the core areas. The goal of acquisitions is to exploit common technology and achieve market synergies. This strategy is also motivated by the desire to augment the range of products, and to gain admission to new markets or access to specialised technology. Constant improvement in the Group's strategic market position plays a vital role in its acquisition strategy.

Expertise

Knowledge and expertise are KONGSBERG's most important competitive parameters. Offering all employees comprehensive human resources development opportunities is crucial to positive performance trends, making it a high priority. To recruit and retain personnel, the company must offer attractive, challenging jobs. The Group offers a systematic management development programme.

Corporate social responsibility and ethics

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

Technology

KONGSBERG generally spends about 10 per cent of its operating revenues on product development. A high level of activity in this field is considered a prerequisite for profitable organic growth. Product development may be funded by customers and/or be equity-financed. The needs of the market will invariably govern the direction of, and the ambitions and solutions associated with product development. KONGSBERG's products are largely based on the following core competencies: software development, engineering cybernetics, systems integration and signal processing.

Financial strategy

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

History

KONGSBERG consists of many different companies, each with its own history and place of origin. A glance at the Group's history will nonetheless reflect its strong ties to the progress of the city of Kongsberg through five centuries.

1624–1814 The discovery of silver

Kongsberg was founded in 1624 by King Christian IV, based on the discovery of silver in the area. Kongsberg's silver works and silver mines played a pivotal role in Norwegian history from the late 1600s until the early 1800s. The Silver Works were Norway's largest enterprise. In about 1720, they accounted for 20 per cent of the national budget.

1814–1955 Kongsberg Våpenfabrikk and the maritime community at Horten

An economic slump for the Silver Works led to the establishment of Kongsberg Våpenfabrikk (a munitions factory) in 1814. The most gifted mining engineers were assigned the task of developing the new cornerstone enterprise.

In the late 1800s, the company introduced the Krag Jørgensen rifle which was subsequently chosen as the main weapon for the US Army. The deal was one of Norwegian industry's first major export contracts.

Norway's main naval yard was established in Horten in 1849, laying the foundation for a strong maritime community.

1955–1987 Industrial locomotive

Kongsberg Våpenfabrikk played a key role in building up Norwegian industry after World War II. From 1960 to 1987, the company evolved from a mechanical engineering company into an enterprise engaged in considerable product development, targeting several markets with strict performance standards. The market areas included the defence, automotive, energy, data, offshore, aviation and aerospace industries.

Norway's General Naval Forces Plan was adopted in 1960, marking the advent of a new era in Horten's 'electronic evolution'.

1987–1992 Crisis and revitalisation

In 1987, Kongsberg Våpenfabrikk was restructured, and all civilian activities were sold. Still based in the community of Kongsberg, the units sold at that time have experienced healthy growth and profitability.

Defence activities were continued under the banner of Norsk Forsvarsteknologi AS, which formed the core of today's corporation, KONGSBERG.

After the fall of the Berlin wall in 1989, the Group devised a strategy that involved devoting more attention to civilian markets, along with a deliberate shift from industrial to technological production. Importance was attached to expanding activities in areas of technology related to defence activities.

1992–2004 Maritime campaign, stock exchange listing and growth

In 1992, the Group acquired the Norcontrol companies. This signalled the beginning of a maritime focus that culminated in Kongsberg Maritime being named a separate business area in 1995. In 1996, KONGSBERG acquired the Simrad Group, followed by Navia in 2000. The maritime efforts were a prerequisite for stock exchange listing and partial privatisation in 1993. At that time, about 50 per cent of consolidated operating revenues were earned outside the defence market. Market capitalisation increased from MNOK 643 in 1993 to MNOK 2 970 in 2004. The company changed its name to Kongsberg Gruppen in 1995.

From 1995 to 2002, the Group expanded continuously, as operating revenues climbed from MNOK 1 998 to MNOK 6 980. Operating revenues have tapered off over the past two years, not least as a result of changing international competitive conditions and the weakening of the USD.

This is KONGSBERG

Kongsberg Gruppen (KONGSBERG) mainly focuses on the markets for maritime electronics and defence systems. The bulk of the Group's activities address international markets, the most important of which are Europe, the USA, the Middle East and the Far East. In 2004, the Group posted total operating revenues of NOK 6.4 billion. The Group has facilities at more than 40 locations in 24 countries, and has 4 017 co-workers, 898 of whom work outside Norway.

Main objectives

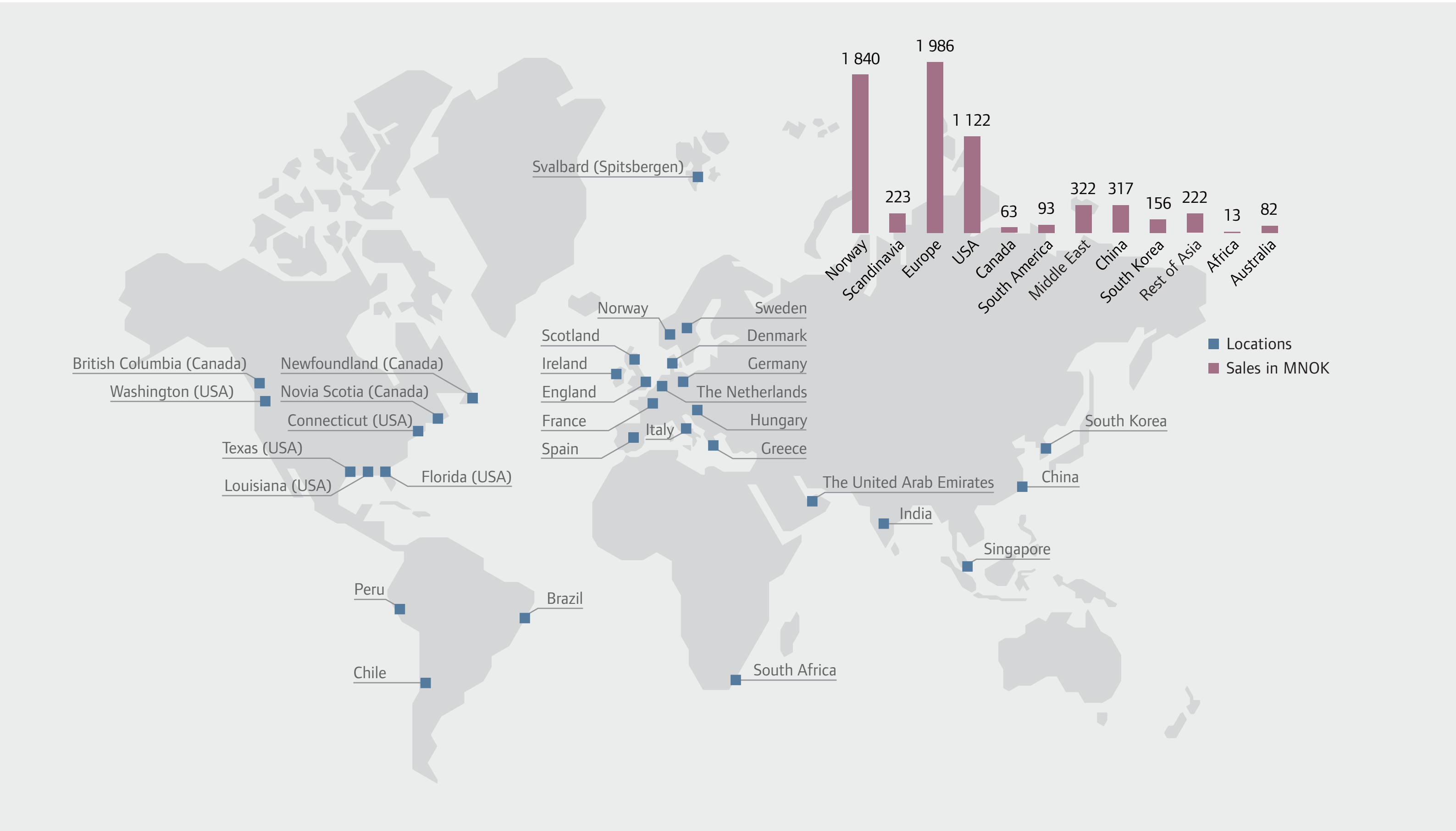
KONGSBERG's main objective is to increase shareholders' assets. The most important profitability goal is to achieve 10 per cent EBITA. Growth is a key part of the Group's strategy.

Products

The Group's range of products is characterised by a high technology content; the products also have to work under demanding conditions. Reliability requirements are high. KONGSBERG's products range from equipment for surveying the seabed down to depths of 11 000 metres to advanced equipment for satellites orbiting through outer space.

Markets

The international market accounts for an ever larger and more important share of KONGSBERG's total operating revenues. This is true of civilian and defence markets alike. In recent years, the defence market has grown most rapidly in Eastern Europe, while the Group's maritime activities have seen the most growth in South Korea and China. In 2004, MNOK 4 600 (71 per cent) of



the Group's operating revenues were earned outside Norway. This trend is expected to continue. The corresponding figure for 1995 was MNOK 799 (40 per cent).

Business areas

KONGSBERG has two main business areas, Kongsberg Maritime and Kongsberg Defence & Aerospace. The most important core competencies in both business areas are signal processing, cybernetics, software development services and systems integration. The sheer size of the knowledge base opens opportunities for further development and enables KONGSBERG to carry out large-scale assignments. Solutions developed in one segment have often proven to be applicable in other segments of the Group. No less than 67 per cent of the Group's operating revenues are related to maritime activities, including products designed for defence as well as civilian markets.

Kongsberg Maritime

Kongsberg Maritime delivers systems and technology to merchant vessels and offshore installations. Important markets include countries with significant offshore activities, and shipyards in China and South Korea. The Group also makes instrumentation for yachts and fishing vessels, especially in Europe and the USA. Emphasis is attached to exploiting the Group's shared technology platform to meet customers' needs for new products and applications.

The business area enjoys leading positions in dynamic positioning, vessel automation, navigation, hydroacoustics, simulators, communication and information management.

Key figures

Kongsberg Maritime had operating revenues of NOK 3.6 billion and 2 392 employees. 77 per cent of its operating revenues were earned outside Norway.

Kongsberg Defence & Aerospace

Kongsberg Defence & Aerospace is Norway's premier supplier of high-technology defence systems. The Norwegian Armed Forces is the Group's most important customer. Solutions developed in collaboration with the Norwegian Armed Forces have proven competitive at the international level.

In recent years, Kongsberg Defence & Aerospace has achieved an export share approaching 80 per cent, offering advanced solutions for anti-ship missiles, military communication and weapons control systems. Alliances with major international defence contractors are a key element in the business area's marketing strategy.

All defence-related exports are contingent on the approval of the Ministry of Foreign Affairs.

Key figures

Kongsberg Defence & Aerospace earned operating revenues of NOK 2.7 billion and had 1 533 employees. 67 per cent of the business area's operating revenues were earned outside Norway.

Expertise

Knowledge and expertise are decisive for KONGSBERG's competitiveness. Appropriate expertise promotes value creation and is therefore given high priority. A total of 89 per cent of KONGSBERG's 4 017 employees have higher educations.

Dividend policy

The goal is to pay out 30 per cent of the Group's annual profit to shareholders in the form of dividends. The Board has proposed a dividend of NOK 2 per share for 2004.

Ownership

Kongsberg Gruppen ASA is listed on the Oslo Stock Exchange. The largest shareholder is the Norwegian state with a stake of 50.001 per cent.

The road ahead

Over the past two years, the profitability trend and sales growth for the Group as a whole have tapered off and even dipped slightly. Naturally, I am not satisfied with that. We have high ambitions for profitability and growth at KONGSBERG, and 2004 did not live up to those ambitions.

That being said, looking at the various units in the Group, the picture is more complex. Performance is good in many units, mainly in Offshore & Merchant Marine, but also in parts of Defence & Aerospace. Those units have shown growth and profitability that either live up to our expectations or are well on their way to doing so.

However, other segments have encountered adversity as a result of weak markets, keener competition, demanding product development and unfavourable foreign exchange trends. Accordingly, it has been necessary to introduce serious economisation measures in the past two years, a course that will continue in 2005. These measures will improve profitability.

Improved profitability

Our performance targets still stand. KONGSBERG will improve its profitability by:

- Focusing on operations, the re-use of technology, efficient organisation and rational procurement, decreasing net foreign currency exposure by striking a better balance between revenues and expenditures, and relocating to lower cost countries.
- Defending or enhancing our strategic positions, moving sales staff closer to customers, and venture creation.
- Enhancing productivity through greater awareness of our goals, values and behaviour.

The sale of units that have not been profitable for some time or have not managed to present plans for profitable growth is considered on an ongoing basis.

Continued growth

Continued growth is important to owners and employees alike. Our consistent desire to forge ahead indicates to owners that KONGSBERG is focusing on the future, a signal that also provides an important incentive for employees. From 1995 to 2002, KONGSBERG grew by about 20 per cent per year through acquisitions and subsequent organic growth. In the past two years, KONGSBERG has gone through a process of adjustment to adapt to changes in markets, as well as in competition and currency exchange rates. The Group has now come so far in this transition that it once again has the time and capacity to give priority to new growth, both organic and through acquisitions.

Strategic market positions

KONGSBERG is a world leader in several of its product areas. In other areas, we have ambitions and plans to challenge the current market leaders. Thus one of our main challenges is to maintain our positions in the areas in which we are market leaders and to build up positions in the markets we intend to enter.

- As a Group, we are becoming increasingly more dependent on the international market. This means that a growing share of our sales takes place abroad.
- Competition is on the rise, but we have nonetheless managed to increase market shares in several segments in recent years.
- Several countries pursue an explicit policy of developing local manufacturers and giving them preference. Typical examples include ships' systems in South Korea and China, where there are political intentions to use shipbuilding as a policy instrument for promoting industrialisation. Their goal is to ensure that

more value creation takes place locally as local competence grows. Our strategy involves becoming a local supplier in these countries, and it has proved highly successful.

- Today, KONGSBERG equipment is installed on more than 15 000 vessels. These vessels represent not only a large customer base that deserves world-class service, but also a large market for spare parts and upgrades. This opportunity will be exploited further.

To enhance our competitive position, we must move personnel and activities closer to the market. Our challenges in this context are to find good local partners and to strike a prudent balance between initiatives abroad relative to those 'at home', and then to deal with the personnel-related consequences of relocating activities. Potential areas for increasing our presence in the years ahead are China, Brazil, Australia and West Africa.

Innovation

Having state-of-the-art products is a prerequisite for improving our competitive position. KONGSBERG currently spends roughly MNOK 700, i.e. 10 per cent of operating revenues, on product development each year. Product development is funded partially by customers and partially by the Group itself. It is assumed that development activities will remain at the same level in future. However, our share of self-financing is destined to increase for defence activities.

Most of the main areas in which we work were established more than 20 years ago. Since then, we have given priority to further development in our main business areas: Maritime and Defence & Aerospace. Although considerable innovation is taking place in our spheres of activity, one can always ask whether we are innovative enough and whether our innovations are visible enough. It is important to our long-term progress that KONGSBERG remains 'potent', i.e. that we can continue to attract the very best engineers in future as well. Accordingly, innovation has been put on the agenda both within KONGSBERG's own organisation and by participating, along with several other technology enterprises in Kongsberg, in the establishment of Kongsberg Innovasjon AS.

Values and Behaviour – Management Principles – Ethics

Over the past few years, corporate management has examined which values and attitudes they aspire to instil throughout the Group. A set of principles has been drawn up for the most important management areas. Further, a Code of Ethics and a special training programme have been developed.

Our goal is to enhance profitability by providing more motivation and promoting correct behaviour. KONGSBERG has grown considerably at the national and international levels through acquisitions and by establishing new ventures. Consequently, we must deal with national as well as company-specific cultures. Through determined efforts to address values and behaviour, we aspire to develop a corporate culture that will be a source of pride for all our business associates and for KONGSBERG employees, regardless of where they may be located.

The challenges are manifold, as are the opportunities. To mention just a few of the opportunities:

- The world economy is improving. Asia in particular is a growth market for nearly all KONGSBERG products.
- There is a growing need for energy. An ever larger share of oil and gas production will take place offshore, and we are well positioned for that.
- There is a growing need for transport at sea, which bodes well for KONGSBERG's position in the market for ships' systems.
- The new Naval Strike Missile (NSM) will come on the market in just a few years. It will be the world's most advanced weapon in its class.
- KONGSBERG has concluded a new 10-year agreement with Raytheon regarding international sales of the world's most advanced air defence system, offering a huge market potential.
- KONGSBERG offers specialised products within subsea technology and hydroacoustics for civilian as well as military applications.
- The need for surveying and monitoring coastal and ocean territories is on the rise. We recognise major opportunities in this context.
- Some of our markets are changing from product markets to service markets. In future, we will focus more intently on opportunities for providing services in our markets.

It was with deep regret that we had to make some co-workers redundant during the past year. The process has been painful for all those affected, and I sincerely regret that we have had no choice in the matter. Provided we make the right choices in the years ahead, we hope that KONGSBERG will soon be hiring employees again.

By way of conclusion, I would like to express my thanks to all KONGSBERG employees. I am proud of you and of your willingness to accept new ideas and to look to the future. You are KONGSBERG's most important asset.

Jan Erik Korssjøen
Chief Executive Officer

Highlights and development trends

The Group

Performance on a par with 2003

KONGSBERG posted an aggregate operating profit (EBITA) of MNOK 223 in 2004, placing it on roughly the same level as in 2003, had it not been for the additional charge related to the NSM (Naval Strike Missile) project (see the following article). Operating revenues declined slightly from 2003, from MNOK 6 651 to MNOK 6 439. The Group ended the year with a strong 4th quarter and a backlog of orders worth NOK 5.43 billion.

Defence & Aerospace

Successful testing of the new Naval Strike Missile (NSM)

In June 2004, the company conducted a highly successful test firing of the new Naval Strike Missile (NSM). For the first time, the missile flew the entire 150 km course before making a controlled entry into the sea. The test results provided the project with valuable information and data for further efforts. Although the test was successful, an evaluation of the remaining development tasks led to the decision to charge an additional MNOK 150 against income, reducing the result for 2004 by a corresponding amount. In December 2004, Kongsberg Defence & Aerospace signed a transition contract with the Norwegian Armed Forces' Logistics Organisation. With a scope of MNOK 200, the contract applies to preparations for and the start-up of NSM production. This marked a major milestone for KONGSBERG as a whole.

The Group

Bid for Kongsberg Maritime

In September 2004, KONGSBERG received a conditional bid for the purchase of the entire Kongsberg Maritime business area. The offer was for NOK 3.3 billion. The Board of Directors decided to reject the bid. In the Board's opinion, it would have been neither financially nor industrially prudent to sell the Group's maritime business area.

Over the past 12 years, KONGSBERG has conscientiously built up a civilian maritime business in addition to its defence activities. The aim has been to achieve better commercial exploitation of the Group's pool of technical expertise, and to reduce its dependence on the defence market. There are considerable synergies between the two business areas in terms of both technology and competence. The size of an international technology corporation in the market is very important in both these areas.

Offshore & Merchant Marine

Strong influx of new orders

New orders for Offshore & Merchant Marine were satisfactory, up 9 per cent from 2003. Kongsberg Maritime has carved out a strong position as a supplier of automation systems to shipyards in North-East Asia. One of the reasons for the growth in new orders is the establishment of Kongsberg Maritime in China. Otherwise, shipyards in South Korea and China have little spare capacity, so orders from European shipyards are picking up.

Yachting & Fishery

Keen competition in the market for yacht electronics

The market for yacht instrumentation was characterised by sharp price competition throughout the year. Measures have been initiated in response to this competition. Efforts to gain acceptance among boatbuilders have paid off. Sales to the boatbuilding market have increased, and framework agreements were signed with Azimut, a major Italian yacht shipyard and with a number of Norwegian shipyards.

Defence & Aerospace

New 10-year contract with Raytheon

In 1996, Kongsberg Defence & Aerospace concluded a 10-year strategic cooperation agreement with the Raytheon Group. The agreement referred to the sale of air defence systems on the international market, except in the USA. In February 2004, the agreement was prolonged by 10 years and expanded to include the US market. Cooperation between Kongsberg Defence & Aerospace and the Raytheon Group has been highly successful. Since 1996, total new orders for anti-aircraft systems have added up to about NOK 1.8 billion. The agreement's potential is believed to have increased significantly as a result of the prolongation. This market is expected to expand formidably in the years ahead.

Defence & Aerospace

Weapons control system to four nations

KONGSBERG sold its weapons control system for armoured personnel carriers – PROTECTOR – to Australia in 2004. In January 2005, a contract was also signed with Finland. Thus a total of four nations have chosen the system: the USA, Australia, Finland and Norway. The contract with Finland applies to a further-developed version of a system supplied to more than 700 vehicles for the US Army. The programme had a framework of NOK 2 billion when it commenced in 2000, and deliveries are still in progress. The principle underlying KONGSBERG's weapons control system is that a soldier can operate an exterior weapon from inside an armoured personnel carrier, and thus remain protected from enemy fire.

Synergies create added value between Defence and Maritime

By taking advantage of a common market, we can literally fill vessels with KONGSBERG equipment.

Ivar Flage (left) – Marketing Manager – Kongsberg Defence & Aerospace and
Svein Otto Schjerven – Manager, Marketing & Sales – Kongsberg Maritime

Adding value based on synergies between Defence and Maritime has been and continues to be a KONGSBERG strategy. "There are clear correlations between Defence and Maritime in terms of the use of technology, expertise, markets and products. In the time ahead, we must become better at showing each other and the rest of the world the value added inherent in these synergies, then increase the value added further by cooperating across unit divisions", states Chief Executive Officer Jan Erik Korssjøen.

On the technology side, the link between Defence and Maritime lies in the fact that they use the same basic technologies: Engineering cybernetics, hydroacoustics, signal processing and software development. By cross-linking technologies, the Group has developed new products in both business areas.

Technology and expertise

KONGSBERG has the expertise to adapt and develop new systems based on established technology. One example of this is the 'man-machine concept' developed for the command, control and weapons systems on submarines. In combination with other systems, the technology behind this concept was also used in the original development of dynamic positioning.

The vast knowledge and expertise base KONGSBERG has built up in conjunction with customers and research institutions through major development projects is another important spin-off of synergy. The development of the Penguin missile resulted in the build-up of an expertise and technology group that still ranks among Norway's most prominent, 40 years later. Without this specialist group, KONGSBERG would not have secured the development contract for the new Naval Strike Missile (NSM). Nor would it have managed to develop the RWS (Remote Weapon Station) in record time, given the deadline, had it not been for the sheer size of the specialist group. Very few Norwegian technology enterprises have as many highly skilled employees with advanced technical educations and long experience as what KONGSBERG has today.

Aerospace is another example of how the Group has taken advantage of existing knowledge and technology for new development projects. The aerospace industry represents one of the world's most advanced, forward-thinking areas of technology. That was the main reason KONGSBERG chose to focus on aerospace. By participating in the European space programme, KONGSBERG became a supplier to the world's leading space organisations. KONGSBERG has earned admirable positions in its niches through its participation, making it Norway's largest player on the aerospace market.

KONGSBERG developed software and delivered test equipment for the space probe Huygens, referred to as the boldest space project ever. Huygen's successful landing on Titan, one of Saturn's moons, was also a success for KONGSBERG, corroborating the contention that "No second class company is invited into space."

Markets

Another area in which value is added through synergies between Defence and Maritime is related to shared markets. Svein Otto Schjerven, sales and marketing manager for naval defence products at Kongsberg Maritime, and Ivar Flage, marketing manager for naval defence systems at Kongsberg Defence & Aerospace, cooperate on marketing and on the preparation of bids for the naval defence market. One result is that products from both business areas have been used in minehunting vessels. "By taking advantage of a common market, we can literally fill vessels with KONGSBERG equipment. The hull and engines are among the few things not manufactured by us", according to Ivar Flage, and Svein Otto Schjerven agrees, explaining that Kongsberg Maritime delivers everything from dynamic positioning to bridge and navigation systems, while Kongsberg Defence & Aerospace delivers the mine-hunting weapon and clearing systems for sea mines (see Fig. 2).

Products

There are also significant synergies between defence and maritime on the product side. Kongsberg Seatex in Trondheim has developed a Motion Reference Unit (MRU) which is currently used in both defence and maritime applications. Early on, Kongsberg Maritime in Horten began using the sensor to adjust sound echoes from the seabed to compensate for vessel movements. This must be done so that multi-beam echosounders can tell how the seabed looks, without being distorted by the waves the vessel encounters on the surface. This was a demanding application that compelled the development of motion sensors to achieve increasingly more precision. The motion sensor is now more than ten times as accurate as when it was launched in 1992, and it is used in defence as well as maritime products, see Fig. 1. The motion sensor is currently used in dynamic positioning, in equipment for seabed surveying and for geological surveys under the ocean floor. Moreover, it is used in the RWS for the Armed Forces' armoured vehicles.

Still more potential

The CEO believes it is important to render visible the synergies found in KONGSBERG for employees as well as for the world around us.

"There are numerous examples of synergies. A few are mentioned below. Clearly, KONGSBERG has even more potential for better exploiting the synergies between Defence and Maritime", concludes the CEO.

Figure 1 – Example of an application for motion sensors (MRU – Motion Reference Unit)

Measuring every little movement
A Motion Reference Unit (MRU) is a motion sensor used to measure the motion of a vessel or vehicle. Measurements from the sensor are used to compensate the settings on other equipment carried on a vessel or vehicle for its motion when moving through the sea or across terrain.

Kongsberg Defence & Aerospace
- Geological surveying under the seabed (Topas)
- Weapons stations for armoured personnel carriers (RWS – Remote Weapon Station)

Kongsberg Maritime
- Dynamic positioning
- Seabed surveys
- Hydroacoustic reference system (HiPAP and HPR)
- Monitoring of helicopter decks on floating platforms and offshore vessels

The Motion Reference Unit is also an important component of other KONGSBERG products.

"Clearly, KONGSBERG has even more potential for better exploiting the synergies between Defence and Maritime."

Jan Erik Korssjøen – Chief Executive Officer

Figure 2 – Example of a shared market for Kongsberg Defence & Aerospace and Kongsberg Maritime

Fully loaded with KONGSBERG equipment
The Royal Norwegian Navy's mine clearing squadron consists of eight vessels. Their main area of operations is along the coast of Norway. At times, the squadron also undertakes lengthy international missions. The vessels' main task is to clear sea mines. The squadron disarms the mines using minisubmarines, or mine divers or sweepers.

Kongsberg Defence & Aerospace

- Mine War Data Centre (MWDC)
- Command and control system (MICOS C2 system)
- Minesniper
- Agathe (minesweeping equipment for sea mines)

Kongsberg Maritime

- Automation system
- Dynamic positioning
- Motion sensors (MRU)
- Sonars
- Anti-collision system for vessel traffic (AIS – Automatic Identification System)
- Receivers for satellite positioning system (GPS receivers)
- HUGIN (self-propelled Autonomous Underwater Vehicle (AUV) for seabed surveys)
- Underwater navigation (HiPAP)

Unleashing the power of innovation – a prerequisite for profitable growth

The ability to revitalise is decisive for KONGSBERG's further growth and success.

Jan Kopperud (left) – Vice President, Technology and Development – Kongsberg Defence & Aerospace and
Sverre Gotaas – Vice President, Centre of Technology – Kongsberg Maritime

KONGSBERG is an international technology corporation. Based on long years of experience, the Group develops high-technology products for locations ranging from the seabed to outer space.

KONGSBERG's vision, **WORLD CLASS – through people, technology and dedication**, refers to our ambition to be a world leader when it comes to the level of functionality and quality inherent in the products and systems we supply. The ability to revitalise is decisive for KONGSBERG's further growth and success. To that end, we spend roughly MNOK 700 on research and development (R&D) each year. All KONGSBERG's development takes place on a commercial basis. Of the millions spent on development each year, about 50 per cent is financed by our customers.

Few Norwegian enterprises spend more on development than KONGSBERG. Each year, about 10 per cent of the Group's total operating revenues are spent on the development or revitalisation of products. It is crucial to develop and improve products since new products afford us new opportunities to enhance performance and introduce more cost-efficient solutions.

Maritime – continuous revitalisation

In the maritime business area, all product development is based on expertise in dynamic positioning and navigation systems, marine automation, process control, hydroacoustics (sound through water), simulation and communication. "More exposure to market competition and a harder struggle to maintain our market positions call for broad-based product development", explains Sverre Gotaas, vice president, Centre of Technology, Kongsberg Maritime. "Each year, more than 100 development projects are conducted by our product development groups. We spend a total of some MNOK 300 on product development", he adds. The most intense efforts are related to automation and dynamic positioning, where Kongsberg Maritime leads the market in certain areas. Maintaining this position calls for extensive development efforts and innovative thinking.

Defence – large-scale, long-term projects

Kongsberg Defence & Aerospace is engaged in more long-term product development work on fewer, but far larger products.

"Our development work takes place largely on customers' terms and based on their needs", clarifies Jan Kopperud, vice president, Technology and Development, Kongsberg Defence & Aerospace. "Our defence customers are deeply involved in our development activities, so a greater proportion of the projects are financed by our customers than what is the case for Kongsberg Maritime", he says. Each year, Kongsberg Defence & Aerospace spends more than MNOK 400 on developing new products. Although our customers pay for most of the development, KONGSBERG retains the right to market and sell the products to others customers. Consequently, paid development is also decisive for the Group's future. The Naval Strike Missile (NSM) is the Group's largest development project ever. The project is unique to Kongsberg Defence & Aerospace and the product is one of the most advanced of its kind.

Innovative thinking

When it comes to its product development strategy, KONGSBERG takes a long-term perspective. "Neither the enterprise nor its shareholders would benefit if we were to cut back on product development or product improvements. We are exposed to increasing pressure to be competitive. Product development is one of the most important instruments available for ensuring state-of-the-art products, at the same time as we constantly strive to reduce product costs by using modern technology. In this connection, the re-use and shared use of technology are essential", underlines Chief Executive Officer Jan Erik Korssjøen. "Our staff is genuinely concerned with technology, and they are encouraged to adopt new technology. As a result, we provide a good environment for creativity and innovation", remarks the CEO.

New markets

Innovative thinking will also help KONGSBERG adapt to society's technological progress. Modern technology and communication reduce distances continuously, making the world a smaller place. That leads to political changes, giving rise in turn to new threats and possibilities. KONGSBERG will adapt to these trends and position itself relative to them.

"The ability to revitalise remains one of our most important competitive advantages. One clear objective is to maintain product development activities at the current high level. We must consistently ensure that we are up-to-date and in the vanguard, and that we have the ability to adapt our operations to development trends. This will continue to be a prerequisite for profitable growth in the years ahead", summarises Jan Erik Korssjøen.

FACTS

Cooperation = new products

The Norwegian Defence Research Establishment is one of the research institutions with which KONGSBERG has cooperated closely over the years. Paul Narum, director general of the Norwegian Defence Research Establishment, would like to see this cooperation continue. "The Norwegian Defence Research Establishment's main responsibility is to ensure an effective Norwegian defence system. One element involves ensuring, through research and development, that we have good defence products. It is imperative for the Norwegian Defence Research Establishment to have good partners like KONGSBERG to help industrialise our research activities", Narum points out.

"How do you envisage your institution's cooperation with KONGSBERG in future?"

"We live in a world with increasingly more high technology, and where ever more stringent standards are applied to materiel. Given this trend, I think we will see fewer major national development projects, but that Norway will make strong contributions to research and development on international projects. That will be crucial for ensuring knowledge and markets in the defence industry. Having said that, I see no reason not to continue collaborating on the development of our own niche products for the world market", underlines the director general.

Kongsberg Maritime

Torfinn Kildal
President
Kongsberg Maritime

The President

In 2004, Kongsberg Maritime developed further in the direction of being a preferred partner for the maritime industry. We are engaged in a wide variety of marine operations that give us broad and thorough knowledge of different types of user needs and requirements. This is fundamental for our ability to revitalise and develop cost-efficient products and systems. Continuous improvement of our global support systems is also important for providing optimal customer support. We constantly strive to develop close collaboration with the users of our systems. We recently completed a comprehensive customer survey which confirms that we are experiencing a positive trend. In-house programmes have also been initiated with a view to further developing and economising our operations in Norway and abroad.

Closer to customers

Kongsberg Maritime has built up a global network for service and support. This means we are present in the most important areas for marine operations. Our presence provides a solid basis for further growth.

There is a high level of activity in North-East Asia. This appears to be continuing, which has encouraged the business area to strengthen its presence there. In December, Kongsberg Maritime merged two offices in South Korea, moving all activities to Busan to be closer to customers. Kongsberg Maritime China established operational activities in Shanghai in 2003, and has now expanded to 50 employees. This gives Kongsberg Maritime a strong point of departure for further growth in the region.

Activities in South America, with Brazil in the lead, continue to be buoyant. Meanwhile, activity is also picking up for European shipowners and shipyards. To serve the German market as well as possible, Kongsberg Maritime has opened a new office in Hamburg to handle the offshore and merchant fleet markets.

Simrad has invested considerable efforts in boosting sales to European and American boatbuilders. In 2004, we fortified our efforts among boatbuilders in the USA and Europe.

Research and development – innovative and reliable solutions

Several new products were launched in 2004. Current products were improved and new functionalities added. Examples include:

- New integrated bridge design for offshore and the merchant marine
- New dynamic positioning systems: cPos and cJoy
- New radar-based Level Gauging System (measurement systems for cargo tankers)
- New radar-positioning system: RADius
- Introduction of wireless technology for yacht instruments: Remote Vision

The markets

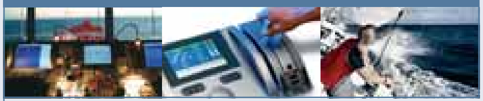
Orders for tankers and dry cargo carriers were at a high level again in 2004, stepping up the pace of activity in Marine Automation. The investment level in Offshore and Subsea picked up in the latter half of the year. Geographically speaking, we have thus experienced growing activity in both the Far East and in Europe.

However, the investment level remained low in the fisheries, and competition has grown keener among suppliers of yacht instrumentation. This forced us to implement economisation measures in 2004, and they are expected to filter through with full effect in 2005. Meanwhile, Kongsberg Maritime will continue its programmes to adapt Simrad to changing market conditions. The acquisition of B&G has lived up to our expectations and helped Simrad achieve a more distinct position in respect of larger sailboats and regatta boats.

Torfinn Kildal
President

Description of business activities

Kongsberg Maritime



Offshore & Merchant Marine

- Dynamic Positioning & Navigation
- Marine Automation
- Process Automation
- Hydroacoustics
- Satellite Positioning, AIS
- Marine IT

Yachting & Fishery (Simrad)

- Marine Electronics (autosteering, hydroacoustics, navigation, communication)

Key figures (MNOK)	*2004*	*2003*	*2002*	*2001*
Operating revenues	3 638	3 470	3 742	3 689
EBITA	254	297	298	283
EBIT	172	211	224	214
Backlog of orders	1 673	1 463	1 322	1 455
Number of employees	2 392	2 432	2 425	2 373

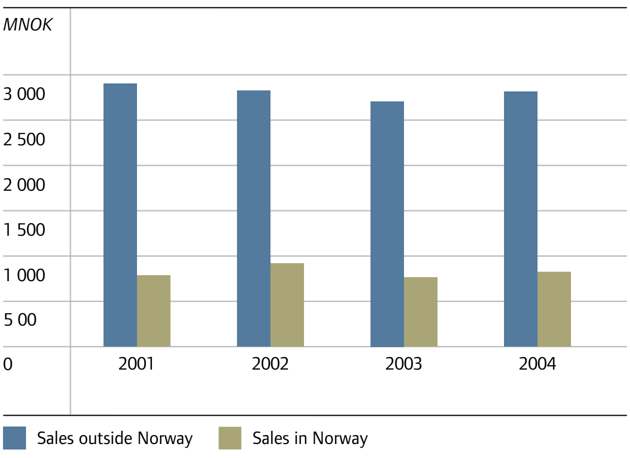
Kongsberg Maritime is among the world's leading companies in advanced maritime electronics. The main products are system solutions for navigation, monitoring and control of all types of vessels. Three brand names are conspicuous: Simrad, which is used in the yachting, fisheries and coastal fleet markets, B&G which targets the yachting market exclusively, and Kongsberg, which is used on the offshore market and the merchant vessel market. The products are mainly based on the following technologies: dynamic positioning, marine automation, navigation, hydroacoustics, simulation, communication and autosteering.

There was a good influx of new orders in 2004, especially from the shipbuilding industry in South Korea and China.

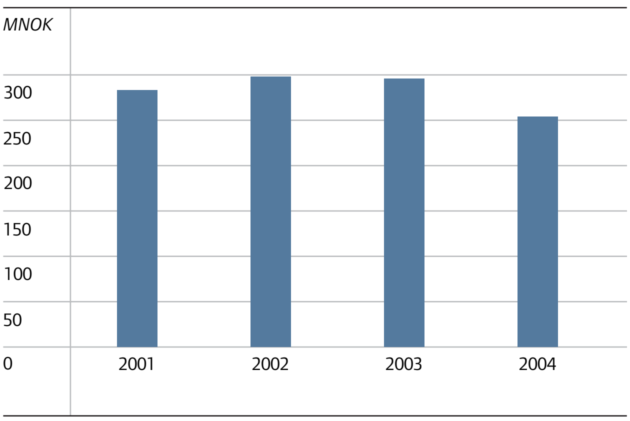
Operating revenues added up to MNOK 3 638 in 2004, compared with MNOK 3 470 the year before. Exports and activities outside Norway generated MNOK 2 816 of that amount. The corresponding figure for 2003 was MNOK 2 707. The business area accounted for 58 per cent of the Group's total operating revenues.

Kongsberg Maritime has 2 392 employees in 22 countries. The business area consists of two main segments: **Offshore & Merchant Marine** and **Yachting & Fishery.**

Operating revenues



EBITA



Highlights

Bid for Kongsberg Maritime

The Board of Directors decided to reject the bid. For more details, see page 12.

Contract for MNOK 96 relating to steering systems for LNG tankers

Kongsberg Maritime has received orders for steering systems for seven LNG tankers (LNG = Liquefied Natural Gas). The total value of the orders is MNOK 96; delivery is scheduled to take place from late 2004 and to early 2005. The vessels will be built by Samsung Heavy Industries and Daewoo Shipbuilding and Marine Engineering in South Korea.

Strong influx of new orders for Offshore & Merchant Marine

New orders from shipyards increased substantially in 2004, particularly from shipyards in South Korea and China. New orders from shipyards in the two Asian countries increased by 42 per cent relative to 2003. The influx of orders from European shipyards increased as well.

MNOK 40 contract with Statoil

Kongsberg Maritime concluded a contract with Statoil for upgrading the safety and automation systems on the production ship *Norne*. The contract is valued at MNOK 40 and is part of Kongsberg Maritime's long-term collaboration with Statoil, which also encompasses operations, maintenance and modifications on Statfjord A, B and C, Heidrun and Åsgard A and B.

Contract with Fugro for HUGIN 3000

A contract was signed with Fugro for the delivery of a HUGIN 3000 Autonomous Underwater Vehicle (AUV). The vessel will be delivered and tested before the end of 2004, and will be available for use early in 2005.

Simrad AS acquitted

The Horten District Court acquitted Simrad AS and two Simrad employees on all counts in a lawsuit filed by Scanmar AS in Åsgårdstrand. Simrad and the two employees were alleged to have acted in contravention of sound business practice. The decision has been appealed.

Offshore & Merchant Marine

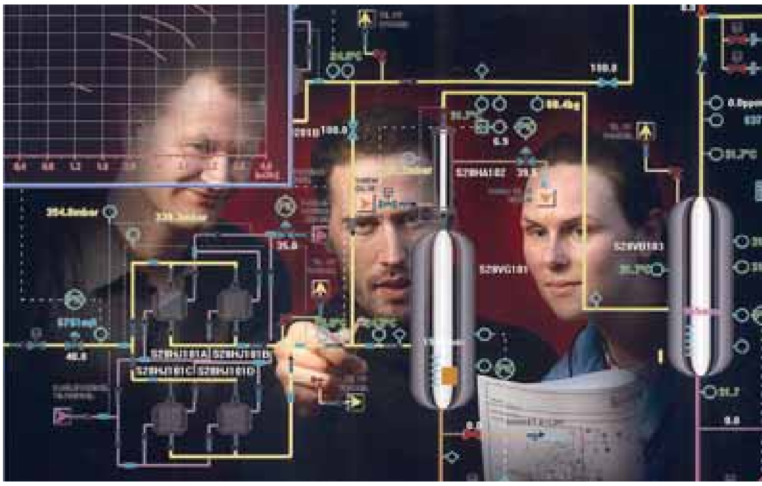
Key figures (MNOK)	*2004*	*2003*	*2002*	*2001*
Operating revenues	2 799	2 622	2 963	2 819
EBITA	246	253	254	249
EBIT	179	180	191	192
Backlog of orders	1 622	1 397	1 259	1 340
Number of employees	1 710	1 646	1 731	1 640

Offshore & Merchant Marine is the largest segment, accounting for 75 per cent of Kongsberg Maritime's operating revenues in 2004.

Dynamic Positioning Systems for offshore vessels have been successful products for KONGSBERG for many years. Dynamic positioning is the term used for a steering system that makes it possible to keep a vessel in the same position under demanding weather conditions. This is accomplished through advanced control of the propellers, rudder and thrusters that use satellites and/or fixed points on the seabed and on the installation itself. The systems are used extensively on supply ships and floating oil installations. Initially developed for activities in the North Sea, this market has gradually become international, including the Gulf of Mexico and Brazil, as well as West Africa. KONGSBERG enjoys a leading position in this market, and the market is expected to grow in future.

Dynamic positioning
Dynamic positioning from KONGSBERG makes maritime operations possible even under extreme weather conditions.

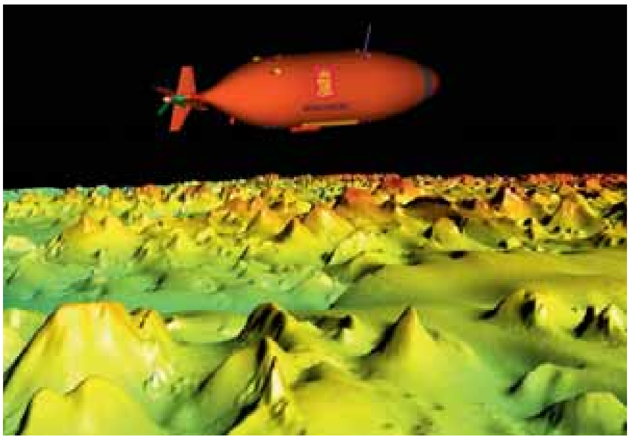
Automation and control systems for merchant vessels encompass systems for navigation, monitoring and the control of engines, cargo and propulsion. Kongsberg is among the world's foremost suppliers, and can supply advanced integrated system solutions for large merchant vessels. In recent years, the demand for tonnage has brought about a boom in orders, especially for shipyards in South Korea and China, where Kongsberg has a strong position. Kongsberg's strong presence in South Korea is a significant factor for the good influx of new orders. Since 2000, the Group has concentrated on automation and steering systems for gas carriers (LNG = Liquefied Natural Gas). This market experienced a high level of activity once again in 2004, with many new orders. Simulators and training systems are also available for most of the system products.



Automation and control systems
Automation and control systems from Kongsberg ensure safe steering of sophisticated gas tankers.

Kongsberg supplies **process control** products for the offshore industry. For example, Kongsberg has delivered systems for several of Statoil's production rigs in the North Sea. We are in the final phase of supplying systems to the Kristin platform.

Process control
A process control system from Kongsberg ensures effective production on the Kristin platform.



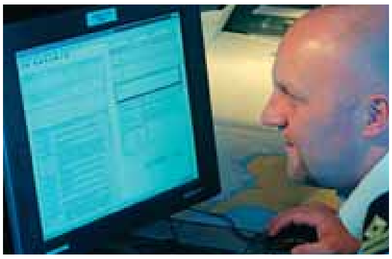
Hydroacoustics is a core technology for KONGSBERG. With its long traditions in applied hydroacoustics, KONGSBERG has developed a number of high-technology products for seabed surveying, and subsea communication and positioning. KONGSBERG has developed a new generation of multibeam echosounders. The first system was delivered early in 2004. The same technology and expertise go into sonars. Sonars of various types have been developed and supplied to naval services in many countries. In 2004, KONGSBERG delivered and installed surveillance systems for underwater applications to several corners of the world. The non-tethered autonomous underwater vehicle HUGIN is also part of the Group's range of products.

Hydroacoustics
With hydroacoustic equipment from KONGSBERG, it is possible to take a 'snapshot' of the seabed using sound waves.

AIS (Automatic Identification System) is an automatic system for recording data on vessel identification, position, movement and cargo. The information is conveyed to other vessels located nearby and to vessel traffic monitoring centres onshore. In 2003 and 2004, mobile units were installed on board vessels, and delivered to governments and states at several locations around the world to help them build up land-based infrastructure for monitoring their own territorial waters based on AIS. The international maritime authorities now require AIS on all larger vessels, and the EU has decided that land-based AIS infrastructure is to be operative by the end of 2007.

AIS
AIS infrastructure can operate under extreme weather and topographical conditions. Here we see an example of an installation that monitors neighbouring coastal areas.

Marine IT is a target area. More stringent safety standards and new international standards are generating a need for more IT-based solutions for ships and vessel traffic. For the time being, KONGSBERG is focusing on three product areas: simulator systems for efficient training and further education, systems for monitoring onboard systems on ships as well as vessel traffic (VTMIS: Vessel Traffic Management and Information System) and systems for fleet and ship administration, including a newly developed electronic log. The market is expected to grow in future.



IT-based solutions
A log system from KONGSBERG provides better order and control.

SIMRAD
Equipment from SIMRAD on board a professional sailboat.

Yachting & Fishery

Key figures (MNOK)	*2004*	*2003*	*2002*	*2001*
Operating revenues	905	896	815	940
EBITA	8	44	44	34
EBIT	(7)	31	33	22
Number of employees	682	786	694	733

SIMRAD makes systems for navigation, autosteering, communication and fish finding for the fisheries and yachting markets as well as for the coastal fleet. Product development and production take place at SIMRAD's factories in Horten, Egersund, Denmark and the United Kingdom, and the products are sold the world over. SIMRAD has its own sales and distribution companies in Europe and America. In the yachting market, SIMRAD concentrates on vessels larger than 30 feet. In recent years, considerable efforts have been invested in product development and design. In 2003, KONGSBERG acquired the company B&G, a market leader in electronic instrumentation for professional sailing. The market for yacht electronics is affected by seasonal fluctuations, frequent changes of models, and the general economic situation. After several years of decline, the market now appears to be picking up again. SIMRAD has seen many years of success in the fisheries market with its sonar-based fish finding and trawling systems. This applies to the fishing fleet in Europe and in other parts of the world. The market for fishing fleet electronics is largely governed by the income situation in the fisheries industry. While it is difficult to predict short-term market trends, the global market is expected to remain stable over time.

Growing focus on safety at sea

Our customers can count on us to give them the best and safest solutions.

Ole Gunnar Hvamb (left) – Executive Vice President, Dynamic Positioning & Navigation – Kongsberg Maritime and
Nils E. Standal – Executive Vice President, Process Automation – Kongsberg Maritime

Loss of control in difficult, demanding waters can have serious consequences. Therefore, good safety systems are given high priority in shipping and in the oil and gas sector. "Pursuant to international safety standards, we have developed safety systems that safeguard people, the environment and equipment at sea", says Nils E. Standal of Kongsberg Maritime.

Controlling and coordinating operations on a production vessel or an oil platform call for large, highly sophisticated automation systems. The process automation people at Kongsberg Maritime have developed a computer-based safety system to guard against the consequences of faulty equipment, involuntary disruption of production, oil spills or personal injuries. The system has been sold to Statoil's oil platforms, Heidrum, Statfjord, Åsgård and Kristin, and the production vessel *Norne*, in addition to a production vessel in China and one in the United Kingdom. In addition to the safety system, Kongsberg Maritime has also supplied the O&G production control system.

Protecting people, the environment and equipment at sea

"Our safety systems generally consist of three different parts: One that shuts down production and protects assets (PSD – Process Shut Down) if necessary, an emergency shut-down system (ESD) that kicks in if there is danger to the people on board a production ship or platform, and a third system that sounds an alarm in the event of fire and/or gas leaks", explains Standal, head of process automation at Kongsberg Maritime.

"All systems comply with international safety standards, and are approved by the authorities and different classification societies. Moreover, procedures and the installation itself must be approved for each individual delivery", adds Standal.

Commercialising government requirements

Kongsberg Maritime has always placed heavy emphasis on safety. The development of increasingly better, safer products and systems is a basic driving force behind its technology and product development. In addition to the Group's own safety philosophy, international standards and certification requirements posed by the authorities and the IMO (International Maritime Organisation) have encouraged the development of ever better safety solutions at sea. "International standards have also contributed to the development of new safety improvement products", Nils Standal continues.

One example is the AIS (Automatic Identification System). Initially developed as an anti-collision system for vessel traffic, it enables a vessel to identify and monitor the movements of other vessels. The AIS system has now become an important tool for nations' monitoring of vessels carrying hazardous cargo, for example.

The IMO requires that all vessels of more than 300 metric tonnes carry an AIS as from 1 July 2004. This opens a vast market. In 2004, Kongsberg Maritime won a contract with the Norwegian National Coastal Administration for a nation-wide AIS network. In upcoming years, about 150 nations will be putting AIS infrastructure into place to comply with the international standards.

Another example is the maritime black box. According to the IMO standard, 21 000 vessels are to have installed black boxes by 2010, opening a huge market for KONGSBERG's Maritime Black Box.

Keeping a vessel in a constant position

Kongsberg Maritime's dynamic positioning (DP) system made its market breakthrough in the mid-1970s. DP is KONGSBERG's most successful and widely-recognised product ever. Nearly 1500 DP systems have been sold thus far, and the technology was named the 20th century's second most important engineering feat in Norway.

Dynamic positioning is a control system that keeps vessels in a constant position, independent of wind, waves and ocean currents. "One typical area of application involves the supply vessels used for oil and gas production. A collision between such a vessel and an oil platform could be serious. A dynamic positioning system keeps a vessel at a safe and correct distance from the platform", points out Ole Gunnar Hvamb, head of dynamic positioning and navigation at Kongsberg Maritime.

Today, DP is used on a wide variety of vessels: drilling and production vessels, oil and gas tankers that load from buoys, dredge vessels, diver and supply vessels, vessels for cable and pipelaying in deep water, and cruise ships that are unable to drop anchor owing to vulnerable coral reefs.

The Full Picture

Kongsberg Maritime has developed numerous products and systems to ensure safety at sea. "We offer a full range of solutions and systems. By integrating our products and safety systems, we give customers the advantage of having more data than any single product or system can offer", underlines Standal. Combined with our knowledge, capability and experience in this field, we offer our customers 'the full picture', in accordance with Kongsberg Maritime's mission statement (see box). "Our customers can count on us to give them the best and safest solutions", concludes Ole Gunnar Hvamb.

FACTS

- Safety at sea is a rapidly growing market, encompassing Fire & Gas, Emergency Shut Down and Process Shut Down.
- Kongsberg Maritime delivers a full range of automation. Integrated systems give our customers the advantage of getting more data, easier logistics and one contact point with expertise in all the onboard systems.

When you're in deep water, you want advice from people you know

Kongsberg Maritime has more than 50 years' experience of designing and installing subsea systems. Every single day, the company's engineers solve problems, and help devise and shape profitable business opportunities for their customers.

"We have been involved in numerous types of marine challenges, and built up profound, in-depth capabilities", points out Rolf Arne Klepaker, executive vice president, Hydroacoustics, Kongsberg Maritime. "We know what is critical for a system to work."

Cooperation and customer proximity are important elements in the development of Kongsberg Maritime's organisation and products. The company's philosophy is always to use the most appropriate technologies and to focus on customers' needs. Consequently, Kongsberg Maritime invests considerable resources in staying at the forefront of technological developments by allocating ample funding for research and development. By the same token, emphasis is attached to maintaining and developing a strong presence throughout the world wherever there are marine oil and gas operations. Maintaining a local presence is essential. Having a world-wide customer support organisation ensures that Kongsberg Maritime can respond quickly whenever and wherever the need arises.

Involved every step of the way

Kongsberg Maritime is involved in every aspect of the offshore industry: exploration, drilling, production and maintenance. With operations in 22 countries, Kongsberg Maritime can follow-up its customers closely all over the world.

Exploration

Kongsberg Maritime supplies acoustic instruments and systems, including single- and multi-beam echosounders and acoustic imaging sonars for seabed surveys. These instruments transmit and receive sound waves through water, then computers are used to produce an image of the seabed. Sonars and echosounders can also be placed on remotely controlled underwater vehicles that operate near the seabed to achieve high quality and accuracy when surveys are made in deep water.

For example, along with Statoil and the Norwegian Defence Research Establishment, Kongsberg Maritime has developed an untethered Autonomous Underwater Vehicle (HUGIN 3000) to improve the efficiency of such operations.

"The HUGIN 3000 can be programmed to cover an area with a high degree of precision at 4 knots for up to 50 hours and down to depths of 3 000 metres. On the mother ship, acoustic communication can be used to study an accurate, high-resolution image of the seabed in real time", explains Klepaker. The system has been used by a number of oil companies since 1998. Kongsberg Maritime recently received an order for a new version of the HUGIN that will be equipped to operate at significantly greater depths.

Drilling and production

It would be impossible to position drilling rigs, drilling vessels, support vessels and buoy loaders without dynamic positioning. Kongsberg Maritime has products for dynamic positioning, the monitoring of anchor systems, and subsea and surface position reference systems.

Kongsberg Maritime serves customers in the production phase as well, with equipment and instrumentation for monitoring, control and steering, both on production platforms and vessels. The company also makes emergency shut-down systems designed to prevent oil well 'blow outs'.

"Open dialogue with Kongsberg Maritime is the key to good cooperation", states Trygve Simlenes of Statoil, project manager for Statfjord Late Phase. "We enjoy mutual trust. Without it, administration of the projects would have been cumbersome and costly." Kongsberg Maritime has earned a reputation as a reliable supplier. Customers can depend on the organisation, i.e. that products and solutions will work, and that every new generation of products will be based on the preceding one.

FACTS AND EXPLANATIONS

The market

- A large and growing share of the world's oil and gas production is taking place at sea.
- A large part of the activity is taking place at very great depths.
- New records will be set in terms of volume, value and technical levels in the years ahead.
- 70 per cent more wells and production wells are scheduled to be drilled by 2008.

Explanations

Dynamic positioning means that computers ensure that a vessel maintains its exact position relative to the seabed or to another vessel, even in bad weather. The system is based on data from satellites and transmitters on the seabed, as well as on wave and wind measurements. Over the past 25 years, Kongsberg Maritime has delivered more than 800 such systems.

A *position reference system* can determine the position of an object, for example, a vessel. The position is measured either relative to another known position, e.g. a platform, or as a global position, e.g. GPS. Subsea systems transmit and measure sound waves through water in the same way as echosounders.

"We have been involved in numerous types of marine challenges, and built up profound, in-depth capabilities."

Rolf Arne Klepaker – Executive Vice President, Hydroacoustics – Kongsberg Maritime

Kongsberg Defence & Aerospace

Tom Gerhardsen
President
Kongsberg Defence & Aerospace

The President

New missile right on track
The NSM programme's firing test in June was a success. The missile flew 150 km and completed several manoeuvres that bear witness to the high quality of the development work. While more development work and tests still remain, verification was essential. We also became aware that the development phase of the programme would be more expensive than previously anticipated, so we had to set aside another MNOK 150 to cover the rest of the programme. In December 2004, we were awarded a 'start-up' contract with the Norwegian Armed Forces' Logistics Organisation for the production of the new Naval Strike Missile. The missile will have a significant market potential in Norway and abroad.

Added focus on equipment for international operations
The war in Iraq and the fight against terror pose new requirements for weapons systems. This trend is first and foremost being driven by the USA. Kongsberg Defence & Aerospace has developed a weapons station for the Norwegian and American armies for use on armoured personnel carriers where the danger of snipers is high. Deliveries are in progress and a number of units are deployed in Iraq. In June 2004, Kongsberg Defence & Aerospace signed a contract to further develop the weapons station. It will result in an upgraded version for the final deliveries under the current framework agreement. Several new customers have signalled interest in the weapons station, and a small number of units were delivered to the Australian Army in 2004.

The restructuring of the Norway's Armed Forces
Although extensive restructuring is taking place in Norway's Armed Forces, cost-cutting measures are progressing slowly, and there are delays in the funding being made available for investments. Kongsberg Defence & Aerospace is under contract to deliver equipment for the new Norwegian frigates (Fridtjof Nansen Class) and missile torpedo boats (Skjold Class), in addition to starting preparations for NSM production. For the next two years, however, investment capital will mainly be tied up in existing programmes, making it difficult to take new initiatives.

Offset arrangements continue to be important
Offset arrangements still play an important role in the defence market. Kongsberg Defence & Aerospace encounters protectionism or offset requirements in most countries. A significant 'door opener' for Kongsberg Defence & Aerospace is that the Norwegian authorities pose the same offset requirements for Norway's major procurements of new materiel. Kongsberg Defence & Aerospace must maintain the competitiveness of its products at all times. However, it is difficult to gain access to markets outside Norway unless the Norwegian authorities remain steadfast to the offset arrangements in earlier contracts and follow up with similar arrangements in new contracts. As regards Norway's potential procurement of new fighter craft, adequate offset arrangements have not yet been formulated, but it is assumed that there will be industrial participation on the part of Norway. Although a few possibilities are being considered, it has been very difficult for Norwegian industry to get any concrete assurances thus far.

More self-financed development
Up to now, Kongsberg Defence & Aerospace's product development has mainly been based on contracts entailing customer-funded development. There is currently a tendency in Norway towards less willingness to pay for development. This means that Kongsberg Defence & Aerospace will have to spend more of its own resources on the development of new products. Kongsberg Defence & Aerospace's main products have been developed on the basis of Norway's needs and in close collaboration with Norwegian users. This has resulted in products with a high cost/benefit ratio, and Norwegian users have been important references for foreign sales. The use of Norwegian equipment on Norwegian operations abroad has provided worthwhile experience and been good advertising.

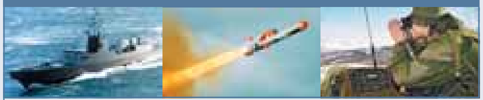
Challenges to profitability
New orders added up to MNOK 2 000 in 2004, a decline from 2003. One of the main explanations is the delayed start-up of NSM (Naval Strike Missile) deliveries, which had been scheduled to begin in 2004. The development programme is lasting longer than originally planned. The decline in operating revenues is largely due to slower activity in the Missiles segment. The result has also been affected by the expensing of the NSM programme. Profitability is as planned in the other segments. Communication and Weapons Stations activities have shown a distinct improvement in profitability since 2003.

The volume of Kongsberg Defence & Aerospace's development work has diminished somewhat over the past two years and it has been necessary to downsize by 148 man-years of labour. We have made changes in project implementation and coordinated the administrative systems to pave the way for enhanced profitability in the years ahead. Our profitability is largely contingent on our ability to win export contracts.

Tom Gerhardsen
President

Description of business activities

Kongsberg Defence & Aerospace



Defence & Aerospace

- Missiles & Space
- Naval Systems
- Land Systems & Communications
- Aircraft & Air Defence Systems
- Dynamic Systems

Key figures (MNOK)	*2004*	*2003*	*2002*	*2001*
Operating revenues	2 704	3 084	3 084	2 388
EBITA	(43)	93	178	138
EBIT	(49)	87	171	131
Backlog of orders	3 648	4 352	3 729	4 852
Number of employees	1 533	1 650	1 649	1 499

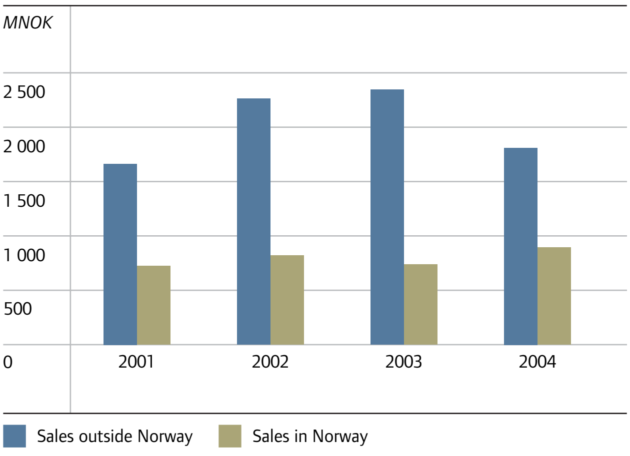
KONGSBERG has long traditions of developing and manufacturing sophisticated systems in close collaboration with the Norwegian Armed Forces. KONGSBERG's anti-ship missiles, command and weapons control systems and communication systems have also proven competitive on the export market. Alliances with major foreign defence enterprises are a key part of the business area's international marketing strategy.

The major projects are on schedule. A successful development test shot of the Naval Strike Missile (NSM) was fired in June 2004. The test results confirm that important features of the missile function as expected, and that the development programme can be concluded in 2006.

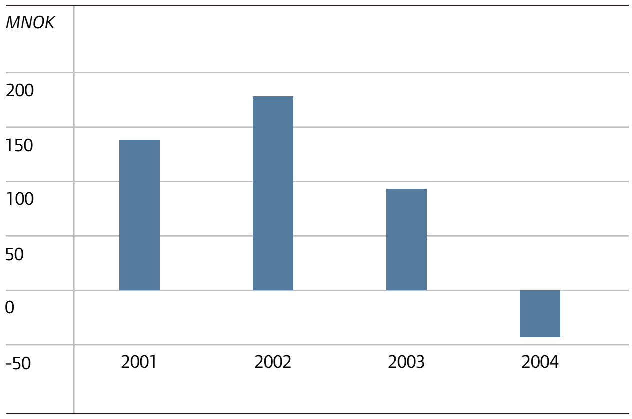
The business area posted operating revenues of MNOK 2 704 in 2004, compared with MNOK 3 084 in 2003. The EBIT was negative, MNOK -49, compared with a surplus of MNOK 87 in 2003. The backlog of orders added up to MNOK 3 648 at year-end 2004, compared with MNOK 4 352 in 2003. Of the new orders received in 2004, 64 per cent are destined for the export market. At year-end 2004, the business area had 1 533 employees.

The profit for 2004 was affected by an additional expense of MNOK 150 related to the prolongation of the development period for the NSM.

Operating revenues



EBITA



Highlights

Successful testing of the new Naval Strike Missile (NSM)
The Naval Strike Missile (NSM) completed a development test firing successfully in June. The test results confirm that important features of the missile work as expected, reducing project risk. See also page 12 and page 42.

New 10-year cooperation agreement with the Raytheon Corporation
A new 10-year cooperation agreement was signed with the Raytheon Corporation. The background is an agreement from 1996 for the sale of the HAWK anti-aircraft system and AMRAAM anti-aircraft systems on the international market. The agreement offers a tremendous potential for future deliveries through air defence cooperation. See also page 12 and page 45.

Two major communication contracts
Kongsberg Defence Communications AS concluded contracts with the Saudi Arabian authorities to supply communications equipment valued at nearly MNOK 130, and a contract worth MNOK 140 was concluded for the delivery of a communication system to Romania.

New contracts for weapons control systems
Kongsberg Protech concluded a MNOK 175 contract with General Dynamics Land Systems for the delivery of weapons control systems for armoured personnel carriers for the US Army. The contract is part of a framework contract signed earlier. For more details, see page 12.

More Penguin missiles for the Royal Australian Navy
A contract valued at MNOK 70 was signed with the Australian Department of Defence for more Penguin missiles for the Royal Australian Navy. This contract is piggybacked on two earlier missile contracts that were signed in 1998 and 1999, respectively, bringing the total scope of Penguin deliveries to Australia to roughly MNOK 950.

Framework contract with Honeywell STI
Kongsberg Satellite Services in Tromsø has signed a framework contract with Honeywell STI of the US for the downloading of data from NASA satellites at the downloading station on Svalbard. The contract is valued at MNOK 140 over a five-year period.

Contract with the Norwegian Armed Forces' Logistics Organisation
Kongsberg has signed a contract with the Norwegian Armed Forces' Logistics Organisation for deliveries of course and training equipment for the part of the integrated weapons system Kongsberg is making for delivery to the new Norwegian frigates. The contract is valued at MNOK 54.

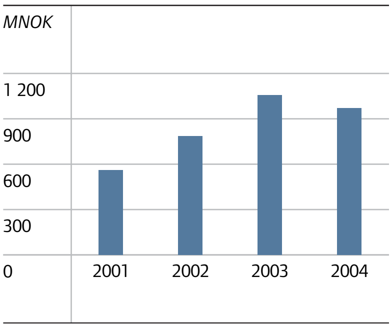
Defence & Aerospace

Land Systems & Communications

The segment's activities include tactical radio and communications systems, and command, control and information systems at the national and international levels. Significant communications contracts were signed in 2004 with Saudi Arabia and Romania, and major contracts are currently being concluded in Hungary and the Middle East. Deliveries of command, control and information systems to the Norwegian Army continued. The system will give users a new tactical leadership tool as well as a state-of-the-art fire control system for artillery. The tactical communications segment operates on the export market exclusively, inevitably in competition with large international companies. Considerable resources have been invested in developing new product solutions.

Communications from KONGSBERG provide fast, reliable command information.

Operating revenues
Land Systems & Communications

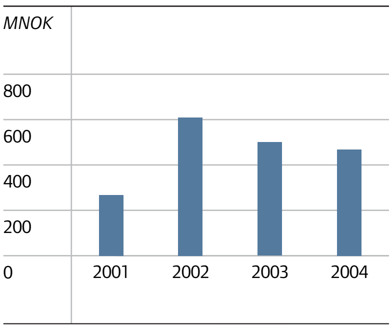


Dynamic Systems

The main product is the weapons control systems for armoured personnel carriers (RWS – Remote Weapon Station). The RWS is an advanced weapons control system for armoured vehicles.
It controls the weapon in a technically advanced manner and with great accuracy even at high speed over difficult terrain. The system is operated from a protected position inside the vehicle. KONGSBERG currently has contracts for deliveries to the Norwegian Armed Forces, the US, Australia and Finland. The framework agreement for deliveries to the US Armed Forces is valued at NOK 2.0 billion. Thus far, systems have been supplied for more than 700 armoured personnel carriers. Several countries are planning to acquire similar systems.

Control systems
KONGSBERG's weapons control system is highly advanced, ensuring accuracy from a protected position.

Operating revenues
Dynamic Systems

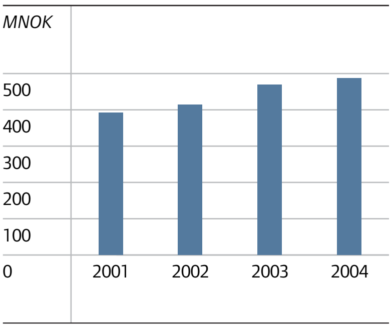


Naval Systems
Launching of the *Fridtjof Nansen*, the first of altogether five frigates. Weapons systems testing has begun and the frigate is scheduled for maritime testing in autumn 2005.

Naval Systems

The Naval Systems segment delivers command and weapons control systems to naval vessels. The largest programme is a contract for important sub-systems for the command and weapons control system for the new Norwegian frigates. The first complete system was delivered in 2004. The system is being supplied in collaboration with Lockheed Martin, one of the world's leading defence suppliers. The collaboration opens possibilities for contracts with other countries in future. A command and weapons control system has been developed for and delivered to Norway's Ula Class submarines. The system is currently being delivered to German and Italian submarines. The contracts also include deliveries to national, land-based facilities for simulator training. The command and weapons control system for Norway's Hauk Class MTBs is being developed and manufactured in collaboration with DCNI of France. The system will serve as the basis for deliveries to the new Norwegian Skjold Class MTBs. 'The Minesniper', a product designed to destroy sea mines, has been developed for and sold to the Norwegian and Spanish navies.

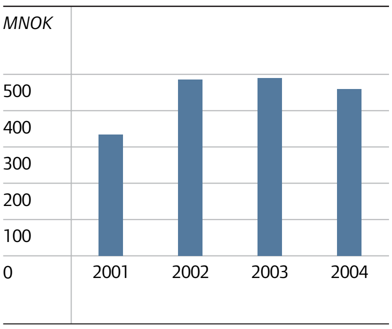
Operating revenues
Naval Systems



Aircraft & Air Defence Systems

This segment includes anti-aircraft systems, tactical training systems and information systems for aircraft. Along with the Norwegian Air Force and Raytheon of the US, Kongsberg has developed a mobile anti-aircraft system that represents a highly efficient, competitive solution on the international market. Kongsberg has formed a strategic alliance with Raytheon. Kongsberg's most important contributions in this context are software-based command and control solutions. Kongsberg and Raytheon have signed an updated, extended agreement to cooperate on anti-aircraft systems for 10 more years. Most of the contracts have been signed in the past four years. The agreement's potential is believed to have increased significantly as a result of the prolongation, as it now also encompasses the US market.

Operating revenues
Aircraft & Air Defence Systems



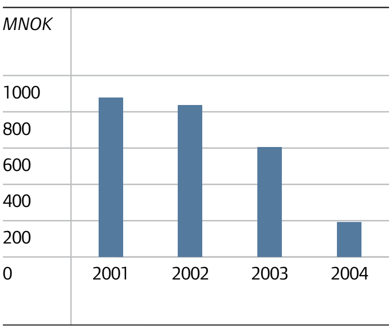
Aircraft & Air Defence Systems
Norwegian Air Defence soldiers in the new Common Tactical Operation Center (CTOC). CTOC is a network-centric air defence command post where the operator determines the task and loads the appropriate software.

Missiles & Space

The segment develops and manufactures anti-ship missiles. The Penguin missile has been operative in Norway and several other countries' naval defence systems for years. It is known for its excellent seeking capabilities and its manoeuvrability adapted to Norwegian coastal waters. The Penguin is still one of the world's leading anti-ship missiles; it can be deployed on helicopters, aircraft and vessels. New orders were low in 2004, but several contract prospects are being explored. The development programme for the new NSM is scheduled for completion in 2006. The surface and shape of the NSM make it hard to detect by radar. The imaging infrared seeker employs the world's most advanced seeker technology. The NSM will be one of the main weapons deployed on the new Norwegian frigates and MTBs. Several countries have signalled interest in the new missile.

Kongsberg Defence & Aerospace is currently Norway's largest supplier to ESA, the European Space Agency. The business area's aerospace activities are divided between Kongsberg and Tromsø.

Operating revenues
Missiles & Space



Missiles & Space
At Mont Coudon in the south of France, the NSM telemetry team monitored the missile and reported on its status prior to the sixth development shot.

We will satisfy all our customers' specifications, that is, those that are contractual and a few more.

Gunnar Pedersen (left) – Project Manager, NSM – Kongsberg Defence & Aerospace and
Arvid Askeland – Firing Leader, NSM – Kongsberg Defence & Aerospace

Successful testing of the Naval Strike Missile (NSM)

At 11:06 a.m. on 15 June 2004, the sixth development test shot was fired. Nine minutes and 13 seconds later, the NSM (Naval Strike Missile) made a controlled entry into the sea after a flight of nearly 150 km. This marked the first time the missile had completed the entire advanced flight path at the prescribed altitude and velocity.

The test site was L'ile de Levant, the French Navy's artillery range for torpedoes and anti-ship missiles outside Toulon on the French Mediterranean coast. The employees on the artillery range joined in the rejoicing. Rarely had they seen such an absolutely flawless test firing!

Valuable information

The purpose of the sixth development test shot was to make a long flight to acquire as much data as possible about the missile's flying characteristics, vibrations and temperature in flight. Seeker functionality was also being tested. "The results were very good. The missile made altitude and velocity adjustments, and turned with various turning radii that gave us a lot of information on its flight capabilities", points out Arvid Askeland, firing leader for the successful NSM test.

The analytical work is well underway. It will take quite some time to review the comprehensive volume of data that is now available. "We have never had so much data to review after a missile test before. Reviewing such large volumes of data calls for a lot of hard work and accuracy", continues Askeland.

Strong focus on the NSM tests

The development of the NSM is arguably one of Norway's most advanced development projects. Certain sub-systems have taken longer to develop than expected. This has delayed development of the missile by 12 to 18 months, and has cost MNOK 150. Development began in 1997 and is scheduled for completion in 2006. So far, six development test firings have been conducted

"We have never had so much data to review after a missile test before. Reviewing such large volumes of data calls for a lot of hard work and accuracy."

Arvid Askeland – Firing Leader, NSM,
Kongsberg Defence & Aerospace

"People tend to think that a test is proof that product development has been completed. But it doesn't work that way – tests are a step in development."

Gunnar Pedersen – Project Manager, NSM, Kongsberg Defence & Aerospace

to identify faults. Before starting the technical evaluation (technical firings), one more development test firing will be conducted in 2005.

That test will take place in public. The only disadvantage would be the adverse signals any setback would send to customers, the stock exchange and investors. "People tend to think that a test is proof that product development has been completed", points out Gunnar Pedersen, project manager, NSM, at Kongsberg Defence & Aerospace. "But it doesn't work that way. Tests are a step in development."

Right on track!

The test firing in France was a quantum leap forward. The engineers got answers to most of their questions and clear proof that the concept works. Although a lot of work remains, the technical and commercial risk inherent in the project has been reduced considerably. As a result of the test firing at L'ile de Levant, it has been possible to make detailed plans for bringing the development phase to a close, as well as for industrialisation and production, which will be combined into the same phase: "We will satisfy all our customers' specifications, that is, those that are contractual and a few more", confirms Pedersen. "We are slightly behind schedule but we are generally almost exactly where we should be."

In December 2004, KONGSBERG signed a transition contract with the Norwegian Armed Forces' Logistics Organisation for preparations and the start-up of production for the NSM. The contract marked a major milestone for KONGSBERG.

When the final history of the NSM is written, there is reason to believe that the following will be an important part of it: Although KONGSBERG is a small defence enterprise by international standards, through comprehensive expertise and determined efforts, it was the first to develop the next generation of anti-ship missiles, and it managed to do so at a low price. The weapons system was ready for delivery on time relative to the Norwegian Navy's acceptance of delivery on its new frigates, and the product was in considerable demand on the international market.

FACTS ABOUT NSM

The most advanced missile of its kind

In 1996, Kongsberg Defence & Aerospace concluded a contract valued at NOK 1.4 billion (NOK 1.6 billion 2004-NOK) with the Norwegian Navy for the development of a new Naval Strike Missile (NSM).

The NSM is a cruise missile, i.e. a drone aircraft with a long range and features that enable it to follow the terrain at high velocity and very low altitude. The missile is built of composite materials and has a surface and shape that make it very difficult to detect on radar. It is also passive, meaning it cannot be tapped, emits no signature and does not give off radiation when fired in a genuine combat situation.

The NSM is equipped with an infrared imaging seeker that represents the foremost seeker technology in the world today. IR technology has been a Norwegian speciality since the Norwegian Defence Research Establishment initiated research on the technology in the 1960s. Using GPS, inertial navigation and a laser altimeter, the missile knows exactly where it is. A hard disc filled with maps and a computer select the missile's flight path towards its goal. The final trajectory is unpredictable; during the flight the missile will continuously change directions randomly, making it exceedingly difficult to shoot down.

Kongsberg Defence & Aerospace is currently the manufacturer that has come furthest in developing the new generation of anti-ship missiles. The NSM is not an attempt to improve the features of older missiles, but an altogether new concept with features that will carry it 30 years into the future.

According to plan, the Navy will procure the NSM for the new frigates and high-speed missile torpedo boats. The recent change in Norway's defence strategy that will allow the frigates to operate as part of NATO forces on the high seas has made this weapon even more functional than when it was first ordered. A number of countries have expressed considerable interest in the NSM.

KONGSBERG has repeatedly shown that its systems can work together with other countries' systems.

Eirik Lie (left) – Chief Engineer Air Defence Systems – Kongsberg Defence & Aerospace and
Harald Ånnestad – Program Manager Air Defence – Kongsberg Defence & Aerospace

Raytheon cooperation takes off

Together with the renowned American defence supplier Raytheon, KONGSBERG is in the process of consolidating its position as the world leader in advanced anti-aircraft systems. More than eight years of cooperation and success have given the companies a taste for more.

Since the first cooperation agreement was signed in 1996, relations between Raytheon and KONGSBERG have become increasingly close. In February 2004, the partners signed a new 10-year contract. The cooperation agreement generally involves KONGSBERG supplying decision-making tools and command and control systems, while Raytheon supplies missiles, radars and other equipment for anti-aircraft systems.

The breakthrough

There was a major breakthrough for relations between Raytheon and KONGSBERG in 2004 when a contract was signed in connection with US Army's new SL-AMRAAM air defence programme. It marked the beginning of a totally new control system that the US Army will be using in the years to come. "The fact that the US Army, one of the world's most discerning customers, chose this system proves its potential for further exports", remarks Harald Ånnestad, programme manager, Air Defence at Kongsberg Defence & Aerospace. "Cooperating with Raytheon has opened new markets for us and our solutions throughout the world."

Dan L. Smith, vice president of the Raytheon Company and president of Raytheon Integrated Defence Systems, also praises his company's collaboration with Kongsberg Defence & Aerospace: "The cooperation agreement with KONGSBERG is one of the best strategic partnership agreements we have, which is why we have prolonged it until 2016."

Important exercises, technology and co-workers

One success factor behind the Group's extensive cooperation with Raytheon has been the valuable experience gained from international military exercises. "We have repeatedly shown that our systems can work together with other countries' systems painlessly. KONGSBERG's solutions are world-class, especially for exchanging information between several computer systems (inter-operability) and communication links (tactical data links)", explains Eirik Lie, chief engineer, Air Defence Systems. "However, world-class technology is just one prerequisite for working with Raytheon. The real success factor is knowledgeable and dedicated co-workers. Following tests and exercises in the US, I frequently get feedback from Raytheon, praising our people's ability and hard work", Ånnestad points out.

Major contracts

When the original agreement was signed with the world's leading anti-aircraft enterprise in 1996, KONGSBERG estimated that its interest had a potential value of about NOK 2 billion. Since 1996, the aggregate influx of new orders for KONGSBERG has added up to roughly NOK 1.8 billion, with two years still to go before expiry of the original agreement. Thus far, the agreement has brought KONGSBERG sales of about NOK 1.5 billion outside Norway.

Most of the contracts were signed in the past four years, including sales to five NATO states. The first contract after the agreement was concluded in 1996 was with the Greek Armed Forces and referred to the upgrading of HAWK missiles as from 1999. Since then, several prestigious and major new contracts have been signed.

"The potential will be even greater in the decade ahead. The market has been conservatively estimated at NOK 6 to 10 billion. Based on continued good cooperation with Raytheon, we aspire to secure large parts of those deliveries", concludes Ånnestad.

FACTS AND EXPLANATIONS

Contracts

- 1999 Contract with Greece for the HAWK anti-aircraft system.
- 2000 Contract with Spain for the Norwegian NASAMS anti-aircraft system.
- 2001 Contract with the US Marine Corps for the development of a command and control system.
- 2002 Contract with the Norwegian Air Force to upgrade to NASAMS II.
- 2003 Contract with Turkey for components for upgrading the command and control units for the HAWK air defence system.
- 2004 Contract with Raytheon for deliveries to the US Army.

Words and expressions

AMRAAM (Advanced Medium Range Air-to-Air Missile)
SL-AMRAAM (Surface Launched AMRAAM)
NASAMS (Norwegian Advanced Surface-to-Air Missile System).

Corporate governance at Kongsberg

Definition of the concept
Corporate governance deals with issues and principles linked to the distribution of roles between the governing bodies in an enterprise, and the responsibility and authority assigned to each of those bodies. Good corporate governance is characterised by responsible interaction between the owners, the Board and management, viewed in a long-term, value-adding perspective. It calls for effective collaboration between management and the Board, respect for the Group's other stakeholders, and open, honest communication with the communities in which the Group operates.

Treatment of the topic in 2004
Issues related to corporate governance were the subject of in-depth discussions by the Group's Board of Directors and management in 2003 and early 2004. A corporate policy was drawn up and adopted by the Board.

Kongsberg's Corporate Governance Policy
Kongsberg will comply with the 'Norwegian Recommendation for Corporate Governance' dated 7 December 2004. Kongsberg's compliance with and deviations, if any, from the Recommendation will be commented on and made available to stakeholders.

The following elements underpin Kongsberg's Corporate Governance Policy:
- Kongsberg will maintain open, reliable and relevant communication with the public about its business activities and conditions related to corporate governance.
- Kongsberg's Board of Directors will be autonomous and independent of the Group's management.
- Kongsberg will attach importance to avoiding conflicts of interest between the owners, the Board and management.
- Kongsberg will have a clear division of responsibilities between the Board and management.
- All shareholders will be treated equally.

The Norwegian Recommendation

View of the Recommendation
A Norwegian Recommendation (hereafter referred to as the Recommendation) for Corporate Governance was put forward on 7 December 2004. The Recommendation was drawn up by the Norwegian Shareholders' Association, the Norwegian Institute of Public Accountants, Eierforum (a forum representing Norway's largest institutional investors), the Norwegian Financial Services Association, the Norwegian Society of Financial Analysts, the Confederation of Norwegian Business and Industry, the Norwegian Pension Fund Association, the Oslo Stock Exchange and the Norwegian Mutual Fund Association. Kongsberg has chosen to follow the Recommendation. Any deviations from the Recommendation will be subject to comment.
See the Recommendation on the Oslo Stock Exchange site at http://www.oslobors.no/ob/cg. The following description is generally structured in accordance with the above-mentioned Recommendation. As recommended, more details are provided on the individual points. Point 11, 'Management and in-house procedures', is not covered by the Recommendation. It has nonetheless been included because it is considered crucial to Kongsberg's discussion on corporate governance.

1. Principles of corporate governance
The Group has drawn up a separate policy for corporate governance, and the Board has decided to follow the Norwegian Recommendation for Corporate Governance. The Group's compliance with and follow up of its own corporate Code of Ethics have been the subject of a thorough internal process. For more detailed comments, please see Kongsberg's Sustainability Report and the corporate website at www.kongsberg.com.

2. Object
"The object of Kongsberg Gruppen ASA is to engage in technological and industrial activities in the maritime, defence and related sectors. The Company may participate in and own other companies." These sentences appear in §3 of Kongsberg's Articles of Association. The Group's Articles of Association may be found on page 51 of the Annual Report and on the Group's website at www.kongsberg.com. The Group's objectives and main strategies are discussed on page 4.

3. Dividend policy and dividends

Equity

At 31 December 2004, consolidated equity came to MNOK 1 812, accounting for 30 per cent of total assets. This is considered satisfactory. The Board always considers the Group's need for financial strength in the light of its strategy and risk profile.

Dividend policy

The Group will consistently strive to achieve an annual dividend of approx. 30 per cent of the net profit. The Annual General Meeting (AGM) stipulates the annual dividend, based on a proposal from the Board. The proposal is the ceiling for what the AGM can adopt. A dividend of NOK 1.30 per share was paid for 2003, and the Board will propose to the 2005 AGM that a dividend of NOK 2.00 per share be paid for 2004. This constitutes a dividend of 162 per cent of the profit after tax. The Board proposes this dividend because the additional charge of MNOK 150 in connection with the NSM project had no any cash effect in 2004. Meanwhile, the Group has satisfactory financial strength.

Capital increases

The Board is not authorised to undertake share issues.

The Group conducted a MNOK 600 rights issue for shareholders in 1999, of which MNOK 300 involved the conversion of State debt. The Group has performed no private placement of shares, with the exception of a small share issue for the employees in 1996.

Purchase of treasury shares

The Annual General Meeting (AGM) can authorise the Board to purchase up to 10 per cent of the shares in Kongsberg. On 6 May 2004, the ordinary AGM authorised the Board to buy treasury shares for up to NOK 7 500 000. That is equivalent to 5 per cent of the share capital. The authorisation is renewable and will apply up until the next general meeting. The Board's acquisition of shares pursuant to this authorisation can be exercised only between a minimum price of NOK 50 per share and a maximum price of NOK 150 per share. At 31 December 2004, the Group owned a total of 131 122 shares, or 0.43 per cent of the total number of shares in the Group. The shares were purchased for the share scheme for employees, but can also be sold on the market. Offered to all employees at a discount, the shares are subject to a one-year lock-in period from the date of acquisition.

4. Equal treatment of shareholders and transactions between related parties

Class of shares

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

Trading in treasury shares

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

Transactions between related parties

In 2004, there were no transactions between the company and shareholders, directors, executive personnel, or those close to them, that can be described as significant transactions.

5. Freely negotiable

The shares are freely negotiable, with the exception of shares purchased by employees at a discount, see item 3 above. The Articles of Association place no restrictions on negotiability.

6. Annual General Meeting

By virtue of the Annual General Meeting (AGM), the shareholders are guaranteed participation in the Group's supreme governing body. The AGM adopts the Articles of Association. Shareholders representing at least 5 per cent of the shares can call for an extraordinary general meeting.

Convening letter

An Annual General Meeting (AGM) is ordinarily held by 1 June each year. The 2005 AGM is scheduled for 3 May. Notification is usually sent out three weeks in advance. This is one week earlier than the Act's minimum requirement (two weeks). It is considered important that the documents relevant to the agenda items contain all requisite information so that shareholders can take a position on all items up for discussion. The Group's Articles of Association state that the final deadline for registration cannot be less than five days prior to the date of the AGM. Efforts are made to set the deadline as close to the meeting date as possible. The Financial Calendar is published on the Internet and in the Group's annual report.

Participation

It is possible to register for the AGM by post, telefax or E-mail. The Board of Directors tries to pave the way for as many of the shareholders as possible to participate. Shareholders who are unable to attend are urged to assign their proxy, and proxies can now be linked to each individual item on the agenda. The Board, at least one member of the Nominating Committee, and the auditor will attend the AGM. Management is represented by the Chief Executive Officer and the Chief Financial Officer, at the very least. Last year's AGM was held on 6 May 2004. A total of 60.58 per cent of the aggregate share capital was represented.

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 paragraph stipulates that the Chairman of the Board will chair the AGMs. The CEO reviews the status of the Group.

7. Nominating Committee

"The Nominating Committee shall consist of three members who shall be shareholders or representatives of shareholders. Two shall be elected by the ordinary AGM. One shall be elected by the Board. The committee shall elect its own chair. The term of office is 2 years." The above-mentioned sentences are from §9 of Kongsberg's Articles of Association. At the AGM on 3 May 2005, a motion will be presented to amend the Articles of Association so that the AGM elects all members of the Nominating Committee.

The Nominating Committee works under instructions from the AGM. These instructions were last revised by the ordinary AGM on 6 May 2004. A new committee was elected by the ordinary AGM on 6 May 2004 and consists of:

- Morten M. Kallevig, deputy director general, Ministry of Trade and Industry
- Sverre Valvik, managing director, Arendals Fossekompani ASA
- Anne Grethe Dalane, human resources director, Yara International ASA

8. Board of Directors – composition and autonomy

The Board of Directors consists of eight members.

Election of the Board of Directors

The AGM elects the five shareholder-elected representatives to the Board. The Nominating Committee nominates candidates for shareholder-elected directorships prior to the election. The roster of nominations is sent to the shareholders along with the convening letter to the AGM. Decisions on the composition of the Board require a simple majority. The Norwegian State currently owns some 50 per cent of the shares, and could, in principle, control the election of the shareholder-elected directors. Three directors are elected directly by and from among the Group's employees. Directors are elected for two-year terms and can be re-elected.

Composition of the Board

It is essential that the Board as a whole be capable of dealing with Board work and the Group's main business activities. According to the Articles of Association, the Group shall have five to eight directors. At present, the Board consists of five external directors and three directors elected by and from among the Group's employees. The CEO is not a member of the Board of Directors. The Board is elected for a two-year term and elects its own chair. Christian Brinch was elected Chairman of the Board.

Changes in the Board in 2004

None of the directors was up for election in 2004. The term of office is two years. This means that all seats on the Board will be up for election in 2005.

The Board's autonomy

The Board considers itself autonomous and independent of the Group's executive management and main shareholders. There should be no conflicts of interest between owners, the Board, management and the Group's other stakeholders.

Directors' ownership of shares

Apart from the employee representatives, only the deputy chair, Benedicte Berg Schilbred, has shares in the Group. Her stake consists of 17 500 shares that are owned through the company Odd Berg AS.

9. Board work

Board responsibilities

The Board bears the ultimate responsibility for running the Group and supervising routine management and business activities. The Board primarily looks after the interests of all the shareholders, but is also responsible for the Group's other stakeholders. The Board's main tasks involve helping to draw up and adopting the Group's strategy, performing the requisite control functions and serving as an advisory body for executive management. These tasks are not constant. Their focus will depend on the Group's needs at any given time. The Board hires the CEO.

Rules of procedure for the Board of Directors

The Board's rules of procedure are extensive and were last revised on 18 February 2004. The rules cover the following points: convening letters to Board meetings, deadlines for convening letters, administrative preparations, Board meetings, Board decisions, keeping minutes, the Board's legal competence, and items of business, division of responsibilities between the Board and management, relations between subsidiaries and the parent company, disqualification, confidentiality and the obligation of professional secrecy, relationship to legislation, articles of association and rules of procedure. The Board of Directors can deviate from the rules of procedure in certain cases.

Instructions for executive management

There is a clear division of responsibilities between the Board and executive management. The Chairman of the Board is responsible for the directors' work being conducted in an efficient, correct manner and in accordance with the Board's responsibilities. The CEO is responsible for the Group's operational management. The Board has drawn up special instructions regarding executive management.

Internal control

The Group has no special unit for internal audits. Accounting controls are handled through different kinds of divisions of responsibilities, guidelines and approval routines. The Group's central accounting service bears overall responsibility for starting businesses and following up guidelines and principles. Inter-Group financial transactions are subject to special control systems and routines. Financial risk is offset using appropriate financial instruments. Financial risk management is handled by the Group's central financial service. The responsibility for the commercial content of contracts and agreements rests with the individual business areas.

Financial reporting
The directors receive monthly financial reports on the Group's economic and financial status.

Notice of meetings and discussion of items
The Board schedules regular meetings each year. Ordinarily, the Board meets 7 or 8 times a year. Additional meetings are convened on an *ad hoc* basis. The Board met 13 times in 2004. All directors receive regular information about the Group's operational and financial progress well in advance of the scheduled Board meetings. The directors also receive monthly operations reports. The Group's business plan, strategy and risk are regularly reviewed and evaluated by the Board. The directors are free to consult the Group's senior executives as needed. Ordinarily, the CEO proposes the agenda for Board meetings, and then the Chairman of the Board sets the agenda. In addition to the directors, Board meetings are attended by the CEO, CFO and General Counsel (secretary of the Board). Other participants are summoned as needed. The Board takes decisions of particular importance to the Group, including the approval of the annual and quarterly accounts, strategies and strategic plans, the approval of significant investments (usually those in excess of MNOK 30), and the approval of sizeable business acquisitions and disposals. New directors are briefed on the Group's current strategy and historical conditions related to its current situation.

Professional secrecy – communication between the Board and shareholders
The Board's proceedings and minutes are in principle confidential unless the Board decides otherwise or there is obviously no need for such treatment. This is pursuant to the rules of procedure for the Board of Directors.

Legal competence
The Board is bound by the rules regarding disqualification as they appear in §§ 6-27 of the Public Limited Companies Act. In 2004, there were no cases where a member of the Board of Directors had to disqualify him- or herself from discussions.

Use of Board Committees
The Board has considered appointing Board Committees. The use of a Nominating Committee is stipulated in the Group's Articles of Association. Beyond this, the Board has not found it expedient to use other types of committees. The justification for this is generally that all the directors are considered independent relative to the administration and principal shareholders, and that the CEO is not a member of the Board. Thus autonomy is not a problem, meaning there is no reason to use Board Committees.

The Board's self-evaluation
Each year, a special Board seminar is organised on topics related to the Group's activities and the Board's duties and working methods. The Board's working methods and interaction are discussed on an ongoing basis, especially at the Board seminars. In this connection, the Board also evaluates its efforts in terms of corporate governance. The evaluation is made available to the Nominating Committee.

10. Directors' fees
The Annual General Meeting stipulates the Board's remuneration each year. Total remuneration to the Board came to NOK 1 128 000 in 2004 (NOK 956 168 in 2003). The remuneration breaks down as follows: Chairman of the Board of Directors NOK 250 000, Deputy Chair NOK 150 000, other directors NOK 120 000. Directors' fees are not linked to option programmes or the like.

11. Management and internal procedures
Corporate executive management
Corporate executive management currently consists of seven individuals. In addition to the CEO, the corporate executive management group consists of the CFO, the presidents of the two main business areas (Kongsberg Maritime and Kongsberg Defence & Aerospace), the executive vice president of Human Resources, the executive vice president of Business Development, and the executive vice president of Corporate Communications. Corporate executive management usually meets every fortnight, supplemented by routine contact on an operational basis. The Group subscribes to the paramount principle of making binding commitments to agreed targets. Consequently, it practises a decentralised form of corporate governance that gives individual units considerable freedom of action, accompanied by the responsibility that entails. Executive management's main responsibility is the management of the corporation, where KONGSBERG's general situation governs the decisions that are made. Executive management follows up earnings and budgets on a monthly basis with the various performance centres.

Evaluations
Executive management evaluates its own work and working methods annually.

Inter-Group Boards of Directors
The Group's subsidiaries have their own Boards of Directors, staffed by in-house managers and employees. The president of the owner enterprise or a person so designated by the president will chair the Boards of the subsidiaries.

Special share register
The company has stipulated in-house guidelines for trading in the Group's shares. The regulations are in accordance with the guidelines drawn up by the Oslo Stock Exchange for insider trading. These guidelines are updated regularly in accordance with regulations from the Oslo Stock Exchange, and distributed to primary insiders.

Corporate Code of Ethics
The corporate Code of Ethics was updated in 2004. An Ethics Council has been established, and training and follow-up plans have been drawn up.

12. Remuneration to leading employees
Guidelines
The CEO's terms of employment are set by the Board. The structure of the incentive system for the other members of corporate management is determined by the Board, and presented to the AGM for information purposes. The terms of employment for the other members of corporate management are proposed by the CEO, and subject to the approval of the Chairman of the Board. Each year, the Board undertakes a thorough review of salary and other remuneration to the CEO. The review is based on market polls of similar positions. The Board's attitude to managerial salaries is that they should be competitive, but not leading when it comes to level.

Performance-based remuneration
Performance-based remuneration is linked to the value added for the shareholders or to the Group's performance trends over time. The prerequisites for performance-based remuneration are described in Note 3 on pages 78 and 79.

Terms
The terms are described in Note 3 on page 79.

13. Information and communications
The annual report and accounts – interim reporting
The Group normally presents provisional annual accounts in mid-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 Group's Financial Calendar is published on the Group's website and in the annual report. In addition to the consolidated Annual Report, the Group also sends a Sustainability Report to all the shareholders.

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 products, markets and prospects for the future. The Group's CFO also participates in these presentations, as do other members of corporate management from time to time. The presentations made for investors in connection with the annual and quarterly reports are available on the Group's website. Beyond that, the Group conducts an ongoing dialogue with and makes presentations for analysts and investors.

It is considered essential to keep owners and investors informed about the Group's progress and economic and financial status. Importance is also attached to ensuring that the same information is released to the entire equity market at the same time. Care is taken to maintain an impartial distribution of information when dealing with shareholders and analysts. The Group was awarded distinctions for Good Information and Good English by the Oslo Stock Exchange in 2004.

14. Take-overs
There are no defence mechanisms against take-over bids in the Group's Articles of Association, nor have other measures been implemented to limit the opportunity to acquire shares in the company. The Norwegian state owns 50.001 per cent of the shares. The marketability of those shares is subject to parliamentary discretion.

15. Auditor
The auditor's relationship to the Board
An outline of the work planned by the auditor is put before the Board once a year. The Chairman of the Board conducts a separate meeting with the auditor and management prior to the Board's discussion of the financial statements. The auditor is always present during the Board's discussions of the annual accounts. At that meeting, the Board is briefed on the annual accounts and any other issues of particular concern to the auditor, including any points of contention between the auditor and management.

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

As from 2005, at least once a year a meeting will be held between the auditor and the Board without the presence of the CEO or other managers. In early 2005, the auditor submitted to the Board a written statement on the fulfilment of the Statutory Audit Independence and Objectivity Requirement, cf. Auditing and Auditors Act.

The auditor's relationship to management
The Board of Directors has discussed guidelines for the business relationship between the auditor and the Group. The Group hired Arthur Andersen & Co. as its independent auditor upon its inception in 1987. In April 2002, Arthur Andersen & Co in Norway was merged with Ernst & Young. In addition to ordinary auditing, the company provides consultancy services related to accounting, tax and reporting. Reference is made to Note 5 to the consolidated accounts. At regular intervals, the Board of Directors evaluates whether the auditor exercises a satisfactory level of control.

Articles of Association – Kongsberg Gruppen ASA

As amended by the ordinary Annual General Meeting on 12 May 2003.

§ 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 sectors. The Company may participate in and own other companies.

§ 4 The Company's share capital is NOK 150 000 000, divided into 30 000 000 shares with a nominal value of NOK 5. 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 Boards of Directors of private companies, three Directors and their deputies shall be elected directly by and from among the employees.

§ 6 The Chairman of the Board has the power to sign for the Company or, in his/her absence, the Deputy Chairman and another Director may co-sign.

§ 7 The Annual General Meeting shall be held in Kongsberg or in Oslo. The ordinary Annual General Meeting (AGM) shall be convened in writing with least 14 days' notification.

§ 8 The ordinary AGM shall:

1. Adopt the annual accounts and the Annual Report, including the payment of dividends;
2. Discuss other matters which, pursuant to legislation or the Articles of Association, are the province of the AGM;
3. Elect the shareholders' representatives and their deputies to the corporate Board of Directors;
4. Elect two members to the Nominating Committee;
5. Elect one or more auditors, based on nominations made by the AGM;
6. Stipulate the Board's remuneration and approve remuneration to the auditor.

The convening letter shall state that shareholders who would like to participate in the AGM are to sign up by a deadline specified in the convening letter. The deadline shall expire no more than five days prior to the AGM. The AGM shall be chaired by the Chairman of the Board or, in his/her absence, by the Deputy Chairman. In the absence of both, the AGM shall elect a moderator.

§ 9 The Nominating Committee shall consist of three members who shall be shareholders or representatives of shareholders. Two shall be elected by the ordinary AGM. One shall be elected by the Board. The term of office is 2 years.

The Nominating Committee shall elect its own chair. The Chairman of the Board and the CEO 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 Nominating Committee shall submit to the AGM its nominations for Directors and Deputy Directors.

Based on a motion made by the Board's shareholder-elected Directors, the AGM shall adopt instructions for the Nominating Committee.

Organisation and governance

Organisation

The central bodies in KONGSBERG's management model are the general meeting, the Board, the CEO and corporate management. The Group has two main business areas that are subject to clear requirements related to performance, growth and rates of return. The Group's organisational model attaches importance to clear accountability for results, so authority is to a large extent delegated. "Freedom of choice and responsibility for results" is an expression that describes this mode of corporate organisation. Organisational form is a significant element in the Group's performance and value creation, facilitating increased flexibility and more rapid decision-making. In the light of the Group's decentralised form of organisation, the holding company has a relatively small, but highly qualified staff. Its main task is to further develop the corporation and provide support for the business areas.

Strategy

The Board bears the ultimate responsibility for the Group's strategy. Corporate management draws up proposals for strategies and long-term, paramount objectives. The strategy and the objectives are discussed and adopted by the Board. This is an annual process that consistently maintains a five-year perspective. The process starts in January/February and ends in May/June. Contributions to the strategic planning process come from different parts of the organisation. Based on the strategic planning document and the long-term objectives, operational goals and plans are drawn up for departments and projects.

Budget

The budget process usually starts in mid-September. All profit centres take part in these efforts. Budgetary guidelines are drawn up at the corporate level, based on the strategy document and relevant external framework conditions. The budget is subject to in-depth treatment by corporate management and the Board. The final budget is adopted by the Board in December, then used as a tool for short-term financial management during the subsequent calendar year. The budget applies throughout the budget period, and is binding for the managers of the individual units.

Risk reporting to the Board

A comprehensive risk analysis is compiled quarterly. The analyses mainly cover operational risk, business risk, legal risk and financial risk. KONGSBERG's operational risk is largely related to the implementation of projects of great technical complexity, where product quality is decisive. Business-related risk is related to market conditions, competitors and other general business conditions prevailing in the markets in which KONGSBERG operates. Legal risk is associated with ongoing disputes that are already in the legal system and projects that involve differences of opinion with customer/partners. Financial risk is mainly related to foreign exchange and interest rate fluctuations and funding. Analyses are presented to the Board once each quarter.

Follow up

The CEO conducts monthly follow-up meetings with the business areas in the Group. The CFO and, from time to time, the other members of corporate management take part in these meetings. The Group's financial and market status are discussed. Importance is attached to commenting on non-conformance relative to budgets and planned activities. Corrective measures are implemented, if need be.

Corporate social responsibility

Values

Item 1 of the Norwegian Recommendation for Corporate Governance states, *inter alia*, that a company should make a clear statement of its value platform.

KONGSBERG's value platform is based on four main areas: Customers, Quality, Boldness and Networking. This value base is intended to help promote common attitudes and conduct. The values and the work underlying them are discussed in more detail in the Group's Sustainability Report, page 12.

Ethics

Social trends and ever stricter regulations at the national and international levels have intensified the current focus on ethics and ethical questions. The topic is comprehensive, embracing numerous challenges and dilemmas. It is not always easy to give exact answers to questions involving ethics. The Group's new corporate Code of Ethics was adopted in 2003; in 2004, we spent a lot time discussing and incorporating the Code within the Group. The work, which has engendered tremendous enthusiasm on the part of employees, will be continued in 2005. KONGSBERG's corporate Code of Ethics applies to the directors, management, employees and all temporary personnel. When signing agency contracts, one requirement is that our corporate Code of Ethics be annexed to the system of agreements. A special Ethics Council, which is responsible for discussing issues and dilemmas, was established to deal with ethics and reputation. The Council is also responsible for maintaining and developing the Code. For further information about our work with ethics, please see the Group's Sustainability Report, page 20, and the Group's Corporate Code of Ethics, which you will find on our website at www.kongsberg.com.

Corporate social responsibility

In recent years, the Group has placed additional emphasis on addressing issues related to sustainable development. The work is organised as a separate discipline, and a separate report is published on sustainability. The report addresses finances (control systems, descriptions of business activities, key figures), corporate social responsibility and the environment. The report also devotes space to a description of our intellectual capital.

The environment

KONGSBERG's main activities are linked to software and systems development. The Group produces little direct pollution of the outdoor environment. The Group's activities are only influenced by environmental regulations to a very modest extent.

This is the case despite the fact that our limited production activities entail some water and air pollution. Moreover, environment-unfriendly and hazardous chemicals are used in production. One of our goals is to limit the environmental impact of this insofar as possible.

Beyond this, our approximately 4 000 employees consume office supplies. Energy is also used to heat offices and production facilities. We are also aware that extensive travel has adverse effects on the outdoor environment.

We have an organisational structure based on a large extent of local management. This poses challenges in respect of the organisation and implementation of environmental measures.

Social responsibility

KONGSBERG has more than 4 000 employees in 24 countries. It is important for us to ensure compliance with our own Policy for Corporate Governance, and that our corporate Code of Ethics is communicated and followed up in the same way, regardless of where in the world a unit is located.

More detailed information about the Group's environmental and corporate social responsibility can be found in KONGSBERG's Sustainability Report for 2004. There, you will find the Group's Policy for Corporate Social Responsibility and Environmental Policy.

Corporate Board of Directors

Christian Brinch (58)
Chairman of the Board
Occupation: Self-employed
Education: Degrees from the Norwegian Naval College and the Harvard Business School.
Other: Previous employment includes being CEO of Helicopter Service ASA and deputy executive director of ABB in Norway.
Years on the Board: 14 (Chairman of the Board since 1995)
Shares in Kongsberg Gruppen ASA: 0

Directorships outside Kongsberg:
Chairman of the Board of Hafslund ASA, deputy chair of Prosafe ASA and NSB BA, and a director of Gresvig ASA and Steen og Strøm ASA.

Benedicte Berg Schilbred (58)
Deputy Chairman
Occupation: Executive Chairman of the Board of the Odd Berg Group
Education: The Norwegian School of Management and the Norwegian School of Economics and Business Administration.
Years on the Board: 4
Shares in Kongsberg Gruppen ASA: 17 500 (through the company Odd Berg AS)

Directorships outside Kongsberg:
Chairman of the Board of Odd Berg AS and Tos Lab AS, a director of Norway Pelagic Group AS, Egersund Seafood AS, Fiskeriforskning AS, Norsildmel AL and Norsildmel Innovation AS.

Torolf Rein (70)
Director
Occupation: Retired admiral
Education: Trained at the Norwegian Naval College and has additional studies in electrical engineering from the US Naval Postgraduate School, the Royal Norwegian Navy Staff College and the Norwegian Defence Academy.
Other: Former Norwegian Chief of Defence.
Years on the Board: 10
Shares in Kongsberg Gruppen ASA: 0

Directorships outside Kongsberg:
Chairman of the Board of Atlantic Maritime AS, a director of Mecmar AS, MetaSystems AS, Nordnorsk Beredskapssenter AS and Worldport Kirkenes AS.

Siri Hatlen (47)
Director
Occupation: Self-employed
Education: Graduate Engineer from the Norwegian University of Science and Technology, and MBA from INSEAD, Fontainebleau.
Years on the Board: 2
Shares in Kongsberg Gruppen ASA: 0

Directorships outside Kongsberg:
Chairman of the Board of Health East, SIVA, the State Education Loan Fund and Det Norske Samlaget, a director of Smedvig ASA, NTNU, Otrum, Det Norske Teateret and ECO Vannkraft.








Niels Petter Wright (43)
Director
Occupation: CFO of Elopak AS
Education: Royal Norwegian Air Force Officer Candidate School, the University of Oslo (ex.phil.) and the Norwegian School of Economics and Business Administration (economist).
Years on the Board: 2
Shares in Kongsberg Gruppen ASA: 0

Roar Marthiniussen (48)
Director (employee representative)
Occupation: Marketing manager of Kongsberg Maritime AS
Education: Engineer from the Horten College of Engineering.
Years on the Board: 6
Shares in Kongsberg Gruppen ASA: 2 800

Jan Erik Hagen (46)
Director (employee representative)
Occupation: Shop Steward, Kongsberg Protech AS
Education: Kongsberg Vocational School, Tinius Olsen School and Kongsberg College of Engineering. Holds a guild certificate as a mechanical inspector.
Years on the Board: 2
Shares in Kongsberg Gruppen ASA: 477

Roy Harald Hove (48)
Director (employee representative)
Occupation: Senior design engineer, Kongsberg Defence & Aerospace AS
Education: Kongsberg College of Engineering where he specialised in computer technology/computer systems.
Years on the Board: 2
Shares in Kongsberg Gruppen ASA: 43

Corporate Management

Jan Erik Korssjøen (57)
Position: Chief Executive Officer
Education: Graduate Engineer, Norwegian University of Science and Technology – 1972
Other: Began his professional career at AS Kongsberg Våpenfabrikk, where he held several managerial positions. Subsequently president of Dresser Rand AS and Kongsberg Systems AS. Named president of Kongsberg Gruppen in 1999 after 4 years at the helm of Kongsberg Maritime.
Years with Group: 10
Shares in Kongsberg Gruppen ASA: 5 524

Directorships and other offices outside Kongsberg Gruppen: SINTEF (Chairman of the Board), Corporate Assembly of Telenor ASA (director), DNV Council (member).

Arne Solberg (52)
Position: Chief Financial Officer
Education: Economist, Norwegian School of Management BI – 1980
Other: Formerly in leading positions in finance/administration at Electrisk Bureau
Years with Group: 18
Shares in Kongsberg Gruppen ASA: 6 066

Directorships and other offices outside Kongsberg Gruppen: Elcon Finans AS (director), Kitron ASA (director).

Torfinn Kildal (50)
Position: President, Kongsberg Maritime AS
Education: Economist, the Norwegian School of Economics and Business Administration – 1977
Other: Began his professional career with AS Kongsberg Våpenfabrikk, then managerial positions in the SIMRAD Group
Years with Group: 9
Shares in Kongsberg Gruppen ASA: 6 738

Directorships and other offices outside Kongsberg Gruppen: 0

Tom Gerhardsen (56)
Position: President, Kongsberg Defence & Aerospace AS
Education: Graduate Engineer, Norwegian University of Science and Technology – 1971
Other: Formerly employed by the Norwegian Defence Research Establishment and AS Kongsberg Våpenfabrikk.
Years with Group: 18
Shares in Kongsberg Gruppen ASA: 5 186

Directorships and other offices outside Kongsberg Gruppen: 0







Ellen Christine Orvin Raaholt (49)
Position: Vice President, Human Resources
Education: Law degree, University of Oslo, 1988
Other: Formerly executive director of ErgoGroup AS, where she was responsibly for HR and strategic development initiatives.
Years with Group: Hired in 2005
Shares in Kongsberg Gruppen ASA: 0

Directorships and other offices outside Kongsberg Gruppen: Learning Network Foundation (Chairman of the Board).

Even Aas (43)
Position: Executive Vice President, Corporate Communications
Education: Economist, University of Oslo – 1988
Other: Formerly employed by the Norwegian Confederation of Trade Unions, political adviser and later state secretary for commerce and shipping at the Ministry of Foreign Affairs. Also worked for Telenor
Years with Group: 7
Shares in Kongsberg Gruppen ASA: 1 382

Directorships and other offices outside Kongsberg Gruppen: Federation of Norwegian Manufacturing Industries (director and member of Executive Committee).

Stig Trondvold (51)
Position: Vice President, Business Development
Education: Graduate Engineer, Norwegian University of Science and Technology – 1976, and an MBA from IMD in Switzerland – 1984
Other: Began his professional career at SINTEF, followed by several managerial positions in the automotive component industry, including at AS Kongsberg Våpenfabrikk, Kongsberg Automotive AS and Kongsberg Techmatic AS.
Years with Group: 5
Shares in Kongsberg Gruppen ASA: 1 703

Directorships and other offices outside Kongsberg Gruppen: Kongsberg Innovasjon AS (Chairman of the Board), the National Institute of Technology, Norway (Chairman of the Board), Scali AS (director), Sparebank 1 Kongsberg (deputy director).

Shares and shareholders

Shareholder policy

Kongsberg's paramount objective is to enhance the value of its shareholders' investments. The Group's primary focus is on its two main business areas: Kongsberg Maritime and Kongsberg Defence & Aerospace.

Kongsberg will grow organically and through acquisitions in selected strategic market segments. The Group's goal is to be a world leader in its target areas. Kongsberg also aspires to project an image that ensures credibility and predictability on the equity market. The Group strives to ensure a long-term competitive return on shareholders' investments, which is commensurate with the risk involved. The goal is to pay out 30 per cent of the Group's annual profit to shareholders in the form of dividends. Dividends have been paid out every year since 1993, with the exception of in 2000 and 2001. The dividends have averaged about 30 per cent of the Group's net profit.

Investor relations

Kongsberg furnishes the equity market with relevant, comprehensive information as the basis for a balanced, correct valuation of the share. The Group attaches importance to maintaining an open dialogue with the equity market and media through stock exchange bulletins, press releases and other media initiatives, as well as by making presentations for analysts and investors. Kongsberg's website offers a special investor information section, featuring all consolidated annual reports, quarterly reports and presentation material. The Group has been awarded distinctions for Good Information and Good English by the Oslo Stock Exchange.

Dividends and profit per share

Kongsberg has experienced the following trends in dividends and profit per share in recent years:

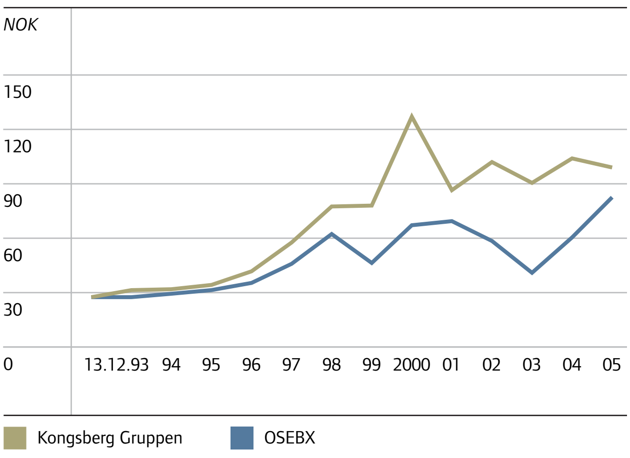
NOK	*2004*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*
Profit per share	1.38	4.23	7.21	4.18	(1.86)	8.84	7.04	3.04
Dividends	2.00	1.30	2.10	-	-	2.25	2.00	1.00

The dividend for 2004 has been proposed on the basis of the profit, excluding the additional charge of MNOK 150 related to the NSM project. The ordinary AGM will be held on 3 May 2005.

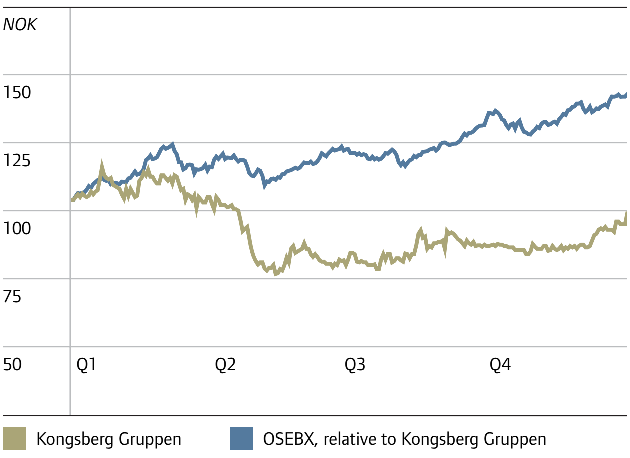
Market capitalisation

Market capitalisation declined during the year from MNOK 3 180 to MNOK 2 970, or by 6.6 per cent. The Group was launched on the Oslo Stock Exchange on 13 December 1993 with a market capitalisation of MNOK 643.

Share price trends from introduction on the Oslo Stock Exchange



Share price trends in 2004



Share price trends and turnover in 2004

The shares performed poorly in 2004, dropping from NOK 106 per share to NOK 99 per share at year end. The All-Share Index climbed by 38.4 per cent during the same period.

1 000 shares	2004	*2003*	*2002*	*2001*	*2000*
No. of shares traded 1)	12 076	5 258	6 524	9 378	9 329
As a % of bonus shares 2)	81 %	35 %	43 %	63 %	62 %

1) Change of ownership registered in the Norwegian Registry of Securities.
2) Of shares in circulation, excluding the Norwegian State's 50.001 per cent stake.

Share and option programmes for employees

The Group's annual employee share programme was conducted in spring 2004. This was the eight time all employees were given the opportunity to buy shares in the Group at a 20 per cent discount. A total of 141 435 shares were sold at a price of NOK 66.50. The Group had 131 122 treasury shares left after the sale. Shares were awarded to a total of 415 employees. Bonus options were also attached to the purchases, granting each buyer about half the number of options as shares purchased. The options can be exercised after two years.

Number of shares and nominal value

Kongsberg Gruppen ASA has share capital of MNOK 150, divided among 30 million shares with a nominal value of NOK 5 per share. There is just one class of shares, and there are no limitations on voting rights. When launched on the Stock Exchange on 13 December 1993, the Group had 5.85 million shares, with a nominal value of NOK 20. In 1996, the number of shares was increased to 6 million in connection with a share issue directed at the employees. In May 1997, the share was split into four, increasing the number of shares to 24 million, with a nominal value of NOK 5 per share. All key figures for 1997 and earlier years have been adjusted accordingly. In July 1999, 6 million new shares were issued, bringing the total up to the current level of 30 million shares.

Own shares

KONGSBERG's ordinary Annual General Meeting held on 6 May 2004 authorised the Board to buy treasury shares. Limited to 5 per cent of the share capital, the authorisation is valid until the next ordinary AGM. At 31 December 2004, KONGSBERG owned a total of 131 122 shares, or 0.4 per cent of the total number of shares in the Group. The shares were purchased for the employee option and share programmes.

Ownership structure

The Norwegian State is still the largest shareholder, given its stake of slightly more than 50 per cent. The National Insurance Fund is now the largest owner, apart from the State. The percentage of shares in foreign hands dropped from 7.2 per cent to 7.0 per cent.

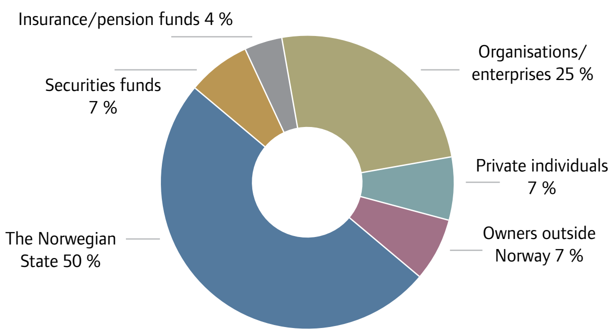
Shares owned by directors and managers

For information about the shares owned by directors and corporate management, please see Note 16 to the annotated consolidated accounts.

List of shareholders at 2 March 2005

Shareholders	*Number of shares*	*%-interest*
The Norwegian State as repr. by the Ministry of Trade and Industry	15 000 400	50.00
The National Insurance Fund	2 307 460	7.69
Arendals Fossekompani ASA	1 486 222	4.95
JP Morgan Chase Bank	1 408 300	4.69
Odin Norge	1 284 882	4.28
MP Pensjon	1 203 200	4.01
Skagen Vekst	960 000	3.20
Ferd Invest AS	650 000	2.17
Odin Norden	350 200	1.17
Odin Offshore	220 000	0.73
Altogether, the 10 largest shareholders	**26 774 200**	**82.90**
Total number of shares	**30 000 000**	**100.00**

Ownership structure at 31 December 2004



Analytical data

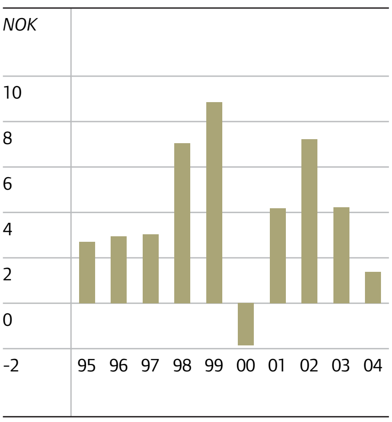
Key figures

	Amounts in MNOK	*2004*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*	*1996*
Operations	Operating revenues	6 439	6 651	6 980	6 176	5 296	4 412	4 404	3 674	3 023
	– *Civilian*	58 %	54 %	58 %	63 %	64 %	73 %	71 %	71 %	61 %
	– *Outside Norway*	71 %	76 %	72 %	74 %	74 %	62 %	62 %	55 %	51 %
	Earnings before interest, tax and amortisation for goodwill (EBITA)	223	383	485	437	287	249	278	192	173
	Operating profit/(loss) (EBIT)	135	291	404	328	225	213	189	157	140
	Earnings before tax (EBT)	85	190	291	191	188	205	279	121	117
	Net profit/(loss) for the year	37	125	216	123	(56)	233	171	73	75
	Effective tax rate	56 %	34 %	28 %	38 %	-	32 %	33 %	40 %	36 %
	Net cash flow from operations	242	83	264	321	46	409	423	358	190
	Operating margin before amortisation for goodwill (EBITA margin)	3.5 %	5.8 %	6.9 %	7.1 %	5.4 %	5.6 %	6.3 %	5.2 %	5,7 %
	Operating margin (EBIT margin)	2.1 %	4.4 %	5.8 %	5.3 %	4.2 %	4.8 %	4.3 %	4.3 %	4.6 %
	Profit margin (EBT margin)	1.3 %	2.9 %	4.2 %	3.1 %	3.5 %	4.6 %	6.3 %	3.3 %	3.9 %
	New orders	5 947	7 421	5 725	5 967	7 648	4 123	4 604	3 952	3 955
	Backlog of orders	5 425	5 913	5 143	6 401	6 610	4 258	4 551	4 349	4 041
	Equity-financed development	317	302	318	282	184	185	172	146	142
	Equity-financed development as a % of operating revenues	5 %	5 %	5 %	5 %	3 %	4 %	4 %	4 %	5 %
Capital	Total assets	6 043	6 008	5 597	5 629	5 371	4 012	3 949	3 412	3 221
	Employed capital	3 701	3 698	3 260	3 078	2 942	1 796	1 959	1 798	1 888
	Prepayments from customers	766	931	818	1 028	957	858	552	555	376
	Net interest-bearing debt	1 101	1 164	795	776	1 029	(330)	456	126	298
	Equity	1 812	1 830	1 741	1 538	1 406	1 490	1 106	1 042	975
	Equity ratio	30 %	30 %	31 %	27 %	26 %	37 %	28 %	31 %	30 %
	Return on total assets	2 %	5 %	7 %	6 %	5 %	6 %	9 %	6 %	6 %
	Return on employed capital	4 %	8 %	13 %	11 %	11 %	13 %	18 %	10 %	11 %
	Return on equity (before tax)	5 %	11 %	18 %	13 %	13 %	16 %	26 %	12 %	12 %
	Investments	197	292	360	339	1 235	305	574	216	715
	Depreciation	278	292	269	267	240	187	228	149	133
Employees	Number of employees	4 017	4 176	4 208	4 012	3 765	3 382	3 333	3 262	3 212
	Graduate engineers/engineers/technicians	2 898	2 904	2 871	2 633	2 294	2 106	1 990	1 901	1 901
	Wage share	35 %	33 %	30 %	30 %	32 %	32 %	30 %	33 %	33 %
Owners' values	Capitalisation	2 970	3 180	2 715	2 895	2 550	3 780	1 824	1 824	1 386
	Annual share price trend	(7 %)	17 %	(6 %)	14 %	(33 %)	107 %	0 %	32 %	45 %
	Earnings per share after tax in NOK	1.38	4.23	7.21	4.18	(1.86)	8.84	7.04	3.04	2.95
	P/E	71.74	25.06	12.55	23.09	-	16.20	10.80	25.00	19.60
	Dividends	2.00	1.30	2.10	0.00	0.00	2.25	2.00	1.00	0.88
	RISK adjustment	(2.34)	(1.84)	0.95	0.40	(0.59)	2.13	(1.90)	(0.95)	(0.81)

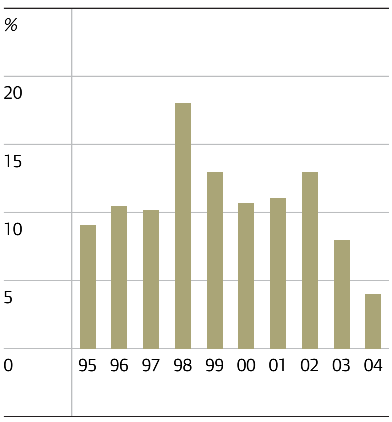
Definitions

Operating margin before amortisation for goodwill (EBITA)	Earnings before interest, tax and amortisation (EBITA) in % of operating revenues.
Operating margin (EBIT)	Earnings before interest and tax (EBIT) in % of operating revenues.
Profit margin (EBT)	Earnings before tax (EBT) in % of operating revenues.
Effective tax rate	Tax as a percentage of the profit/loss before tax.
Net cash flow from operations	Please see the Statement of Cash Flows on page 74.
Total assets	Aggregate assets.
Employed capital	Total assets less short-term interest-free liabilities.
Equity	Book equity and subordinated loan capital from the State (MNOK 300 from 1993-98).
Equity ratio	Equity as a percentage of total assets.
Return on total assets	EBT plus financial income as a percentage of total assets.
Return on employed capital	EBT plus financial income in percentage by average tied-up capital.
Return on equity (before tax)	Profit/loss after financial items as a percentage of average equity
Wage share	Wages and social security expenses as a percentage of operating income.
Annual share price trend	Change in share price compared with previous year.
Profit per share	Net profit after tax divided by weighted average number of shares.
P/E	Price/Earnings. Market price at 31 December divided by the result per share.
RISK adjustment	The year's adjustment on the tax-related incoming value of shares.

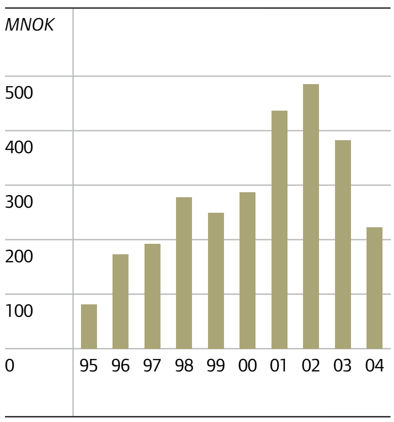
Profit per share



Return on employed capital



EBITA



Financial risk and market conditions

Foreign exchange

Although most of KONGSBERG's production takes place in Norway, more than 70 per cent of its output is exported. The Group's main competitors are located in Europe, the USA and Japan. While the Group also makes purchases in foreign currency corresponding to 30 to 40 per cent of sales, it has considerable net exposure, especially in USD. The weakening of the USD entails a negative distortion of competition for KONGSBERG. Owing to the Group's currency hedging strategy, this has had a limited impact thus far.

KONGSBERG's policy is to limit currency risk while actively assessing various currencies' importance as competitive parameters. Accordingly, all contractual currency flows of significance are hedged. Forecasted currency flows are also hedged. The hedging of forecasted currency flows and foreign currency bids for major contracts is based on the individual enterprise's market and competitive situation. Equity is also hedged in the Group's foreign subsidiaries and foreign currency loans to those subsidiaries.

At 31 December 2004, the Group had hedged a total of NOK 5 billion in foreign currency, mainly in USD and EUR.

Hedging by type

MNOK	*2005*	*2006*	*2007*	*2008*	*2009*	*Total*
Futures hedging						
Project hedging	1 613	245	76	40	8	1 982
Hedging of forecasted cash flows	1 307	690	412	24		2 433
Equity hedging	261					261
Loan hedging	391					391
Total	**3 572**	**935**	**488**	**64**	**8**	**5 067**
Options						
Hedging of forecasted cash flows	62					62
Total	**3 634**	**935**	**488**	**64**	**8**	**5 129**

The hedging strategy has a two to four year perspective. It offsets transient currency fluctuations and gives the Group time to make operational adjustments in the event of lasting changes. Active efforts are invested in reducing the effect of currency fluctuations, for example, by increasing the percentage of value added outside Norway.

See Note 18 to the consolidated accounts for details on hedging.

Funding

In 2004, KONGSBERG had gross debt of roughly NOK 1.3–1.4 billion, and net interest-bearing debt of about NOK 1.2 billion. Borrowing requirements vary considerably during the year as a result of seasonal fluctuations in some areas and due to the terms of payment in major defence contracts. While project costs are relatively constant, payments are linked to milestones. At the beginning of 2005, KONGSBERG had loans totalling MNOK 1 250 in its central financing programme:

Mortgages	MNOK 72	Annual repayment to 2020
Norwegian commercial papers	MNOK 325	Term to maturity 0–6 months
Bond issue	MNOK 103	Due June 2005
Bond issue	MNOK 300	Due October 2007
Bond issue	MNOK 400	Due June 2009
Sterling Acceptance	MNOK 50	Term to maturity 3 months

KONGSBERG's funding is otherwise based on a syndicated credit facility of MNOK 1 100 that will run until 2009. The credit facility is currently undrawn. Financial and liquidity management is coordinated by Kongsberg Finans, the Group's corporate financial services unit. The Group attaches importance to diversified funding, and the loan parameters will be considered in the light of the Group's growth strategy.

Interest

The Group's policy is to have an average fixed-rate period on its external loans of two to four years. At the end of 2004, the Group's loan programme had an average fixed-rate period of 2.8 years. KONGSBERG has hedged its loans through fixed-interest and interest swap agreements. Owing to the interest strategy, if today's interest level continues, the interest rate reduction will come into play gradually over a 2 to 4-year period.

Interest swap agreements	*MNOK*	*Due date*	*Years remaining*
Agreement 1	300	19 Dec. 2007	3.0
Agreement 2	300	19 June 2009	4.5
Agreement 3	100	17 Dec. 2008	4.0
Total	**700**		
Fixed interest loan Norsk Innovasjon	72	10 Oct. 2005	0.8
Bond loan with fixed interest	300	26 Sept. 2007	2.7
Total interest rate hedging	**1 072**		**3.3**
Unhedged liabilities	178		0.3
Total	**1 250**		**2.8**

Otherwise, please see Note 17 to the consolidated accounts.

IFRS – consequences of the new International Financial Reporting Standards

As from fiscal 2005, consolidated accounts must be presented in accordance with the International Financial Reporting Standards (IFRS). The accounts for 2004 are presented in accordance with the Accounting Act and current Norwegian accounting standards. Upon transition, the comparative figures for 2004 will be adjusted to the IFRS. This means preparing an opening balance pursuant to the IFRS, based on the balance sheet at 1 January 2004.

The consolidated accounts will mainly be impacted in the following areas:

Goodwill amortisation

Goodwill will no longer be amortised systematically. It will be subject to evaluation of the reporting units on an ongoing basis to determine the need for amortisation (impairment test). Over the past three years, Kongsberg has amortised goodwill by MNOK 88, MNOK 92 and MNOK 81, respectively. No need for amortising goodwill was identified during this period.

Pension liabilities

The Group has significant unrecognised estimated deviations from earlier years. The low interest level in recent years and the transition to a discount rate based on the government bond interest rate under IFRS will translate into a further increase in estimated pension liabilities. Upon making the transition to IFRS, the Group has opted to charge unrecognised estimated deviations against equity. At 1 January 2004, the amount totalled MNOK 424. Pursuant to the IFRS, pension expenses for 2004 will be calculated using a different discount rate and will no longer include the amortisation of estimated deviations. This implies a decrease of MNOK 20 in pension expenses compared with the 2004 accounts.

Development costs

Provided certain criteria are satisfied, 'research and development' is considered an intangible asset. According to the IFRS, such cases call for balance sheet recognition. The Group has charged development costs against income on an ongoing basis when the costs are not deemed to comply with the criteria for balance sheet recognition. Equity-financed development costs have amounted to MNOK 317, MNOK 302 and MNOK 318, respectively, in the past three years. Future development costs will be considered on an ongoing basis with a view to possible balance sheet recognition.

Financial instruments

For financial instruments, the transition to IFRS will be made in the balance sheet for the first time as at 1 January 2005. According to IFRS, financial instruments are to be booked at net market value, while changes in net market value are to be booked as income statement items or directly against equity, depending on the classification of the financial instrument and hedging considerations, if any. The Group has significant financial instruments linked to interest and currency hedging. On 1 January 2005, the hedging instruments linked to future forecasted and contractual cash flows in foreign currencies (mainly USD) had a value based on agreed exchange rates of MNOK 5 129 and an overall excess value of MNOK 447 compared with the exchange rates on that date. Of that excess value, MNOK 304 is related to the hedging of forecasted cash flows. Interest rate swap agreements related to the hedging of loans have a calculated shortfall in market value compared with the interest level at 1 January 2005, of MNOK 68 and a shortfall of market value of MNOK 22 linked to the hedging of interest-sensitive rent.

Tax

In furtherance of the effects described above, the collateral effects of deferred taxes have to be taken into account, with the exception of goodwill amortisation, which is a net figure.

Important assets

Property

KONGSBERG is involved in substantial property operations. The business consists of property management for KONGSBERG and others. The majority of the properties are located in Kongsberg and Horten. The business covers the following properties owned by KONGSBERG:

1. Properties owned by KONGSBERG

	Projected gross rental income 2005, MNOK	Area m²
Kongsberg	68.9	82 800
Horten	19.8	27 700
Egersund	2.4	6 200
Other	2.1	700
Total	**93.2**	**117 400**

Rental revenues reflect market rates for comparable properties in the area. The properties enjoy fully occupancy, consisting mainly of KONGSBERG companies.

The properties in Norway owned by KONGSBERG have a book value of MNOK 535.

2. Property rented to KONGSBERG activities

In addition to the Group's own properties, 32 100 m² are sub-leased to Group companies. The properties are located in Asker, Lillestrøm, Oslo, Trondheim and Stjørdal.

3. Property in Kongsberg Industrial Park is owned by external owners, but managed by Kongsberg Næringseiendom

These properties were previously owned by Kongsberg Gruppen ASA and subsequently sold through sale/leaseback agreements, cf. Note 10 to the accounts. Collectively, they comprise 82 400 m².

Altogether, KONGSBERG has properties covering 232 000 m². KONGSBERG has long experience of managing and maintaining property, and Kongsberg Næringspark is a well-run, efficient industrial part, accommodating more than 50 enterprises and 4 000 employees. The Industrial Park's main focus is on knowledge and high technology enterprises aimed at international markets.

Goodwill

Goodwill is the purchase price in excess of the net tangible assets in acquired companies. Goodwill is amortised on the basis of the earnings estimates made at the time of acquisition of each individual company. Goodwill is amortised over 5 to 20 years. Each time the accounts are closed, the value of remaining goodwill is estimated and changes, if any, are made in write-downs or amortisation periods.

With the introduction of new accounting rules from 2005, goodwill will no longer be written down systematically; assets will be subject to an annual appraisal, a so-called impairment test. Goodwill cannot be written up. The review on 31 December 2004 concluded that the Group's goodwill is not overestimated compared with its calculated value, and that no write downs will be performed.

Amounts in MNOK	*Cost price 31 Dec. 04*	*Amort. for the year*	*Acc. depr. and write-downs 31 Dec. 04*	*Closing balance 31 Dec. 04*
Yachting & Fishery	274	15	97	182
Offshore & Merchant Marine	1 307	67	435	883
Defence & Aerospace	88	6	29	59
Total goodwill	**1 669**	**88**	**561**	**1 124**

Otherwise, please see Note 7 to the consolidated accounts.

Receivables

At 31 December 2004, the Group had total receivables of MNOK 2 445, cf. Note 15 to the consolidated accounts. The receivables consist of a number of different elements, from small balances owing on invoices, to claims that refer to large individual projects.

Amounts in MNOK	*2004*	*2003*	*2002*
Accounts receivable	1 150	1 164	1 195
Projects in progress	1 068	1 048	675
Other receivables	211	163	153
Prepayments to suppliers	16	32	83
Total	**2 445**	**2 407**	**2 106**

The Group's main business objective is generally to develop and manufacture products and systems based on orders received. The processed value of the work in progress is booked as operating revenue. Uninvoiced work in progress is reported on the balance sheet under 'Projects in progress'. A significant share of this can be attributed to large projects under the asupices of Kongsberg Defence & Aerospace. For a description of the projects, see Note 15 to the accounts.

These projects are customer-financed and often include an element of advance payment.

The other receivables are of a more traditional nature, and the other parties are generally shipyards, shipping companies and yacht and commercial fishing vessels dealers.

Historically speaking, the Group has incurred few bad debts, and the credit risk on receivables is considered low.

Directors' Report

The EBITA came to MNOK 223 (MNOK 383). The EBITA margin was 3.5 per cent (5.8 per cent). The profit per share was NOK 1.38, compared with NOK 4.23 in 2003. MNOK 150 was charged against the profit in connection with the NSM (Naval Strike Missile) programme. The charge had little cash effect in 2004. The Group's financial soundness is considered satisfactory. Consequently, the Board proposes a dividend of NOK 2.00 per share for 2004.

Goal-oriented efforts are being made to build up profitability and achieve growth once again. Significant economisation measures and efforts to further develop the marketing system were given high priority in 2004.

Markets

KONGSBERG earns more than 70 per cent of its revenues in international markets. In recent years, growth has been achieved in these markets, where solutions developed by KONGSBERG have proven attractive. The Group's future growth opportunities will also mainly be in markets outside Norway. The Group's strong market positions and presence are prerequisites for winning more market shares. The Board therefore attaches importance to continuing to address the international arena. The supply industry in the Far East is growing rapidly. Further development of the Group's presence in China, South Korea and Singapore is an important element of our efforts.

Large parts of KONGSBERG's earnings are in foreign currency. Fluctuations in currency exchange rates presented a challenge once again in 2004, especially the exchange rate between USD and NOK. Systematic foreign exchange hedging for several years has resulted in good predictability in the short- and mid-term, giving the Group time to adapt. Operative measures continue to reduce foreign currency exposure on a more permanent basis.

Technology

A large part of KONGSBERG's value added is derived from the development of high-technology solutions for the international market. In this context, the Group's high-level capabilities in technology as well as its marketing efforts are essential for its competitiveness.

KONGSBERG engages in continuous product development. Development is customer-centric and consistently adapted to market requirements for price and performance. Annual product development costs are equivalent to 10 per cent of operating revenues. This level is considered necessary for achieving a sufficiently modern, cost-effective product portfolio. About half of product development is funded by customers. KONGSBERG's products are generally considered to be advanced and to feature high performance and quality.

The NSM project is KONGSBERG's largest development activity ever. The project was initiated under a fixed price contract with the Norwegian Navy in 1996. In 2004, it was discovered that more time would be needed for project qualification and testing, entailing an additional charge of MNOK 150 against income in 2004. All in all, the project is still expected to be profitable despite the additional charge. The market potential of the NSM missile is believed to be considerable.

Framework conditions

There are many opportunities on the international defence market, but the Norwegian market is in transition and fewer new investments are being made. In the long term, the changes in the Norwegian Armed Forces will probably be favourable for KONGSBERG, since the authorities' goal is to spend a larger part of Norway's defence budget on investments. In collaboration with KONGSBERG, the Norwegian Armed Forces have developed solutions that have proven competitive in the international arena. Continuing this cooperation is of great importance to KONGSBERG.

Predictability is crucial when it comes to export regulations and the way in which the authorities practice them. Offset arrangements in connection with national procurements are common practice, and the industry as a whole is well aware of this. It is of the utmost importance to the Group that the rules for offset arrangements continue to be practised in Norway.

Early in 2005, the markets for the Group's maritime segments are gaining strength. The yacht market is expected to expand and competition will increase. Investments are picking up in the offshore market and the market for new vessels is buoyant, offering opportunities for the Group. The Board considers it imperative that Norway maintains and strengthens the country's maritime environment.

Income statement, balance sheet and cash flow statement

The annual accounts have been submitted on the assumption that Kongsberg Gruppen is a going concern, and the Board confirms the requirements for making this assumption have been met.

Consolidated operating revenues totalled MNOK 6 439 (MNOK 6 651). The EBITA amounted to MNOK 223 (MNOK 383). Performance trends are discussed under the sections on the individual segments.

Net financial items, including associated companies, came to MNOK -50 (MNOK -101), including a gain of MNOK 31 related to the sale of 10 million shares in Kitron ASA. Prior to the sale, KONGSBERG had a stake of 27.01 per cent; after the sale, it owns 19 per cent.

The ordinary result before tax was MNOK 85 (MNOK 190). Total taxes translate into a tax rate of 56 per cent, compared with 34 per cent in 2003. The consolidated net profit was MNOK 37 (MNOK 125).

The Group booked new orders worth MNOK 5 947 (MNOK 7 421) in 2004, resulting in a backlog of orders worth MNOK 5 425 at 31 December 2004, compared with MNOK 5 913 a year earlier.

Total corporate assets aggregated MNOK 6 043 (MNOK 6 008), and equity came to MNOK 1 812 (MNOK 1 830), or 30.0 per cent (30.5 per cent).

Kongsberg Gruppen ASA sold 141 435 treasury shares at a price of NOK 66.50 in connection with the share programme for all employees. The Group had 131 122 treasury shares left after the sale.

Net interest-bearing debt totalled MNOK 1 101 (MNOK 1 164). Net interest-bearing debt averaged about NOK 1.2 billion through the year. Borrowing requirements vary considerably during the year due to seasonal fluctuations in some markets and the terms of payment in major defence contracts. Consolidated gross interest-bearing liabilities consist of loans of MNOK 1 263, of which MNOK 325 in Norwegian commercial papers, MNOK 50 in a syndicated credit facility and MNOK 803 in Norwegian bond issues. Moreover, the Group has a mortgage of MNOK 72, and other long-term liabilities of MNOK 13. Otherwise, KONGSBERG's funding is based on a syndicated credit facility of MNOK 1 100 that will mature in 2009. The credit facility was unused at year end.

The cash flow from operations came to MNOK 242, compared with MNOK 83 in 2003. There has been a build-up of inventory in connection with projects in progress. Typical of major projects is that they have large advance payments and low inventories initially, and low advance payments and larger inventories towards the end. The cash flows consisted of MNOK -149 in funds generated from operations, and MNOK -32 from financial activities. Total consolidated cash and cash equivalents added up to MNOK 162 at 31 December 2004.

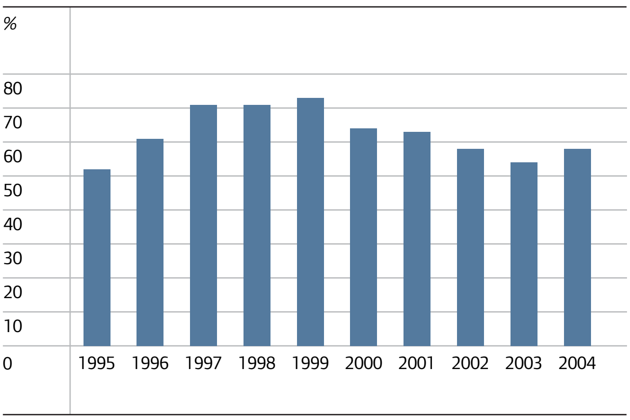
Shares and shareholder relations

KONGSBERG's ordinary Annual General Meeting on 6 May 2004 authorised the Board to buy treasury shares. Limited to five per cent of the share capital, the authorisation is valid until the next ordinary AGM.

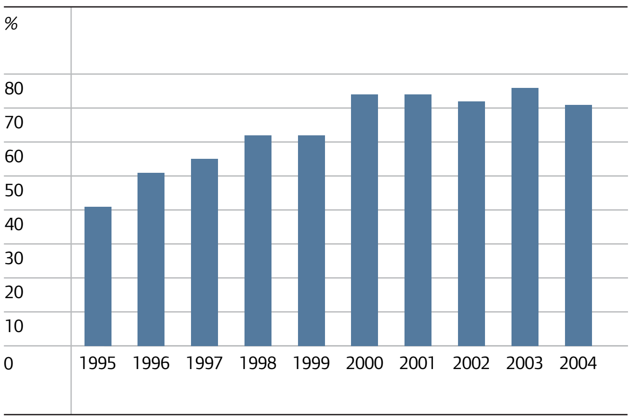
Kongsberg Gruppen ASA owned 131 122 treasury shares for its employee share programme as of 31 December 2004. The treasury share portfolio represents 0.4 per cent of the shares outstanding. The eighth share programme for all employees was implemented in 2004. A total of 415 employees subscribed a total of 141 435 shares. In this context, the Group awarded options to all the purchasers, corresponding to about half the number of shares acquired. The options are redeemable after two years.

It is estimated that for the shareholders in Kongsberg Gruppen ASA, the 2004 adjustment on the tax-related incoming value of

Operating revenues, civilian



Operating revenues, outside Norway



shares (RISK) will be NOK -2.34 per share. The RISK trend for fiscal 2003 was fixed at NOK -1.84 per share and will go to those who were shareholders on 1 January 2004.

KONGSBERG shares were priced at NOK 106 on 1 January, falling to NOK 99 at year end. This was a decrease of 6.6 per cent. Norway's All-Share Index climbed by 38.4 per cent in 2004. At 14 March 2005, the share price was NOK 107.50, up 8.6 per cent from year-end 2004, while the All-Share Index was up 8.8 per cent during the same period. The number of shareholders dropped by 45 to 3 670, and the percentage of shares in foreign hands was 7.01 per cent (7.23 per cent).

Operations and markets in the business areas

KONGSBERG's two main business areas, Kongsberg Maritime and Kongsberg Defence & Aerospace, earned operating revenues of MNOK 3 638 and MNOK 2 704, respectively, accounting for 57 and 42 per cent of aggregate consolidated operating revenues.

Kongsberg Maritime

The business area posted operating revenues of MNOK 3 638 (MNOK 3 470). The EBITA amounted to MNOK 254 (MNOK 297).

Kongsberg Maritime is working diligently to enhance its strategic market position and boost productivity throughout the business area. Through close collaboration with the users of the systems, emphasis is attached to revitalising and developing cost-efficient products and systems. In-house programmes have also been initiated with a view to further developing and economising operations in Norway and abroad.

Kongsberg Maritime has built up a global service and support network. Having a local presence where vessels are built as well as in those vessels' subsequent ports of call will build a good platform for further growth. The high level of activity in the Far East appears to be continuing. KONGSBERG is well positioned for this through its local ventures in China, South Korea and Singapore. Within Yachting & Fishery, efforts are being made to increase deliveries to European and American boatbuilders alike.

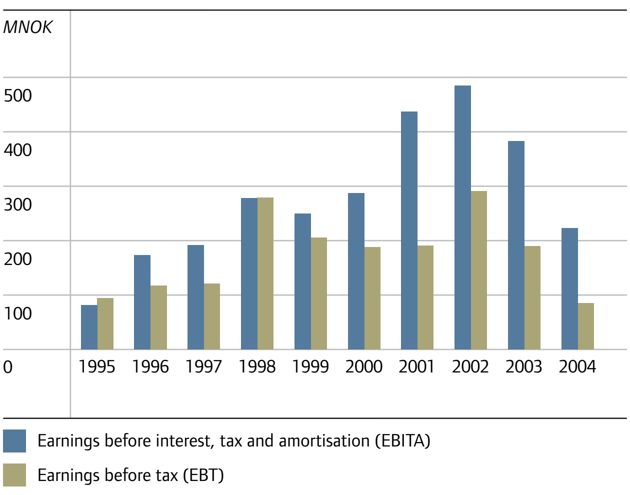
In September, KONGSBERG received a conditional bid for the purchase of the entire Kongsberg Maritime business area. The offer was for NOK 3.3 billion. The Board decided to reject the bid. In the Board's opinion, it would not have been financially or industrially prudent to sell the Group's maritime business area.

Offshore & Merchant Marine

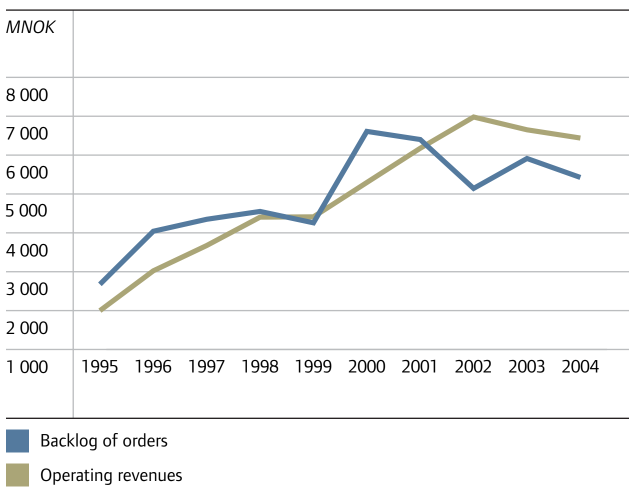
The segment posted operating revenues of MNOK 2 799 (MNOK 2 622) and had an EBITA of MNOK 246 (MNOK 253). The EBITA margin was 8.8 per cent (9.6 per cent). The margin was influenced by a dip in investment activity in the market for subsea reference systems early in the year. The segment developed favourably in the latter half of the year, regaining its previous level of profitability.

New orders added up to MNOK 3 010, up MNOK 250 from 2003. Orders for tankers and dry cargo carriers were strong again in 2004. This led to a high level of activity in Marine Automation.

Earnings



The Group's development



The company has maintained its position as a supplier of automation systems for standard merchant vessels in North-East Asia. Setting up operations in China contributed to the increase in new orders. Investments in Offshore and Subsea picked up in the latter half of the year, resulting in more activity in the Far East and Europe.

There is still a positive trend in steering systems for LNG tankers (LNG – Liquefied Natural Gas). The segment has supplied steering systems to a total of 59 LNG carriers, 28 of which are on order or under construction.

Although there is keener competition in the field of dynamic positioning systems, KONGSBERG maintained its position throughout 2004.

An agreement was signed with Fugro for the delivery of a HUGIN 3000 Autonomous Underwater Vehicle (AUV), the latest AUV model in the HUGIN family.

The segment signed a contract worth roughly MNOK 40 with Statoil for upgrading the safety and automation systems on the production ship *Norne*. The *Norne* contract is part of KONGSBERG's long-term collaboration with Statoil, which also covers operations, maintenance and modifications on Statfjord A, B and C, Heidrun and Åsgard A and B.

Offshore & Merchant Marine won a contract valued at MNOK 17.6 with the Norwegian National Coastal Administration for delivery of a nation-wide network based on an anti-collision system for vessel traffic (AIS – Automatic Identification System). More attention is being devoted to safety and surveillance at the international level. In the years ahead, approximately 150 nations the world over will be putting AIS infrastructure into place, pursuant to international standards.

Yachting & Fishery

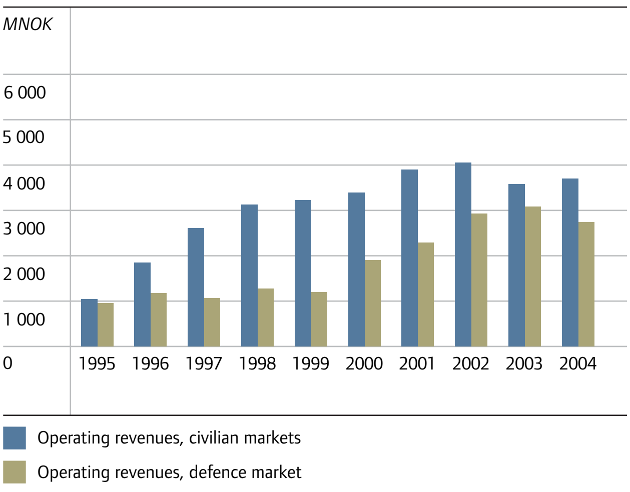
The segment earned operating revenues of MNOK 905 (MNOK 896). The increase in operating revenues is ascribable to acquisitions. Q4 revenues were 20 per cent lower than in the same quarter in 2003, mainly in the fisheries segment. The investment level in the fisheries segment remained low throughout the year, especially in northern Europe. This was also the main reason for the weak performance in 2004. The EBITA amounted to MNOK 8 (MNOK 44). The EBITA margin was 0.9 per cent (4.9 per cent).

Sales to boatbuilders increased in the yachting segment. The efforts to gain acceptance in this market in Europe and the USA are still on schedule. A new framework agreement was signed with Azimut, the Italian boatbuilder, and a number of Norwegian boatbuilders, including Scand Boats, which has chosen to install SIMRAD's new chart plotter as standard equipment on all new vessels to be built in 2005 and 2006.

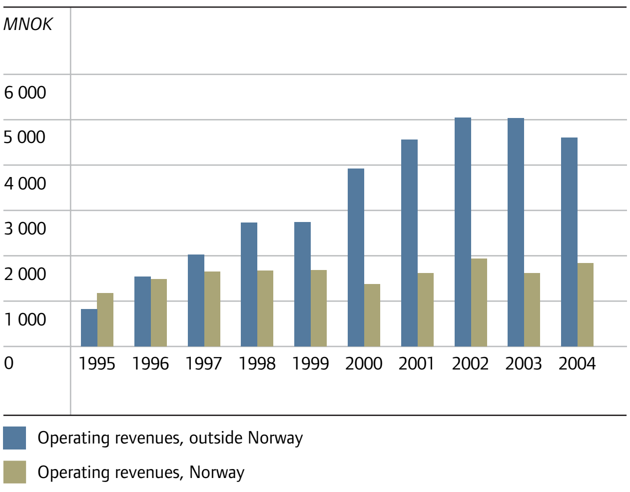
The market for yacht instrumentation (plotters, VHF radios and autopilots) has been characterised by sharp price competition. Measures have been initiated to respond to this competition.

The acquisition of B&G has lived up to expectations and contributed to SIMRAD attaining a clearer position with larger sailboats and regatta boats.

Operating revenues



Operating revenues



Kongsberg Defence & Aerospace (KDA)
The segment earned operating revenues of MNOK 2 704 (MNOK 3 084). The EBITA amounted to MNOK -43 (MNOK 93). The EBITA margin was -1.6 per cent (3 per cent). The result was impacted by a charge of MNOK 150 related to the NSM programme.

The segment had a backlog of orders at the end of 2004 valued at MNOK 3 648 (MNOK 4 352) and booked total new orders worth MNOK 2 000 (MNOK 3 706).

In June, the NSM missile made a successful development test shot and a procurement contract was offered to the Norwegian Navy. The preparations for future serial production (transition phase) will begin with a contract for MNOK 200 that was signed in December and will run through 2006. Serial production will begin subsequent to the development phase, beginning in 2006 at the earliest. Such a contract will require a special parliamentary resolution.

In 2004, Kongsberg Defence & Aerospace and Raytheon of the US signed a new 10-year cooperation agreement for air defence systems. The original agreement was signed in 1996. The contract has generated total new orders for Kongsberg Defence & Aerospace worth almost NOK 2 billion since 1996, although most of the contracts have been signed in the past four years. The agreement's potential is believed to have increased significantly as a result of the prolongation and the fact that it now also encompasses the US market. Five NATO states have opted for solutions from Kongsberg Defence & Aerospace and Raytheon, and new opportunities are being pursued actively. A strategically important development contract valued at MNOK 80 was signed with Raytheon of the US in connection with the US Army's new air defence programme SL-AMRAAM (Surface Launched Advanced Medium Range Air-to-Air Missile). The business area signed a MNOK 30 contract with Boeing in connection with the same programme. There is a strong potential for follow-on orders in the wake of these development contracts.

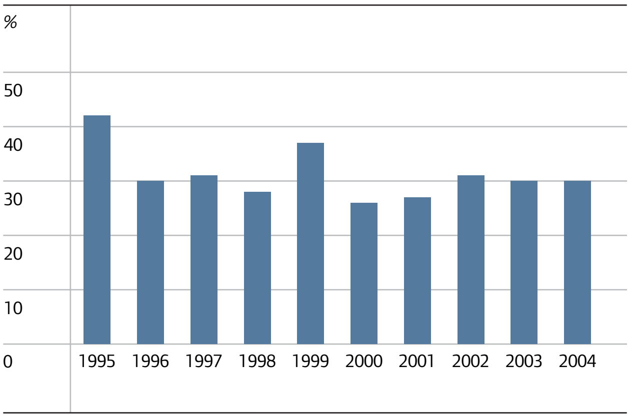
Kongsberg Defence & Aerospace has signed a contract valued at MNOK 54 with the Norwegian Armed Forces' Logistics Organisation to provide courses and training equipment for the part of the integrated weapons system scheduled for delivery to the new Norwegian frigates.

Kongsberg Defence & Aerospace has secured a contract worth MNOK 70 for the delivery of Penguin missiles to the Royal Australian Navy. The contract is piggybacked on two earlier contracts signed in 1998 and 1999.

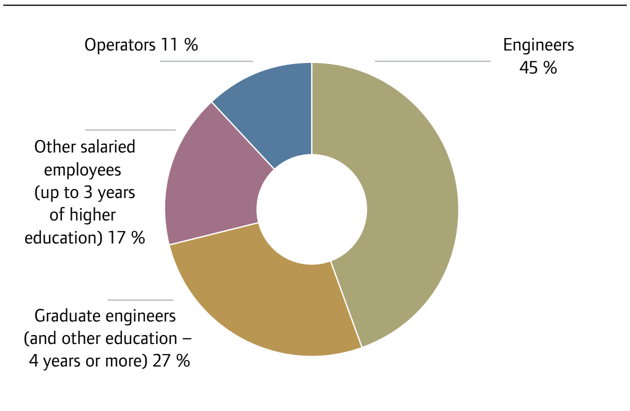
Kongsberg Defence & Aerospace's communications segment entered into contracts in Saudi Arabia for the delivery of communications equipment worth a total of MNOK 126. A contract with a scope of MNOK 140 was concluded for the delivery of a communication system to Romania. Towards year end, a spare parts contract related to the Multi Role Radio (MRR) was signed in Norway. This contract will complete the series deliveries of the Multi Role Radio, during the early half of 2005.

During the year, Kongsberg Defence & Aerospace won a contract for weapons control systems for armoured personnel carriers for the Australian Armed Forces. In July, a contract was

Equity ratios



Employees by level of education



signed with the US Army for weapons control systems valued at MNOK 175. The contract is part of a framework contract signed with General Dynamics Land Systems in 2000. Early in 2005, an agreement was signed for deliveries to Finland.

Kongsberg Satellite Services in Tromsø signed a framework contract with Honeywell STI of the US for the downloading of data from NASA satellites. The contract has a scope of MNOK 140 over a five-year period.

Risk

The Board monitors in the Group's risk profile closely and has introduced a special reporting system for follow-up. The reports are updated quarterly. The Board is of the opinion that a good balance has been struck between overall risk and the Group's ability to deal with risk.

KONGSBERG's operational risk is largely related to the implementation of projects of great technical complexity, where implementation capacity and product quality are decisive. The implementation of complex technical projects is a part of the Group's core competency. Historically, the Group's ability to implement projects and its product quality have been satisfactory. High quality and good delivery performance are among the Group's paramount objectives. The NSM was the most comprehensive development project once again in 2004. Tests conducted in 2004 confirmed that important features of the missile function as expected, reducing the technical and commercial risk. The development contract was signed in 1996 and is valued at NOK 1.6 billion. Prior to the test firing, the missile was subjected to comprehensive analyses, and the remaining parts of the development project were evaluated. The conclusion was that it would cost more than previously expected to complete the project. The effect of this was booked in its entirety in 2004. Plans have been made to expand the scope of NSM testing and to step up activities to reduce the level of risk associated with completion.

Business-related risk is related to market conditions, competitors and other general business conditions prevailing in the markets in which KONGSBERG operates. The shipbuilding market fluctuates over time, impacting KONGSBERG's deliveries of systems to ships. This market is currently expansive, especially in the Far East, but also in Europe where there has been a steep rise in contracts for newbuildings in 2004. The level of investment in the petroleum industry is another important parameter for KONGSBERG. Lately, this market has shown signs of picking up, especially for complex systems. KONGSBERG has maintained its market shares in this market. Competition is generally growing keener in most of the Group's markets. The market for instrumentation for yachts and fishing vessels is influenced by general economic trends; competition increased throughout 2004. KONGSBERG has implemented measures to adapt to market conditions.
Insofar as defence is concerned, sales with long lead times and large-scale individual projects can lead to fluctuations in activity levels. The Armed Forces' development of proprietary solutions in collaboration with Norwegian industry is decisive for continued growth and profitability in the long term.

Financial risk is mainly a factor of exchange rate fluctuations and financial capacity. The Group's competitiveness is influenced largely by the value of the NOK against other currencies, particularly the USD. This risk is closely related to the operational activities in the business areas. KONGSBERG's policy in the short- and mid-term is to hedge future net earnings in foreign currencies through forward exchange contracts. Throughout 2004, the Group's average exchange rates in USD were higher than the corresponding spot market rates. This had a positive effect on the results. Please see the notes to the accounts for more details. Permanent changes in the value of the NOK will have to be countered by strategic and operational measures, for example, by building up activities abroad, increasing foreign currency procurements and instituting cost-cutting measures. In early 2004, the Group prolonged its bank funding by establishing a five-year syndicated bank credit facility for MNOK 1 100. The Group also has ongoing programmes for loans in the bond and money markets. KONGSBERG hedges its loans through fixed-interest and interest swap agreements. Financial expenses associated with loans will gradually be reduced in the years ahead, given today's level of interest.

Health, Safety and the Environment (HSE)

KONGSBERG has a well-developed system for safety-related work. No serious job-related mishaps or accidents resulting in serious material damage or personal injuries to KONGSBERG employees occurred or were reported during the year. The directors aspire to help prevent job-related injuries and illnesses. Enthusiasm and accountability at all levels of the organisation are essential to achieve this goal. KONGSBERG gives high priority to human health, job satisfaction and safety. HSE work is done within the individual segments, and the Working Environment Committees work systematically, meeting on a regular basis. To give this field the attention it deserves, the individual companies in the Group have engaged professional expertise to provide advice and help ensure that the necessary HSE initiatives are implemented.

The table below charts trends in absence due to illness in the Group over the past three years.

	2004	2003	2002
Absence due to illness in %	3.2	3.2	3.3

An annual working environment survey is conducted to elicit employees' views on working for KONGSBERG, e.g. with emphasis on psycho-social conditions. The point of the survey is to find areas for possible improvements in the segments. The survey conducted in 2004 showed that the improvement processes are bringing results. Initiatives are tailor-made for the different areas.

KONGSBERG's operations are generally based on software development and systems integration, so few of them have any adverse impact on the environment. Of all the employees, 89 per cent work in offices, while 11 per cent are operators, for the most part in the fields of electronics and engineering. The directors strive to ensure the Group is operated in a sustainable, socially responsible manner focusing on active environmental measures. Environmental issues are reported as part of the Sustainability Report and are subject to Board approval.

Personnel and organisation

The Group faced a challenging year in 2004. Regrettably, it was necessary to downsize staff. At 31 December 2004, the Group had 4 017 employees (4 176), 898 (918) of whom worked outside Norway. At year end, the parent company had 33 employees.

The way in which KONGSBERG develops and deploys its human resources is an essential element of long-term success. To enhance the Group's ability to revitalise and improve decision-making processes, the goal is to cultivate diversity so that people of different backgrounds, cultures, educations and ways of thinking are represented. Part of that goal is to increase the percentage of female employees. Active efforts are made to encourage the transfer of knowledge between the business areas. Offering good personal development opportunities is an important policy instrument for recruiting and retaining employees. Efforts have been invested in various types of measures to ensure the recruitment of adequate and appropriate expertise to KONGSBERG. In 2004, a number of seminars were conducted in connection with the corporate Code of Ethics. This work will continue in 2005.

The Kongsberg School facilitates and coordinates courses and training programmes within the Group.

A joint resource group has been appointed to help develop qualified management talent throughout the corporation. The Kongsberg School offers a portfolio of management programmes. Women accounted for 20 per cent of the participants in regular management development programmes in 2004.

At year end, 885 (22 per cent) of KONGSBERG's employees were women, 63 of whom had supervisory responsibilities. Many women have been recruited to technical communities in recent years, but there is still limited access to female graduates in the areas most pre-dominant at KONGSBERG. As for the Board of Directors, two of the five shareholder-elected directors are women. Generally speaking, there are still few women in senior managerial positions. KONGSBERG will therefore continue to strive to increase the percentage of female managers and focus on the recruitment of women to technical positions. At KONGSBERG, the basic attitude is that women and men are to have equal opportunities. Salaries and terms of employment for comparable positions are the same for women and men. KONGSBERG attaches importance to being an attractive place of employment for women as well as for men.

2004 was a challenging year for employees, their trade union representatives and management, due to the many staff cuts that had to be made. Cooperation was nonetheless good with the trade unions through the established cooperation and co-determination schemes, providing constructive contributions to the development of the individual companies and the Group as a whole.

Corporate governance

Good corporate governance is characterised by responsible interaction between the owners, the Board and management, viewed in a long-term, value-adding perspective. KONGSBERG's Board of Directors aspires to inspire trust among the owners and other stakeholders. Issues related to corporate governance have been the subject of in-depth discussions by the Group's Board of Directors and management. A more detailed description is given on the pages 46–51 of this report.

Thirteen Board meetings and one Board seminar were held in 2004.

Prospects for 2005

Several of KONGSBERG's markets are developing favourably.

The Board believes there will continue to be risk inherent in the Missiles segment in 2005, although the successful NSM test results and the signing of a transition contract have mitigated the risk inherent in the development programme. Better profitability is expected in the military communications and weapons control systems segments.

A high level of activity is anticipated in the markets for Offshore & Merchant Marine. KONGSBERG enjoys good positions in these markets, providing a sound platform for further growth.

The Yachting & Fishery markets are in flux. The Yachting market is characterised by increasing pressure on prices. The Fishery market is encumbered by uncertainty related to the fishing fleet's investment level. Measures have been implemented to address these a challenge.

International competitive conditions still present challenges.

Acquisitions and other structural measures are considered on an ongoing basis. The Board expects operating revenues to be on a par with 2004.

Net profit and allocations

The parent company Kongsberg Gruppen ASA posted a net profit of MNOK 276 in 2004. The Board of Directors proposes the following allocations for Kongsberg Gruppen ASA:

Dividends	MNOK	60
Transferred to other equity	MNOK	216
Total allocations	MNOK	276

In addition, MNOK 20 was allocated as a Group contribution.

At 31 December 2004, KONGSBERG's distributable reserves totalled MNOK 610.

Kongsberg, 14 March 2005

Christian Brinch
Chairman

Benedicte Berg Schilbred
Deputy Chairman

Torolf Rein
Director

Siri Hatlen
Director

Niels Petter Wright
Director

Roy Harald Hove
Director

Roar Marthiniussen
Director

Jan Erik Hagen
Director

Jan Erik Korssjøen
CEO

Income statement 1 January - 31 December – Kongsberg Gruppen (The Group)

The income statement shows consolidated operating revenues and operating expenses for all companies in which Kongsberg Gruppen ASA owns more than 50 per cent, direct or indirectly. Kongsberg Gruppen uses EBITA (Earnings Before Interest, Tax and the Amortisation of goodwill) as a key profitability concept for its operations.

Amounts in MNOK	*Notes*	*2004*	*2003*	*2002*
Operating revenues	2	**6 439**	**6 651**	**6 980**
Raw materials and consumables		(2 782)	(2 831)	(3 125)
Personnel expenses	3, 4	(2 259)	(2 227)	(2 119)
Other operating expenses	5	(985)	(1 010)	(1 063)
Depreciation on tangible fixed assets	6	(190)	(200)	(188)
EBITA		**223**	**383**	**485**
Amortisation of goodwill	7	(88)	(92)	(81)
Operating profit (EBIT)		**135**	**291**	**404**
Share of profit/(loss) in associated companies	8	17	-	(9)
Net financial items	9	(67)	(101)	(104)
Earnings before tax (EBT)		**85**	**190**	**291**
Gains on sale of properties	10	-	-	10
Tax expense	11	(48)	(65)	(85)
Net profit for the year		**37**	**125**	**216**
Minority share		(4)	(1)	3
Majority share		41	126	213
Basic/diluted earnings per share in NOK	12	1.38	4.23	7.21

Balance sheet at 31 December – Kongsberg Gruppen (The Group)

The balance sheet shows the Group's consolidated assets and how they are financed through equity, interest-bearing debt and other liabilities, including prepayments from customers. Tangible fixed assets are assets intended for permanent ownership or use, e.g. machinery and plants, and land and buildings, in addition to goodwill. All assets related to commodity flows. Receivables due for repayment within one year and assets not intended for permanent ownership or commercial use are current assets. Liabilities include interest-bearing and interest-free funding, and consist mainly of the Group's borrowing from various credit institutions, prepayments from customers, receivables, and taxes and public fees due. Liabilities are classified as short-term if they fall due for payment within one year.

Amounts in MNOK	*Notes*	*2004*	*2003*	*2002*
Assets				
Deferred tax asset	11	-	8	7
Goodwill	7	1 124	1 194	1 213
Tangible fixed assets	6	1 077	1 100	1 082
Investments in associated companies	8	49	93	78
Financial fixed assets	4, 13	339	307	265
Total fixed assets		**2 589**	**2 702**	**2 645**
Inventory	14	842	793	661
Receivables	15	2 445	2 407	2 106
Investments		5	5	3
Bank deposits and cash equivalents		162	101	182
Total current assets		**3 454**	**3 306**	**2 952**
Total assets		**6 043**	**6 008**	**5 597**
Equity and liabilities				
Share capital		150	150	150
Treasury shares		(1)	(1)	(2)
Share premium reserve		832	832	832
Total paid-in equity		**981**	**981**	**980**
Other equity		813	818	714
Minority interests		18	31	47
Total equity	16	**1 812**	**1 830**	**1 741**
Deferred tax liabilities	11	530	496	435
Other provisions	10	96	107	107
Total provisions		**626**	**603**	**542**
Long-term interest-bearing liabilities	17	1 263	1 265	977
Total long-term liabilities		**1 263**	**1 265**	**977**
Prepayments from customers		766	931	818
Other short-term liabilities	19	1 576	1 379	1 519
Total short-term liabilities		**2 342**	**2 310**	**2 337**
Total liabilities		**4 231**	**4 178**	**3 856**
Total equity and liabilities		**6 043**	**6 008**	**5 597**

Kongsberg, 14 March 2005

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Deputy Chairman

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Jan Erik Hagen
Director

Jan Erik Korssjøen
CEO

Statement of cash flows – Kongsberg Gruppen (The Group)

A consolidated cash flow statement is influenced by three factors. The cash flow from operations indicates how the profit/loss earned during the period is reflected in pure cash flow after adding depreciation (not the cash effect), and adjustments for changes in short-term items and pension liabilities/assets and the proportional results from associated companies, as well as adjustments for the effects of gains/losses on the sale of business assets. The net cash flow from investments indicates which cash flow is used for necessary re-investment, and the cash flow from sales and changes in the capital tied up in other long-term financial assets. The net cash flow from financial activities indicates the cash flow generated by, for instance, the receipt of fresh shareholders' funds, receipts and disbursements in connection with the sale/acquisition of treasury shares and the payment of dividends to the owners. It also shows increases and decreases in interest-bearing debt.

Amounts in MNOK	*2004*	*2003*	*2002*
Earnings before tax (EBT)	85	190	291
Other items before tax	-	-	10
Taxes paid	(6)	(6)	-
(Profit)/loss on sale of fixed assets	-	(2)	(10)
(Profit)/loss on sale of shares	(31)	-	-
Depreciation and amortisation	278	292	269
Share of (profit)/loss in associated companies	(17)	-	9
Change in pension plan assets and pension liabilities	10	(36)	(44)
Change in shares and bonds	-	(2)	(1)
Change in short-term receivables	(18)	73	(91)
Change in projects in progress and inventories	(69)	(505)	18
Change in accounts payable	(47)	(32)	(80)
Change in prepayments from customers	(165)	113	(210)
Change in other accrual items	222	(2)	103
Net cash flow from operations	**242**	**83**	**264**
Payments for the acquisition of fixed assets	(197)	(292)	(291)
Payments for the acquisition of shares	(15)	(115)	(108)
Receipts from the disposal of fixed assets	12	3	83
Net receipts/payments on long-term receivables and shares	51	5	15
Net cash flow from investment activities	**(149)**	**(399)**	**(301)**
Net increase/decrease in interest-bearing debt	(2)	288	(116)
Receipts on sale of treasury shares	9	10	20
Payment of dividends	(39)	(63)	-
Net cash flow from financial activities	**(32)**	**235**	**(96)**
Net change in cash and cash equivalents	61	(81)	(133)
Cash and cash equivalents at 1 January	101	182	315
Cash and cash equivalents at 31 December	**162**	**101**	**182**

Accounting principles

The annual accounts are presented in compliance with the Norwegian Accounting Act of 1998, and have been prepared in accordance with generally accepted Norwegian accounting standards.

Consolidation of subsidiaries

The consolidated accounts include the companies in which Kongsberg Gruppen ASA directly or indirectly owns more than 50 per cent of the shares and has a controlling interest. The most significant companies included in the consolidated accounts are listed in Note 1 to the parent company's accounts. The consolidated accounts show the Group's financial position and results when all units are considered as a whole. Shares in subsidiaries are eliminated in accordance with the acquisition method of accounting. Excess value that cannot be assigned to identifiable assets is classified as goodwill. New subsidiaries are included in the consolidated accounts from the date of acquisition. For successive share purchases, identifiable assets are restated at their fair values at the time the Group obtains a controlling interest. Excess value due to goodwill is calculated on each individual acquisition. Subsidiaries sold during the year are included on the income statement up to the date of disposal. Inter-company revenues, costs and balances have been eliminated.

Translation – foreign subsidiaries

The accounts of the foreign subsidiaries are included in the income statement at average exchange rates for the year. Balance sheet items, including goodwill related to foreign subsidiaries, are translated at the rates that applied on 31 December. Translation differences are booked against consolidated shareholders' equity.

Valuation and classification of assets and liabilities

The classification of items during the fiscal year is based on the assumption that assets associated with transaction flows, claims to be settled within one year and "assets not intended for permanent ownership or use" are current assets. Other assets are classified as tangible fixed assets. Commercial papers are classified as long-term liabilities because it is possible to convert them into long-term bank loans. Current assets are valued at cost or their net market value, whichever is lower. Fixed assets are valued at cost less depreciation and write-downs, if any. Tangible fixed assets are written down if their market value is lower than their book value and the difference is considered to be of a permanent nature.

Foreign currency

Receivables and liabilities are translated at the exchange rate applicable on the date of balance sheet recognition. Gains and losses related to items in the commodity flow are classified as operating revenues and expenses.

Intangible assets

Goodwill is amortised on the basis of the estimated gains expected in conjunction with the acquisition of each individual company. At each closing of the accounts, the value of remaining goodwill is estimated and changes, if any, are made in write-downs or amortisation periods. All costs related to equity-financed research and development have been charged to the income statement.

Tangible fixed assets

Tangible fixed assets are depreciated on a straight-line basis over expected useful life of the asset.

Ownership interests in associated companies and subsidiaries

Associated companies are defined as those in which KONGSBERG has significant influence. Interests in associated companies are valued in the consolidated accounts in accordance with the equity method of accounting. In the parent company accounts, ownership interests refer to shares and interests in associated companies valued on the basis of the cost method of accounting.

Other long-term shareholdings and ownership interests

Long-term shareholdings and interests in companies in which KONGSBERG does not exercise significant influence are recognised at cost. The investments are written down to their actual value if the decline in value is not of a temporary nature. Dividends and other allocations of profit from the companies are reported under 'Other financial income'.

Investments in other enterprises (short-term shareholdings)

Other short-term investments are valued at the average cost price or actual value on the date of balance sheet recognition, whichever is lower.

Inventory

Inventory is valued at its average cost price or net realisable value, whichever is lower. The net realisable value of raw materials and work in progress is calculated as the sales value of the finished products less remaining production and sales costs.

Income recognition principles

The Group's main business objective is to develop and manufacture products and systems based on orders received. The processed value of the work in progress is booked as operating revenue. Uninvoiced work in progress is reported on the balance sheet under 'Projects in progress'. Work in progress is stipulated as incurred production costs plus a proportional share of the estimated contract profit. Production costs include direct wages, direct materials and a proportional share of the individual business areas' indirect costs, while general development costs, sales costs, common administrative costs and interest are not included in production costs.

Accrued contract profit includes the interest income on prepayments from customers that exceeds the capital tied up in the individual projects. The estimated accrued contract profit shall not exceed a proportional share of the estimated total contract profit. The proportional share of the contract profit is based on the degree of completion of the individual contract, which is largely determined on the basis of the costs incurred compared with the anticipated overall costs at the time of valuation. Contract profit is not recognised as income until a project's final result can be estimated with a reasonable degree of certainty. Any anticipated loss on the remainder of a project shall be expensed in full immediately.

Estimates of contract profits for projects can involve a number of discretionary variables. This is especially true of the scope of anticipated remaining expenses. Such estimates are based on the best judgement of management. However, owing to the scope and complexity of the estimates, the final results upon completion of the contract may deviate from the estimates made at the time of closing the accounts.

In special cases, work on projects will commence and expenses will be incurred before a customer places a formal order. This presupposes a strong probability that a contract will be signed.

Income from the sale of ordinary is recognised upon delivery.

Receivables

Accounts receivable and other debts are listed on the balance sheet at nominal amounts less provisions for anticipated losses. Provisions for losses are based on individual assessments regarding the collectability of each receivable. In addition, a general provision is made to cover potential losses on other receivables.

Financial instruments
Kongsberg Gruppen uses financial instruments to manage foreign exchange and interest rate exposure. Most forward foreign exchange contracts are used to hedge future cash flows and balance sheet items in foreign currency. Gains and losses on foreign exchange contracts which satisfy the criteria for hedging are reported and evaluated in tandem with the hedged item. Amounts received or paid in connection with interest rate swaps which satisfy the criteria for hedging interest-bearing assets or liabilities are recorded over the term of the contract. Gains and losses on hedging instruments rolled over prior to their expiry are recognised on the balance sheet and income statement over time along with the underlying hedged item.

Pensions
The parent company and subsidiaries the parent company and subsidiaries have collective pension schemes which entitle employees to certain future pension benefits in accordance with net benefit plans. Pension benefits are based on the number of years of earned pension rights and salary level at retirement. There are also early retirement plans for some executives. In the income statement, the year's net pension expenses, after a deduction for the anticipated return on the pension plan assets, have been recorded as 'Personnel expenses'. In the balance sheet, net pension plan assets, including social security expenses, are reported as 'Financial fixed assets'. Differences estimated between the pension obligations and the pension plan assets are amortised over the assumed average years remaining until retirement age if net differences exceed 10 per cent of the gross pension obligations or pension plan assets, whichever is higher. Adjustments in the plan changes in the pension plan are distributed over the average number of years remaining until retirement age.

The financial and actuarial assumptions are subject to annual evaluations. The discount rate is based on the long-term government bond interest rate, plus a supplement that reflects the timeline for calculating the pension liability.

The Group's legal liability is not affected by the treatment of pensions in the accounts.

Uncertain commitments
Uncertain commitments are booked if there is more than a 50 per cent chance that a problem will arise. Best estimates are used to calculate the settlement value.

Taxes
Tax expenses in the income statement include payable taxes and the change in deferred taxes. The change in deferred taxes reflects the future payable taxes resulting from the current year's activities. Deferred taxes are based on accumulated profit, but they fall due in subsequent accounting periods. Deferred taxes are calculated on net tax-increasing differences between the balance sheet items used for accounting purposes and those used for taxation purposes, adjusted for temporary tax-decreasing differences and tax losses carried forward according to the liability method. Income from long-term production contracts is not recognised for tax purposes until an individual contract has been completed. Owing to KONGSBERG's volume of large, long-term contracts, there are therefore considerable temporary tax-increasing differences.

Share transactions with employees
Discounts on the sale of shares to employees are booked as payroll expenses.

Notes – Kongsberg Gruppen (The Group)

Notes provide further details about some of the items on the income statement and the balance sheet. The notes also cover other factors of significance, including commitments that cannot be booked on the balance sheet, e.g. guarantees and currency transactions.

1 Changes in Group structure

2002

Seaflex

In January 2002, Kongsberg acquired 62 per cent of the shares in Seaflex AS in Asker for MNOK 21. The acquisition was made to strengthen the Group's activities in the offshore industry. Seaflex specialises in riser technology for offshore oil and gas production. In 2004, further acquisitions were made and the Group's stake is now 70.4 per cent.

Kongsberg Satellite Services

In January 2002, Kongsberg and the Norwegian Space Centre merged their satellite activities on Svalbard and in Tromsø, establishing a new 50/50 joint venture, Kongsberg Satellite Services AS. The goal was to improve satellite servicing operations, including earth observation services from Svalbard and Tromsø.

ABB's dynamic positioning activities

In summer 2002, Kongsberg and ABB AS signed a world-wide cooperation agreement on marketing, sales and technology development relating to ships and offshore vessels. As a part of the agreement, ABB's dynamic positioning activities were transferred to Kongsberg Simrad for MNOK 60.

HKM

To enhance its strategic market position in the Far East, in 2002, Kongsberg acquired the majority of shares (58 per cent) in the company HKM Co. Ltd. of South Korea. In 2004, the Group increased its stake, bringing total investments in the company to MNOK 87.5 (96.9 per cent).

SensIT

In November 2002, the focus on ships' systems led to the acquisition of the remaining 68 per cent of the shares in SensIT AS, giving Kongsberg a technological edge in wireless sensors for monitoring rotating machinery. The shares carried a price tag of MNOK 9.5. Kongsberg now owns 100 per cent of SensIT. In 2003, the activities of SensIT AS were transferred to Kongsberg Maritime Ship Systems AS.

Fire & Safety

As a link in the focus on ships' systems, in December 2002, Kongsberg agreed to sell its fire and safety unit in Kongsberg Maritime Ship Systems (KMSS) in Trondheim to Autronica Fire & Safety AS, a subsidiary of KIDDE plc. The unit had MNOK 85 in operating revenues and 25 employees. The sales price was MNOK 55.5.

2003

B&G (Brookes & Gatehouse)

In 2003, Kongsberg acquired Brookes & Gatehouse Ltd. (B&G) of the UK for MNOK 32. B&G is highly respected for its sailboat instrumentation products, and enjoys large market shares, particularly for the largest, most advanced sailboats. The acquisition fortified the Group's Yachting & Fishery segment, where Simrad already has a strong brand name.

Other new ventures/acquisitions

To enhance Kongsberg Maritime's strategic market position, in 2003, new ventures were set up in Shanghai (China), Rio de Janeiro (Brazil), New Orleans (USA), Viareggio (Italy), Schleswig (Germany), Casablanca (Morocco) and Lunenburg (Canada). Further, Simrad's distribution company Bennex Holland BV of The Netherlands was acquired for MNOK 19 to ensure distribution in that area.

2004

The Group engaged in no significant acquisitions or sales of subsidiaries in 2004. The structure of Kongsberg Maritime was simplified through a merger of the companies Kongsberg Maritime AS, Kongsberg Simrad AS and Kongsberg Maritime Ship Systems AS.

2 Operating revenues

The note shows the geographical distribution of the Group's sales revenues, based on customers' locations and the distribution of certain key figures by segment.

By geographical area

Amounts in MNOK	*2004*	*2003*	*2002*
Norway	1 839	1 618	1 939
Scandinavia	223	247	381
Europe	1 987	2 125	1 959
America	1 277	1 505	1 514
Asia	1 017	998	963
Other	96	158	224
Total	**6 439**	**6 651**	**6 980**

Key figures by segment

Intra-Group transactions are priced at market value.

Amounts in MNOK	*Operating revenues*	*Operating expenses*	*EBITA*	*Amorti-sation of goodwill*	*Operating profit/ (loss)*	*Tied-up capital 1)*	*Customer pre-payments*	*Non-interest-bearing debt 2)*	*Invest-ments*	*Depreciation and write-downs*
2002										
Offshore & Merchant Marine	2 963	2 709	254	63	191	2 677	72	936	203	68
Yachting & Fishery	815	771	44	11	33	835	-	237	28	34
Defence & Aerospace	3 084	2 906	178	7	171	1 782	746	1 021	113	80
Other/elimination	118	109	9	-	9	118	-	(133)	16	6
Total	**6 980**	**6 495**	**485**	**81**	**404**	**5 412**	**818**	**2 061**	**360**	**188**
2003										
Offshore & Merchant Marine	2 622	2 369	253	73	180	2 808	125	879	74	71
Yachting & Fishery	896	852	44	13	31	947	-	314	91	37
Defence & Aerospace	3 084	2 991	93	6	87	2 142	806	1 059	121	85
Other/elimination	49	56	(7)	-	(7)	5	-	(270)	6	7
Total	**6 651**	**6 268**	**383**	**92**	**291**	**5 902**	**931**	**1 982**	**292**	**200**
2004										
Offshore & Merchant Marine	2 799	2 553	246	67	179	3 040	78	1 070	61	67
Yachting & Fishery	905	897	8	15	(7)	815	-	272	44	39
Defence & Aerospace	2 704	2 747	(43)	6	(49)	2 050	688	1 124	88	77
Other/elimination	31	19	12	-	12	(29)	-	(264)	4	7
Total	**6 439**	**6 216**	**223**	**88**	**135**	**5 876**	**766**	**2 202**	**197**	**190**

1) Tied-up capital consists of total assets less short-term financial investments as well as bank deposits and financial investments.

2) Interest-free liabilities include all debt less prepayments from customers and interest-bearing liabilities.

3 Personnel expenses, number of employees and remuneration

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

Personnel expenses

Amounts in MNOK	*2004*	*2003*	*2002*
Personnel expenses	1 807	1 809	1 742
Social security expenses	248	251	238
Pension expenses incl. social security	126	94	65
Other benefits	78	73	74
Total	**2 259**	**2 227**	**2 119**
Average number of employees during the fiscal year.	4 097	4 192	4 110

Remuneration to the CEO

NOK	*2004*
Salary	2 497 476
Performance-linked pay	96 250
Pension premium for the CEO	1 454 202
Other remuneration	136 016

The Board has decided that directors' fees for subsidiaries are to be part of the CEO's salary from 1 January 2004. Further, it was decided to increase the CEO's salary by two per cent to NOK 2 489 500 from July 2004. The CEO's salary consists of a fixed salary and performance-linked pay based on budget and target achievement and with a ceiling of 2.5 times his monthly salary. The CEO has six months' reciprocal notice of resignation/termination. Apart from the notification period, the CEO may be entitled to full wages until he begins in a new position, limited to up to one year after severance.

Like the CEO, the other corporate executives also receive remuneration consisting of a fixed salary and performance-linked pay limited to 2.5 times their monthly salary. Apart from the term of notice, they may be entitled to full wages until they begin in a new position, limited to up to one year after severance.

The corporate executives (6 individuals) have early retirement agreements from the age of 60. The benefits give them 90 per cent of their salary upon retirement at age 60, diminishing by 10 per cent per year to 60 per cent of their salary from age 63 to age 67. In 2003, a group of sub-executive managers (13 individuals) with considerable leadership responsibility signed an agreement entitling them to early retirement from age 62, based on 65 per cent of their salaries up to age 67.

Directors' fees

NOK	*2004*
Directors' fees	1 128 000

4 Pension expenses, assets and liabilities

The Group has a service pension plan that covers all the Group's employees in Norway. At 31 December 2004, 3 119 employees were covered by the scheme, which is insured through Gjensidige NOR. The schemes are treated as benefit plans. Pension benefits are based on the number of years of earned pension rights and salary level at retirement. The pension scheme also includes salary levels over and above 12G.

The calculation of future pension obligations is based on the following assumptions:

	2004	*2003*	*2002*
Discount rate	6.0 %	6.0 %	7.0 %
Anticipated rate of return	6.0 %	7.0 %	8.0 %
Salary adjustment	3.0 %	3.0 %	3.0 %
Pension base level adjustment	3.0 %	3.0 %	3.0 %
Pension adjustment	3.0 %	3.0 %	2.0 %
Turnover	3.0 %	3.0 %	2.0 %

The year's pension costs were calculated as follows:

Amounts in MNOK	*2004*	*2003*	*2002*
Service cost	63	51	43
Interest cost on pension liabilities	59	54	45
Estimated return on pension plan assets	(52)	(53)	(50)
Amortisation of estimated deviation	21	12	8
Amortisation, plan changes	10	10	2
Accrued social security expenses	14	11	7
Total net pension expenses	**115**	**85**	**55**
Expenses related to defined contribution plans outside Norway	11	9	10

Amounts in MNOK	*2004*	*2003*	*2002*
Gross pension liabilities	(1 101)	(1 011)	(730)
Gross pension plan assets	860	773	683
Net pension plan assets/(liabilities)	**(241)**	**(238)**	**(47)**
Unrecognised plan changes	36	46	28
Unrecognised estimated deviation	378	374	168
Accrued social security expenses	25	26	23
Net prepaid pensions	**198**	**208**	**172**

The age limit for an early retirement pension (AFP) is 62. The Group's extended pension liabilities are included in the accounts in accordance with actuarial standards based on a lower ordinary retirement age, 20 per cent signing propensity, 25 per cent employer financing and otherwise the same assumptions as apply to ordinary pensions. Changes in actual signing propensity as well as final funding can lead to changes in the final pension liabilities.

Pension expenses for the year are estimated based on the financial and actuarial assumptions that apply at the beginning of the year. Gross pension liabilities are based on the financial and actuarial assumptions made at year end. The pension plan assets are invested as follows: 33 per cent in long-term bonds, 17 per cent in the money market, 18 per cent in bonds, 17 per cent in equities, 12 per cent in property and 3 per cent in 'other'. The gross value of pension plan assets includes an anticipated yield of 6 per cent for 2004.

5 Other operating expenses

Other operating expenses consist of all operating expenses apart from wages and depreciation. Selected types of costs are specified below.

Amounts in MNOK	*2004*	*2003*	*2002*
Sales, advertising, etc.	90	102	86
Contracted services	214	221	226
Repairs and maintenance	57	43	48
Rent-related expenses	164	156	151
Travel and *per diem* expenses	210	212	228
Procurements related to operations	80	97	156
Other	170	179	168
Total	**985**	**1 010**	**1 063**

Remuneration to the auditor for 2004

NOK 1 000	*Parent company*	*Sub-sidiaries in Norway*	*Sub-sidiaries abroad*	*Total*
Corporate auditor Ernst & Young				
Auditing fee	600	4 224	1 935	6 759
Fees for other auditing-related services	328	891	40	1 259
Fees for other tax-related services	78	1 599	319	1 996
Others auditors				
Estimated auditing fees		63	922	985
Fees for other services		18	853	871

6 Tangible fixed assets

The figures indicate the Group's investments in tangible fixed assets. The note states original acquisition costs and balance sheet values by type of production equipment. The Group uses straight-line depreciation for all tangible fixed assets.

Amounts in MNOK	*Machinery and plant*	*Technical facilities*	*Land, buildings and other real property*	*Total*
Cost price at 1 January	498	1 018	922	2 438
Exchange rate differences	(4)	(4)	(4)	(12)
Additions	32	134	12	178
Disposals	(14)	(25)	(15)	(54)
Cost price at 31 December	**512**	**1 123**	**915**	**2 550**
Accumulated depreciation/write-downs at 31 December	(360)	(865)	(248)	(1 473)
Book value at 31 December	**152**	**258**	**667**	**1 077**
Ordinary depreciation for the year	33	115	42	190
Depreciation rates	10–33 %	12–33 %	0–10 %	
Annual rent for operating leases not recognised on the balance sheet	4	8	132	144

7 Intangible assets

Goodwill

Goodwill is the premium the Group has paid over and above any added value that can be traced to identifiable assets in connection with acquisitions.
Goodwill is amortised on the basis of the estimated gains expected in conjunction with the acquisition of each individual company. Goodwill is amortised over 5 to 20 years. Each time the accounts are closed, the value of remaining goodwill is estimated and changes, if any, are made in write-downs or amortisation periods.

Amounts in MNOK	*Acquisition cost at 1 January*	*Additions/ Disposals*	*Exchange rate differences*	*Acquisition cost at 31 December*	*Amortisation for the year*	*Accumulated deprec./write downs 31 Dec.*	*Closing balance at 31 December*
Yachting & Fishery	274	7	(2)	279	15	97	182
Offshore & Merchant Marine	1 307	12	(1)	1 318	67	435	883
Defence & Aerospace	88	-	-	88	6	29	59
Total goodwill	**1 669**	**19**	**(3)**	**1 685**	**88**	**561**	**1 124**

Goodwill by major acquisition

Amounts in MNOK	*Year of acquisition*	*Amortisation for the year*	*Closing balance at 31 Dec.*
Simrad	1996	19	185
Navico	1998	4	49
Navia	2000	40	640
Kongsberg Defence Communications	2000	5	53
ABB's Dynamic Positioning activity	2002	3	52
Kongsberg Maritime Korea	2002/2003/2004	7	33
Brookes & Gatehouse	2003/2004	2	48
Total major acquisitions		**80**	**1 060**

Research and development (R&D)

KONGSBERG's spends more than 10 per cent of its operating revenues on R&D. Of that amount, MNOK 317, corresponding to 5 per cent of operating revenues, is equity-financed. None of the equity-financed expenses are considered to satisfy the criteria for balance sheet recognition. The externally funded projects entail permanent commercial rights. It is important that development activities be aimed at the Group's core areas.

8 Shares in associated companies, etc.

Associated companies are companies in which the Bank owns between 20 and 50 per cent. These investments are booked by reporting the Group's share of the companies' profit/loss after tax, adjusted for excess/negative values, if any. The balance sheet presents stakes at their cost price plus accumulated results, but adjusted for accumulated excess/negative values and dividends received, if any. A dividend is the disbursement of accrued funds and cannot be booked since the Group's share of the result has already been booked.

Amounts in MNOK	*Year of acquisition*	*Stake and voting interest*	*Opening balance at 1 January*	*Additions/ Disposals*	*Dividends*	*Share of profit incl. amortisation of excess/negative value*	*Closing balance at 31 December*
Kitron ASA (Asker) 1)	1998	19.0 %	61	(61)	-	-	-
Kongsberg Satellite Services AS (Tromsø)	1998	50.0 %	27	-	-	13	40
CCIS House AS (Asker)	1998	42.5 %	2	-	-	-	2
Kongsberg Terotech AS (Kongsberg)	1988	50.0 %	-	-	-	4	4
Reime Prosess Notodden AS (Notodden)	2002	49.0 %	3	-	-	-	3
Total			**93**	**(61)**	**-**	**17**	**49**

1) Disposal as a result of selling down, where the company is treated according to the cost method of accounting.

9 Net financial items

Net financial items consist of all consolidated interest income and interest expenses associated with corporate funding. Moreover, the net foreign exchange effects of the Group's financial activities are reported as net exchange gains or losses. Exchange gains or losses linked to commodity flows are booked as operating items.

Amounts in MNOK	*2004*	*2003*	*2002*
Interest income	1	1	3
Interest expenses	(86)	(89)	(101)
Net interest expenses	**(85)**	**(88)**	**(98)**
Other financial items, net	(13)	(18)	(23)
Gain on sale of shares	31	5	17
Total	**(67)**	**(101)**	**(104)**

10 Sale and leaseback of property

In 1999, 2001 and 2002, the subsidiary Kongsberg Næringseiendom AS sold real estate located in Kongsberg Industrial Park. The properties have been leased back on long-term leases that will continue to apply until 2014, 2018 and 2017, respectively. The lease-backs are considered operational leasing agreements.

In addition to the rent, Kongsberg Næringseiendom is responsible for certain expenses associated with fees on and the maintenance of the properties. The leases have durations ranging from three months to nine years. Of the property sold, 20 per cent is rented to Group companies.

The gains earned on the sale of the properties are booked under 'Other items' on the income statement. The gains appear after provisions for commitments Kongsberg Næringseiendom has undertaken to cover lease-back costs, fees and maintenance beyond what is expected to be covered by the rents received from the tenants. The present value of the commitments is estimated at MNOK 96. (MNOK 107 in 2003 and 2002). The provision is assessed on an ongoing basis in relation to any changes in rental terms and Kongsberg Næringseiendom's obligations.

Amounts in MNOK	*2004*
Provision 1 Jan.	107
Costs covered by the provision	(8)
Estimated financial expenses	5
Reduction of provision	(8)
Provision 31 Dec.	**96**

In connection with the sale of property in 2001, Kongsberg Næringseiendom extended an interest-bearing seller's credit of MNOK 20 which is listed under 'Other long-term liabilities'. Kongsberg Næringseiendom has options to buy back the properties sold in 2001 at their market values upon expiry of the leases.

Amounts in MNOK	*Year of sale*	*Amount of sale*	*Rent payable in 2005*	*Remaining term of lease*	*Weighted average sub-lease period*
A total of 32 400 m2 of industrial premises/offices	1999	350	35.2	10 years	7.5 years
A total of 43 800 m2 of industrial premises/offices	2001	265	25.9	14 years	2.9 years
A total of 6 200 m2 of industrial premises/offices	2002	55	4.7	13 years	6.9 years

The parent company has guaranteed Kongsberg Næringseiendom's payments for the lease-back of properties that have been sold. The rents are adjusted annually. All properties enjoy almost full occupancy.

11 Tax

Deferred tax

Deferred tax represents future payable tax-related commitments for the Group. Deferred tax arises as a result of possible differences in account-related and tax-related accruals. This applies especially to differences related to long-term production contracts. Deferred tax/deferred tax assets have been calculated on temporary differences and tax losses carried forward related to:

Amounts in MNOK	*2004*	*2003*	*2002*
Fixed assets/non-current liabilities	432	230	174
Current assets/current liabilities	1 744	2 087	1 879
Tax loss carried forward	(283)	(575)	(524)
Temporary differences and tax loss carried forward	**1 893**	**1 742**	**1 529**
Deferred tax	530	496	435
Deferred tax assets abroad	-	(8)	(7)
Net deferred tax	**530**	**488**	**428**

Tax expense

Total taxes are calculated on the basis of earnings before tax.
Tax expenses comprise the following items:

Amounts in MNOK	*2004*	*2003*	*2002*
Change in deferred tax in Norway and abroad	42	60	85
Tax payable in Norway and abroad	6	5	-
Tax expenses	**48**	**65**	**85**
Reconciliation of effective and nominal tax rates			
28% of the EBT (earnings before tax) and gains on the sale of properties	24	53	84
Net amortisation of goodwill at Group level	4	4	3
Effect of differences in tax rates and tax assets abroad not taken into account	17	2	9
Other permanent differences	3	6	(11)
Tax expenses	**48**	**65**	**85**

12 Basic/diluted earnings per share

Basic/diluted earnings per share have been calculated by dividing the profit for the year by a weighted average number ordinary shares outstanding in the period from 1 January 2004 to 31 December 2004. Ordinary shares bought back during the period under review are weighted proportionate to the length of time they have been outstanding during the reporting period.

	2004	*2003*	*2002*
Majority share of the profit for the year (MNOK)	41	126	213
Share capital (million shares)	30.0	30.0	30.0
Weighted no. of shares outstanding (million shares)	29.8	29.7	29.5
Basic/diluted earnings per share in NOK	1.38	4.23	7.21

13 Financial fixed assets

Financial fixed assets represent financial investments intended for permanent ownership or use.

Amounts in MNOK	*2004*	*2003*	*2002*
Other shareholdings 1)	63	15	13
Net pension assets	198	208	172
Loans to employees	21	16	12
Loans to associated companies	31	33	34
Other long-term receivables	26	35	34
Total	**339**	**307**	**265**

1) KONGSBERG's shares in Kitron ASA were worth MNOK 50 in 2004, corresponding to a stake of 19 per cent.

14 Inventory

This note shows the Group's aggregate inventories, by raw materials and finished products.

Amounts in MNOK	*2004*	*2003*	*2002*
Raw materials	519	449	337
Work in progress	57	48	45
Finished products	266	296	279
Total	**842**	**793**	**661**

15 Receivables

Amounts in MNOK	2004	2003	2002
Accounts receivable	1 150	1 164	1 195
Projects in progress	1 068	1 048	675
Other receivables	211	163	153
Prepayments to suppliers	16	32	83
Total	**2 445**	**2 407**	**2 106**

Amounts in MNOK	Total orders	Operating rev. 2004	Operating Acc.	Retained operating revenues
Missile and aerospace products	2 586	15	2 122	464
Naval defence products	3 085	417	1 965	1 120
Anti-aircraft, trainers and simulators	1 883	278	1 468	415
Weapons control systems	1 461	365	1 276	185
Military communications	3 711	632	2 651	1 060
Total	**12 726**	**1 707**	**9 482**	**3 244**

Long-term production contracts

The Group has long-term production contracts in Offshore & Merchant Marine and Defence & Aerospace. Most of Offshore & Merchant Marine's projects have a duration of less than two years, and earnings on individual projects make a modest contribution to consolidated earnings. Defence & Aerospace projects are of longer duration and total earnings on an individual project make a substantial contribution to the Group's activities. The projects in progress in the individual product areas at Defence & Aerospace are based on the following:

The production remaining on loss projects within Kongsberg Defence & Aerospace that is included on the balance sheet at year-end 2004 comes to MNOK 440. All anticipated losses have been booked.

The Naval Strike Missile (NSM) programme is divided into three main phases: development and qualification, the transition from development and qualification to production, and the production of missiles. In December, a contract was signed regarding the costs of the transition phase from development and qualification to production. To optimise preparations for the production of missiles, activities with long lead-times have been started prior to the signing of a contract for the production phase.At the end of 2004, inventory valued at MNOK 34 was connected with the production phase. The corresponding figure for 2003 aggregated MNOK 10 related to the transition phase.

16 Equity

Equity should in principle develop at a pace commensurate with the result, but certain elements may be recorded directly against equity. Examples of this are share issues, dividends and translation differences related to foreign subsidiaries and currency fluctuations. The purchase or sale of treasury shares will be direct equity transactions and holdings of treasury shares will be presented as a reduction in equity.

Amounts in MNOK	Share capital	Treasury shares	Share premium fund	Other equity	Total, parent company	Group companies	Total group
Equity at 1 Jan. 2002	**150**	**(3)**	**832**	**379**	**1 358**	**180**	**1 538**
Treasury shares	-	1	-	24	25	-	25
Net profit	-	-	-	43	43	173	216
Translation differences	-	-	-	-	-	(4)	(4)
Dividends	-	-	-	(63)	(63)	-	(63)
New minority interests	-	-	-	-	-	29	29
Equity at 31 Dec. 2002	**150**	**(2)**	**832**	**383**	**1 363**	**378**	**1 741**
Treasury shares	-	1	-	11	12	-	12
Net profit	-	-	-	59	59	66	125
Translation differences	-	-	-	-	-	8	8
Dividends	-	-	-	(39)	(39)	-	(39)
Acquisition of/dividends to minority interests	-	-	-	-	-	(17)	(17)
Equity at 31 Dec. 2003	**150**	**(1)**	**832**	**414**	**1 395**	**435**	**1 830**
Treasury shares	-	-	-	12	12	-	12
Net profit	-	-	-	276	276	(239)	37
Dividends	-	-	-	(60)	(60)	-	(60)
Acquisition of/dividends to minority interests	-	-	-	-	-	(7)	(7)
Equity at 31 Dec. 2004	**150**	**(1)**	**832**	**642**	**1 623**	**189**	**1 812**

Share capital

At 31 December 2004, the Group's share capital consisted of 30 000 000 shares with a nominal value of NOK 5 per share.

Share capital trends

Type of expansion	*Date*	*Total shares*	*Nominal value*	*Amount in MNOK*	*Adjustment factor*	*Share capital in MNOK*
Stock Exchange launch	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		1:4	120
Share issue	1999	30 000 000	5	30		150

The principal shareholders at 31 December 2004 were

Name	*Number of shares*	*Stake*
The Norwegian State as repr. by the Ministry of Trade and Industry	15 000 400	50.0 %
The National Insurance Fund	2 302 760	7.7 %
JP Morgan Chase Bank	1 512 200	5.0 %
Arendals Fossekompani ASA	1 219 477	4.1 %
MP Pensjon	1 203 200	4.0 %
Odin Norge	1 163 626	3.9 %
Skagen Vekst	958 650	3.2 %
Ferd Invest AS	650 000	2.2 %
Odin Norden	285 000	1.0 %
Odin Offshore	200 000	0.7 %
Total	**24 495 313**	**81.7 %**
Other (stake < 1%)	5 504 687	18.3 %
Total number of shares	**30 000 000**	**100.0 %**

Distribution of shareholders by size of holding

Number of shares	*Number of owners*	*Holding %*
1–100	831	0.18
101–1 000	2 185	2.91
1 001–10 000	578	4.52
10 001–100 000	57	6.51
100 001–1 000 000	13	11.21
More than 1 000 000	6	74.67
Total	**3 670**	**100.00**

Of the 3 670 shareholders at 31 December 2004, 250 were non-Norwegians and owned a total of 7.01 per cent of the shares.

Treasury shares

Kongsberg Gruppen holds 131 122 of its own shares for use in employee share programmes. The shares were purchased in accordance with the authorisation issued by the Annual General Meeting, which allows for the repurchase of up to 5 per cent of the shares outstanding. Re-acquisitions must take place at prices between NOK 75 and NOK 200 per share.

	Total
Holding of own shares 31 December 2003	272 557
Own shares conveyed to employees	(141 435)
Holding of own shares 31 December 2004	131 122

The sale of treasury shares is booked at the market value on the date of the sale, while the employee discount is booked as wages (MNOK 2).

A total of 144 760 options have been issued to employees (including corporate management). The options have been granted through the share programmes conducted for all employees in the Group. For a more detailed description of the employee share and option programmes, please see the section on Shares and shareholders.

Shares owned by members of the Board, corporate management and other insiders

Name	*Total shares*
Corporate management	
Torfinn Kildal, President, Kongsberg Maritime	6 738
Arne Solberg, CFO	6 066
Jan Erik Korssjøen, CEO	5 524
Tom Birck Gerhardsen, President, Kongsberg Defence & Aerospace	5 186
Stig Trondvold, Executive Vice President, Business Development	1 703
Even Aas, Executive Vice President, Corporate Communications	1 382
The Board	
Benedicte Berg Schilbred, Director (through Odd Berg AS)	17 500
Roar Marthiniussen, Director	2 800
Jan Erik Hagen, Director	477
Roy Harald Hove, Director	43

17 Long-term debt to credit institutions

Amounts in MNOK	*2004*	*Year due*
Mortgages (20-year repayment loan)	72	2020
Certificated loans/syndicated credit facility	375	2005
Bond loan ISIN 00101 4521.2	103	2005
Bond loan ISIN 00101 9701.4	300	2007
Bond loan ISIN 00101 2638.4	400	2009
Other long-term liabilities	13	
Total	**1 263**	
Undrawn lines of credit	1 100	2009

The mortgage was provided by Innovation Norway (formerly Norwegian Regional and Industrial Development Fund). At year end, negotiable certificates/syndicated credit facilities consisted of MNOK 325 in Norwegian certificates and MNOK 50 in Sterling Acceptance in the UK, a short-term money market loan. A bond loan due in 2005 was originally for MNOK 300, MNOK 197 was bought back in 2004. Loans due in 2005 are classified as non-current liabilities because they can be converted to bank loans with long terms to maturity, cf. unused long-term credit facility for MNOK 1100.

The credit facility was established in March 2004 to replace a facility of MNOK 800 that would have been due in September 2004. The syndicated credit facility entails the following covenants related to key financial figures:

a) The Group's consolidated equity must be at least MNOK 1 500;
b) Earnings before interest and tax (EBIT) plus interest income must be twice as high as payable interest;
c) Net interest-bearing liabilities shall not exceed three times the EBITDA (Earnings Before Interest, Tax, Depreciation and the Amortisation of goodwill), but can be as much as 3.5 times that level for three consecutive quarters at the most.

As a result of additional charge of MNOK 150 related to the NSM project, covenant b) was not satisfied at 30 June 2004. The banks in the loan syndicate have allowed the Group to ignore the MNOK 150 charge when calculating the key figures. With this proviso, the covenants attached to the loan were fulfilled.

Interest rate risk

Kongsberg's policy is to keep interest expenses predictable in a two- to four-year perspective. The Group hedges its loans through fixed-interest and interest swap agreements. Financial expenses associated with loans will gradually be further reduced in the years ahead, given today's level of interest. The average interest rate on the Group's loan portfolio is currently higher than the benchmark for market interest on 3-year bonds for industrial enterprises such as Kongsberg Gruppen ASA. The interest swap agreements have an estimated shortfall in market value of MNOK 68 compared with the level of interest at 31 Dec. 2004. Calculated in the same way, the fixed interest agreements have a shortfall in market value of MNOK 12.

At 31 Dec. 2004, the Group had the following fixed interest and interest swap agreements (from floating to fixed interest):

Amounts in MNOK	*Due date*	*Amounts in MNOK*	*Year remaining*	*Interest rate*
Fixed rate agreements				
Mortgage	10 Oct.2005	72	0.8	7.51 %
Bond loan ISIN 00101 9701.5	26 Sept. 2007	300	2.7	5.24 %
Interest swap agreements				
Agreement 1	19 Dec. 2007	300	3.0	6.83 %
Agreement 2	19 June 2009	300	4.5	5.40 %
Agreement 3	17 Dec. 2008	100	4.0	5.62 %
Total		**1 072**	**3.3**	

Interest rate risk linked to leases

The Group has signed long-term leases in connection with sale/leaseback contracts. The rent is contingent on the level of interest. To safeguard the consolidated profit from fluctuations in rent, the following interest swap agreements have been signed:

At 31 Dec. 2004, the Group had the following interest swap agreement (from floating to fixed interest):

Amounts in MNOK	*Due date*	*Amounts in MNOK*	*Year remaining*	*Interest rate*
Agreement 1	2 Nov. 2011	150	6.8	6.29 %

The Agreement had a negative value of MNOK 22 at 31 Dec. 2004, which was included in the provision for rent, cf. Note 10.

18 Foreign exchange

Currency risk

The Group has considerable foreign exchange exposure, earning more than 70 per cent of its income abroad. Kongsberg Gruppen's policy is to limit currency risk while actively assessing various currencies' importance as competitive parameters. Accordingly, all contractual foreign currency flows are hedged through futures agreements (project hedging). Forecasted currency flows and foreign currency bids for major contracts are also hedged (hedging of forecasted cash flows). Moreover, the Group hedges equity in foreign subsidiaries and foreign currency loans granted to foreign subsidiaries.

Since the Group has hedged forecasted currency flows and signed contracts in foreign currencies, corporate operating revenues and profits are not expected to be influenced much by fluctuations in foreign exchange rates over the next two to four years.

At 31 December 2004, the Group had no significant foreign currency loans.

Currency hedging

Hedging accounting is based on forward foreign exchange and option contracts. Currency accounts in banks are used to hedge small amounts and for short terms to maturity. Options are used in special situations. At 31 Dec. 2004, the Group had the following futures and option contracts, broken down by currency and year of expiration. (All figures translated to MNOK, based on agreed exchange rates):

Amounts in MNOK	*2005*	*2006*	*2007*	*2008*	*2009*	*Total*
Net forward sale of foreign currency						
USD	2 023	586	195	10	-	2 814
EUR	922	301	249	52	8	1 532
Other	627	48	44	2	-	721
Total forward sales	**3 572**	**935**	**488**	**64**	**8**	**5 067**
Put options						
USD	62	-	-	-	-	62
Hedging a total of	**3 634**	**935**	**488**	**64**	**8**	**5 129**

Almost all foreign exchange income for 2005 and for parts of the following years is hedged. The guaranteed exchange rate levels reflect price trends over the past three years. Given the Group's extensive use of USD, and the weakening of the USD against the NOK in recent years, at 31 December 2004, the portfolio reflected considerable fair value. The value is generally linked to USD, and based on a spot rate of USD 1 = NOK 6.04 at year end, the portfolio contained total excess value of MNOK 447. The portfolio provides good predictability for the profitability of the Group's foreign exchange earnings.

Hedge category	*Value based on agreed exchange rates*
Hedging of forecasted cash flows (including options for MNOK 62)	2 495
Project hedging	1 982
Loan hedging	391
Equity hedging	261
Total	**5 129**

Pursuant to the new financial reporting standards (IFRS), from 2005, fair value linked to the hedging of forecasted cash flows is to be included in equity.
Of the total excess value of MNOK 447, MNOK 304 is related to the hedging of forecasted cash flows.

19 Other current liabilities

Other current liabilities represent operations-related interest-free debt. Other current liabilities include allocations and accruals related to projects, provisions for warranties, and accruals for holiday pay.

Amounts in MNOK	*2004*	*2003*	*2002*
Accounts payable	405	452	484
Withholding tax, social security, VAT, etc.	128	131	155
Tax payable	8	4	5
Provision for dividends	60	39	63
Provisions for holiday pay	177	183	161
Provisions for guarantees and accruals relating to projects	548	327	410
Other items	250	243	241
Total	**1 576**	**1 379**	**1 519**

21 Uncertain commitments

In 2003, Simrad AS was served a writ of summons containing allegations that Simrad had acted at variance with sound business practice, §§1 and 7 of the Marketing Control Act . The claimant alleged that Simrad has unlawfully made use of the claimant's know-how and other company secrets. Simrad was acquitted on all counts by the Horten District Court in August 2004. The claimant has appealed the case to the Court of Appeals.

Kongsberg Gruppen ASA has been served with a writ of summons by Hroar Hansen, demanding compensatory damages. The case is scheduled to be heard by the Asker and Bærum District Court in October 2005.

22 IFRS

The EU has decided that all listed enterprises in the EU area must, by 1 January 2005 at the latest, use the International Financial Reporting Standards (IFRS) for their consolidated accounts. Owing to the EEA agreement, this change will also apply to Norwegian listed enterprises.

Kongsberg is expected to make its first IFRS report in Q1 2005. It will include comparable figures for 2004, pursuant to IFRS.

Kongsberg Gruppen has begun to analyse and implement the changes required for reporting pursuant to IFRS. Based on the analysis, we have provisionally identified several factors where there is likely to have a potential impact:

- No provision for proposed dividends (possible to increase equity);
- Balance sheet recognition of the hedge instruments during the hedging period (possible increase in equity volatility);
- Implementation effects related to pensions (unamortised estimated deviations booked against equity);
- Goodwill not to be amortised, but tested for possible write downs;
- Development costs will have to be assessed relative to the IFRS criteria for balance sheet recognition.

20 Off-balance sheet items

The information on pledged assets indicates which Group assets will be available to pledgees in the event of a bankruptcy or liquidation situation.

a) Assets pledged as security

The Group has pledged buildings equipped with operating equipment as collateral for loans. The loans were provided by Innovation Norway (formerly Norwegian Regional and Industrial Development Fund). The buildings are located in Kongsberg, Egersund and Horten.

Amounts in MNOK	*2004*	*2003*	*2002*
The following loans are secured by collateral			
Loans against collateral in buildings, including operating equipment	72	77	365
Book value of assets pledged as security			
Buildings, machinery, fittings, etc.	534	551	532

b) Prepayment and completion guarantees

Consolidated companies must furnish guarantees for prepayments and completion in conjunction with projects. The guarantees are issued by Norwegian and foreign banks and insurance companies. Kongsberg Gruppen ASA stands behind all its guarantees.

Amounts in MNOK	*2004*	*2003*	*2002*
Prepayments and completion guarantees in respect of customers	1 156	2 267	2 479

The decline from 2003 is because several major defence projects reached milestones that triggered substantial reductions in guarantee commitments. Kongsberg Gruppen ASA has framework agreements for guarantees, entailing covenants with banks and insurance companies (see Note 17 to the consolidated accounts). No collateral has been furnished for the guarantee amounts.

Income statement, balance sheet and cash flow statement – Kongsberg Gruppen ASA

The financial statements for the holding company Kongsberg Gruppen ASA include all activities at the main office. Activities at the main office include the Group's executive management and the corporate functions: corporate communications, legal affairs, business development, human resources, management development and finance/funding. Corporate functions work largely on assignment for the Group's other companies, charging them for services rendered.
The central financial function 'Kongsberg Finans' serves as the corporate bank and is responsible for the Group's external financing, management of the Group's liquid funds and general management of the Group's foreign currency and interest rate risk. All assets in subsidiaries are presented using the cost method of accounting.

Income statement 1 January - 31 December

Amounts in MNOK	*2004*	*2003*
Operating revenues	**74**	**80**
Personnel expenses	57	52
Depreciation	2	3
Other operating expenses	33	46
Total operating expenses	**92**	**101**
Operating profit/(loss)	**(18)**	**(21)**
Interest from Group companies	98	101
Gain on sale of shares	31	6
Currency trading gains/(losses)	1	3
Liquidation losses	-	(15)
Write-down on shares	-	(1)
Interest to Group companies	(56)	(94)
Other interest expenses	(90)	(65)
Group contribution received	300	179
Net financial items	**284**	**114**
Earnings before tax (EBT)	**266**	**93**
Tax income/(expense)	10	(34)
Net profit	**276**	**59**
Distributable reserves and equity transfers		
Proposed dividend	(60)	(39)
Group contribution made	(20)	(21)

Statement of cash flows

Amounts in MNOK	*2004*	*2003*
Net cash flow from operations	(33)	(69)
Net cash flow from investment activities	27	(45)
Net cash flow from financial activities	6	114
Net change in cash and cash equivalents	**0**	**0**
Cash and cash equivalents at 1 January	-	-
Cash and cash equivalents at 31 December	**0**	**0**

Balance sheet at 31 December

Amounts in MNOK	*Notes*	*2004*	*2003*
Assets			
Deferred tax assets		31	20
Tangible fixed assets		6	7
Shares in subsidiaries	1	1 905	1 862
Other shareholdings		56	69
Long-term loans to subsidiaries		2 518	2 396
Other long-term receivables		5	4
Total fixed assets		**4 521**	**4 358**
Short-term receivables from subsidiaries		357	196
Other short-term receivables		-	26
Shares		5	4
Total current assets		**362**	**226**
Total assets		**4 883**	**4 584**
Equity and liabilities			
Share capital		150	150
Treasury shares		(1)	(1)
Share premium reserve		832	832
Total paid-in equity		**981**	**981**
Other equity		642	414
Total retained earnings		**642**	**414**
Total equity		**1 623**	**1 395**
Long-term debt to subsidiaries		1 644	1 685
Liabilities to credit institutions		1 178	1 150
Total long-term liabilities		**2 822**	**2 835**
Other short-term liabilities		111	83
Overdraft facilities		327	271
Total short-term liabilities		**438**	**354**
Total equity and liabilities		**4 883**	**4 584**

Notes – Kongsberg Gruppen ASA

1 Shares in subsidiaries

Amounts in MNOK	*Year of acquisition*	*Main office*	*Stake/voting interest %*	*Book value 31 Dec.*
Kongsberg Defence & Aerospace AS	1997	Kongsberg	100	392
Kongsberg Protech AS	1999	Kongsberg	100	42
Kongsberg Næringspark AS	1987	Kongsberg	100	5
Kongsberg Holding AS	1987	Kongsberg	100	0
Kongsberg Basetec AS	1992	Kongsberg	100	106
Kongsberg Maritime AS 1)	1992	Horten	88.5	1 101
Kongsberg Forsvar AS	1995	Kongsberg	100	0
Kongsberg NFT AS	1995	Kongsberg	100	0
Kongsberg Asset Management AS	1995	Kongsberg	100	5
Norsk Forsvarsteknologi AS	1987	Kongsberg	100	0
Kongsberg Næringseiendom AS	1997	Kongsberg	100	249
Nerion AS	2002	Trondheim	100	0
Autronica AS	2003	Trondheim	100	0
Kongsberg Reinsurance Ltd.	2001	Dublin	100	4
Aentera Network AS 2)	2000	Kongsberg	46.6	1
				1 905

1) The remaining 11.5 per cent of the shares in Kongsberg Maritime AS are owned by Kongsberg Basetec AS.

2) Kongsberg Protech AS also owns 12.3 per cent of the company.

Auditor's Report for 2004

ERNST & YOUNG

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Medlemmer av Den norske Revisorforening

To the Annual Shareholders' Meeting of
Kongsberg Gruppen ASA

Auditor's report for 2004

We have audited the annual financial statements of Kongsberg Gruppen ASA as of 31 December 2004, showing a profit of NOK 276 000 000 for the parent company and a profit of NOK 41 000 000 for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit . The financial statements comprise the balance sheet, the statements of income and cash flows, the accompanying notes and the consolidated accounts. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company and of the Group as of 31 December 2004, and the results of the operations and cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the Company's management has fulfilled its duty to properly register and document the accounting information as required by law and accounting standards, principles and practices generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with law and regulations.

Oslo, 14 March 2005
ERNST & YOUNG AS

Olve Gravråk
State Authorised Public Accountant (Norway)

Note: The translation to English has been prepared for information purposes only.

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WORLD CLASS – through people, technology and dedication

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